EXHIBIT E
Form 10-K

CORNERSTONE PROPANE PARTNERS LP - CNPP
 Filed: September 28, 1999 (period: June 30, 1999)

Annual report which provides a comprehensive overview of the company for the past year
# Table of Contents

## PART I
- **ITEM 1.** BUSINESS.
- **ITEM 2.** PROPERTIES.
- **ITEM 3.** LEGAL PROCEEDINGS.
- **ITEM 4.** SUBMISSION OF MATTERS TO A VOTE OF UNITHOLDERS.

## PART II
- **ITEM 5.** MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED UNITHOLDER MATTERS.
- **ITEM 6.** SELECTED FINANCIAL DATA.
- **ITEM 7.** MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
- **ITEM 8.** FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
- **ITEM 9.** CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

## PART III
- **ITEM 10.** DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.
- **ITEM 11.** EXECUTIVE COMPENSATION.
- **ITEM 12.** SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
- **ITEM 13.** CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

## PART IV
- **ITEM 14.** EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.
- **SIGNATURES**
- **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**
United States Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF 
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 1999  
Commission file Number 1-12499

CORNERSTONE PROPANE PARTNERS, L.P.  
(Exact Name of Registrant as Specified in its Charter)

Delaware ----------------------------- -------------------
(State or other jurisdiction of Incorporation or Organization)  (IRS Employer Identification No.)

432 Westridge Drive, Watsonville, California 95076 
(Address of Principal Executive Offices)  
(Zip Code)

Registrant's Telephone Number, Including Area Code (831) 724-1921

Securities registered pursuant to Section 12(b) of the Act.  
Title of Each Class Name of Each Exchange on which Registered
----------------------------------------- 
Common Units New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  
Yes X No ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the 16,788,894 Common Units held by nonaffiliates of the Registrant as of the close of business on September 22, 1999, is: $280,173,000.

Documents Incorporated by Reference  
NONE
Cornerstone Propane Partners, L.P. ("Cornerstone Partners"), and its subsidiary, Cornerstone Propane, L.P. ("the Operating Partnership"), were organized in October 1996 and November 1996, respectively, as Delaware limited partnerships. Cornerstone Propane GP, Inc. (the "Managing General Partner") and SYN Inc. (the "Special General Partner" and, collectively with the Managing General Partner, the "General Partners") are the general partners of Cornerstone Partners and the Operating Partnership. The General Partners own an aggregate 2% interest as general partners, and the Unitholders (including the General Partners as holders of Subordinated Units) own a 98% interest as limited partners, in Cornerstone Partners and the Operating Partnership on a combined basis. Cornerstone Partners, the Operating Partnership and its corporate subsidiary are referred to collectively herein as the "Partnership."

The Partnership was formed in 1996 to acquire, own and operate the propane businesses and assets of SYN, Inc. and its subsidiaries ("Synergy"), Empire Energy Corporation and its subsidiaries ("Empire Energy") (formerly subsidiaries of Northwestern Growth Corporation ("Northwestern Growth")) and CGI Holdings, Inc. and its subsidiaries ("Coast"). Northwestern Growth is a wholly owned subsidiary of Northwestern Corporation ("NOR"), a New York Stock Exchange listed national consumer services company. Northwestern Growth was formed in 1994 to pursue and manage nonutility investments and development activities for NOR, with a primary focus on growth opportunities in the energy, energy equipment and energy services industries. To capitalize on the growth and consolidation opportunities in the propane distribution market, in August 1995, Northwestern Growth acquired the predecessor of Synergy, then the sixth largest retail marketer of propane in the United States and, in October 1996, it acquired Empire Energy, then the eighth largest retail marketer of propane in the United States. Immediately prior to the Partnership's initial public offering ("IPO") of Common Units in December 1996, Northwestern Growth acquired Coast, then the 18th largest retail marketer of propane in the United States. The Partnership commenced operation on December 17, 1996, concurrently with the closing of the IPO, when substantially all of the assets and liabilities of Synergy, Empire Energy and Coast were contributed to the Operating Partnership. Information in this Form 10-K related to the pro forma year ended June 30, 1997, reflects a full year of activity for the three predecessor companies, as if the Partnership had been in operation on July 1, 1996.

The Partnership believes that it is the fourth largest retail marketer of propane in the United States in terms of volume, serving more than 460,000 residential, commercial, industrial and agricultural customers from 298 customer service centers in 34 states as of June 30, 1999. The Partnership's operations are concentrated in the east, south, central and west coast regions of the United States. For the year ended June 30, 1999, the Partnership had retail propane sales of approximately 262 million gallons.

The Partnership is principally engaged in (i) the retail distribution of propane for residential, commercial, industrial, agricultural and other retail uses, (ii) the wholesale marketing and distribution to suppliers and other end users of propane, natural gas liquids and crude oil to the retail propane industry, the chemical and petrochemical industries and other commercial and
agricultural markets, (iii) the repair and maintenance of propane heating systems and appliances and (iv) the sale of propane-related supplies, appliances and other equipment.

The retail propane business is a "margin-based" business in which gross profits depend on the excess of sales prices over propane supply costs. Sales of propane to residential and commercial customers, which account for the vast majority of the Partnership's revenue, have provided a relatively stable source of revenue for the Partnership. Based on fiscal 1999 retail propane gallons sold, the customer base consisted of 60% residential, 23% commercial and industrial and 17% agricultural and other customers. Sales to residential customers have generally provided higher gross margins than other retail propane sales. While commercial propane sales are generally less profitable than residential retail sales, the Partnership has traditionally relied on this customer base to provide a steady, noncyclical source of revenues. No single customer accounted for more than 1% of total retail revenues.

The Partnership's Coast Energy Group ("CEG") operation engages in the marketing and distribution of propane to independent dealers, major interstate marketers and the chemical and petrochemical industries in addition to procurement and distribution of propane for the retail segment. Through CEG, the Partnership also participates in the marketing of other natural gas liquids, the processing and marketing of natural gas and the marketing of crude oil. The Partnership either owns or has contractual rights to use transshipment terminals, rail cars, long-haul tanker trucks, pipelines and storage capacity. The Partnership believes that its CEG marketing and processing activities position it to achieve product cost advantages and to avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

PRODUCT

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative stand-alone energy sources. The retail propane business of the Partnership consists principally of transporting propane to its retail distribution outlets and then to tanks located on its customers' premises. Retail propane use falls into four broad categories: (i) residential, (ii) industrial and commercial, (iii) agricultural and (iv) other applications, including motor fuel sales. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts and stationary engines, to fire furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control. Other retail uses include motor fuel for cars and trucks, outdoor cooking and other recreational purposes, propane resales and sales to state and local governments. In its CEG operations, the Partnership sells propane principally to large industrial customers and other propane distributors.

Propane is extracted from natural gas or oil wellhead gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas.
Propane is colorless and odorless; an odorant is added to allow its detection. Like natural gas, propane is a clean burning fuel and is considered an environmentally preferred energy source.

**SOURCES OF SUPPLY**

The Partnership’s propane supply is purchased from oil companies and natural gas processors at numerous supply points located in the United States and Canada. During the year ended June 30, 1999, virtually all of the Partnership’s propane supply was purchased pursuant to agreements with terms of less than one year, but the percentage of contract purchases may vary from year to year as determined by the Partnership. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery points. Most of these agreements provide maximum and minimum seasonal purchase guidelines. In addition, the Partnership makes purchases on the spot market from time to time to take advantage of favorable pricing. The Partnership receives its supply of propane predominantly through railroad tank cars and common carrier transport.

Supplies of propane from the Partnership’s sources historically have been readily available. In the year ended June 30, 1999, Dynegy was the Partnership’s largest supplier providing approximately 8% of the Partnership’s total propane supply for its retail and CEG operations (excluding propane obtained from the Partnership’s natural gas processing operations). The Partnership believes that if supplies from Dynegy were interrupted, it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. No single supplier provided more than 10% of the Partnership’s domestic propane supply in the year ended June 30, 1999. Although no assurance can be given that supplies of propane will be readily available in the future, the Partnership expects a sufficient supply to continue to be available. The Partnership has not experienced a shortage that has prevented it from satisfying its customer’s need and does not foresee any significant shortage in the supply of propane.

The Partnership will engage in hedging of product cost and supply through common hedging practices. These practices will be monitored and maintained by management for the Partnership on a daily basis. Hedging of product cost and supply does not always result in increased margins.

The market price of propane is subject to volatile changes as a result of supply or other market conditions over which the Partnership will have no control. Since it may not be possible to pass rapid increases in the wholesale cost of propane on to customers immediately, such increases could reduce the Partnership’s gross profits. Consequently, the Partnership’s profitability will be sensitive to changes in wholesale propane prices. The Partnership also engages in the trading of propane, natural gas, crude oil and other commodities in amounts that have not had and are not expected to have a material effect on the Partnership’s financial condition or results of operations.

The Partnership has from time to time leased space in storage facilities to take advantage of supply purchasing opportunities as they have occurred, and the Partnership believes that it will have adequate third party storage to take advantage of such opportunities in the future. Access to storage facilities will allow the Partnership, to the extent it may deem it desirable, to buy and store large quantities of propane during periods of low demand, which generally occur during the
summer months, thereby helping to ensure a more secure supply of propane during periods of intense demand or price instability.

OPERATIONS

The Partnership has organized its operations in a manner that the Partnership believes enables it to provide excellent service to its customers and to achieve maximum operating efficiencies. The Partnership's retail propane distribution business is organized into divisions, which are each comprised of regions. Each region is comprised of a number of customer service centers. Each division and region is supervised by a manager. Personnel located at the various regions are primarily responsible for customer service, sales and delivery of product to the customer.

A number of functions are centralized at the Partnership's support locations in order to achieve certain operating efficiencies as well as to enable the personnel located in the customer service centers to focus on customer service and sales. The corporate headquarters and the customer service centers are linked via a computer system. Each of the Partnership's customer service centers is equipped with a computer connected to the central management information system in the Partnership's corporate headquarters. This computer network system provides retail company personnel with accurate and timely information on supply cost, inventory and customer accounts. The Partnership makes centralized purchases of propane through its CEG operations for resale to the retail service centers enabling the Partnership to achieve certain advantages, including price advantages, because of its status as a large volume buyer. The functions of cash management, accounting, taxes, payroll, permits, licensing, employee benefits, human resources, and strategic planning are also performed on a centralized basis.

TRADEMARKS

The Partnership utilizes a variety of trademarks, including "Synergy Gas" and its related design, which the Partnership owns, and "Empire Gas" and its related design, which the Partnership has the right to use, and trade names, including "Coast Gas." The Partnership generally expects to retain the names and identities of acquired entities, which the Partnership believes preserves the goodwill of the acquired businesses and promotes continued local customer loyalty. The Partnership regards its trademarks, trade names and other proprietary rights as valuable assets and believes that they have significant value in the marketing of its products.

SEASONALITY

Because a substantial amount of propane is sold for heating purposes, the severity of winter and resulting residential and commercial heating usage have an important impact on the Partnership's earnings. Approximately two-thirds of the Partnership's retail propane sales usually occur during the six-month heating season from October through March. As a result of this seasonality, the Partnership's sales and operating profits are concentrated in its second and third fiscal quarters. Cash flows from operations, however, are greatest from November through April when customers pay for propane purchased during the six-month peak season. To the extent the Managing General Partner deems appropriate, the Partnership may reserve cash from
these periods for distribution to Unitholders during periods with lower cash flows from operations. Sales and profits are subject to variation from month to month and from year to year, depending on temperature fluctuations.

COMPETITION

Based upon information provided by the Energy Information Administration, propane accounts for approximately three to four percent of household energy consumption in the United States. Propane competes primarily with natural gas, electricity and fuel oil as an energy source, principally on the basis of price, availability and portability. Propane is more expensive than natural gas on an equivalent BTU basis in locations served by natural gas, but serves as a substitute for natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Historically, the expansion of natural gas into traditional propane markets has been inhibited by the capital costs required to expand pipeline and retail distribution systems. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, the Partnership believes that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Propane is generally less expensive to use than electricity for space heating, water heating, clothes drying and cooking. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to the other.

In addition to competing with alternative energy sources, the Partnership competes with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, thousands of smaller local independent marketers and farm cooperatives. Based on industry publications, the Partnership believes that the domestic retail market for propane is approximately 8.6 billion gallons annually, that the 10 largest retailers, including the Partnership, account for approximately 37% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of the Partnership’s customer service centers compete with five or more marketers or distributors. Each customer service center operates in its own competitive environment, because retail marketers tend to locate in close proximity to customers. The Partnership’s customer service centers generally have an effective marketing radius of approximately 25 to 50 miles, although in certain rural areas the marketing radius may be extended by a satellite storage location.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. The Partnership also believes that its service capabilities and customer responsiveness differentiate it from many of these smaller competitors. The Partnership’s employees are on call 24 hours a day and seven days a week for emergency repairs and deliveries.

The Partnership’s CEG operations compete in the wholesale liquefied petroleum gas (“LPG”) business, which includes propane, and is highly competitive. In addition, CEG provides marketing and risk management services in the natural gas and crude oil markets which are highly competitive. For the year ended June 30, 1999, the Partnership’s CEG operations
accounted for 77% of total revenue but less than 16% of the gross profit. The Partnership believes that its CEG operations provides it with a national presence and a reasonably secure, efficient supply base, and positions it well for expansion through acquisitions or start-up operations in new markets.

RISKS OF BUSINESS

The Partnership's propane operations are subject to all the operating hazards and risks normally incident to handling, storing and transporting combustible liquids, such as the risk of personal injury and property damages caused by accident or fire.

The Partnership's comprehensive general and excess liability policy provides coverage for losses of up to $105.0 million with a $250,000 deductible.

REGULATION

The Partnership's operations are subject to various federal, state and local laws governing the transportation, storage and distribution of propane, occupational health and safety, and other matters. All states in which the Partnership operates have adopted fire safety codes that regulate the storage and distribution of propane. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. Certain municipalities prohibit the below ground installation of propane furnaces and appliances, and certain states are considering the adoption of similar regulations. The Partnership cannot predict the extent to which any such regulations might affect the Partnership, but does not believe that any such effect would be material. It is not anticipated that the Partnership will be required to expend material amounts by reason of environmental and safety laws and regulations, but inasmuch as such laws and regulations are constantly being changed, the Partnership is unable to predict the ultimate cost to the Partnership of complying with environmental and safety laws and regulations.

The Partnership currently meets and exceeds federal regulations requiring that all persons employed in the handling of propane gas be trained in proper handling and operating procedures. All employees have participated or will participate within 90 days of their employment date, in hazardous materials training. The Partnership has established ongoing training programs in all phases of product knowledge and safety including participation in the National Propane Gas Association's ("NPGA") Certified Employee Training Program.

PERSONNEL

As of August 31, 1999, the Partnership had 2,396 full-time employees, of whom 132 were general and administrative and 2,264 were operational employees. Fewer than 20 of the Partnership's employees were represented by labor unions. The Partnership believes that its relations with its employees are satisfactory. The Partnership generally hires seasonal workers to meet peak winter demand.
BUSINESS STRATEGY

The principal elements of the Partnership's business strategy are to (i) extend and refine its existing service orientation, (ii) continue to pursue balanced growth through small and large acquisitions, internal growth at its existing customer service centers and start-ups of new customer service centers, (iii) enhance the profitability of its existing operations by improving delivery efficiencies, use of entrepreneurially oriented local manager incentive programs, authorizing pricing decisions by the local manager and increased emphasis in non-propane activities to reduce weather dependency and (iv) capitalize on the Partnership's CEG marketing, supply and logistics business.

ITEM 2. PROPERTIES.

CORPORATE HEADQUARTERS

The principal executive offices of the Partnership are located at 432 Westridge Drive, Watsonville, California 95076. These offices are leased through 2002. The accounting and administrative operations are centralized in Lebanon, Missouri. These offices are leased through 2006.

RETAIL/CUSTOMER SERVICE CENTERS

The Partnership leases customer service centers and administrative office space under non-cancelable operating leases expiring at various times through 2015. These leases generally contain renewal options and require the Partnership to pay all executory costs (property taxes, maintenance and insurance). As of June 30, 1999, the Partnership operated 298 customer service centers.

As of June 30, 1999, the Partnership operated bulk storage facilities with total propane storage capacity of approximately 57 million gallons, of which 3 million gallons are owned by the Partnership and 54 million gallons are leased. The Partnership does not own, operate or lease any underground propane storage facilities (excluding customer and local distribution tanks) or pipeline transportation assets (excluding local delivery systems).

DISTRIBUTION

The Partnership purchases propane at refineries, gas processing plants, underground storage facilities, and pipeline terminals and transports the propane by railroad tank cars and tank trailer trucks to the Partnership's customer service centers, each of which has gas bulk storage capacity ranging from 30,000 to 120,000 gallons. The Partnership is a shipper on all major interstate LPG pipeline systems. The customer service centers have an aggregate storage capacity of approximately 18 million gallons of propane, and each service center has equipment for transferring the gas into and from the bulk storage tanks. The Partnership owns and operates 42 over-the-road tractors and 50 transport trailers to deliver propane and consumer tanks to its retail service centers and also relies on common carriers to deliver propane to its retail service centers.

Deliveries to customers are made by means of approximately 900 bobtail trucks and
approximately 950 other delivery and service vehicles owned by the Partnership. Propane is stored by the customers on their premises in stationary steel tanks generally ranging in capacity from 25 to 1,000 gallons, with large users having tanks with a capacity of up to 30,000 gallons. Most of the propane storage tanks used by the Partnership's residential and commercial customers are owned by the Partnership and leased, rented or loaned to customers. The Partnership owned approximately 85% of these customer storage tanks.

ITEM 3. LEGAL PROCEEDINGS.

A number of personal injury, property damage and products liability suits are pending or threatened against the Partnership. In general, these lawsuits have arisen in the ordinary course of the Partnership's business and involve claims for actual damages, and in some cases punitive damages, arising from the alleged negligence of the Partnership or as a result of product defects or similar matters. Of the pending or threatened matters, a number involve property damage, and several involve serious personal injuries or deaths and the claims made are for relatively large amounts. Although any litigation is inherently uncertain, based on past experience, the information currently available to it and the availability of insurance coverage, the Partnership does not believe that these pending or threatened litigation matters will have a material adverse effect on its results of operations or its financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF UNITHOLDERS.

No matters were submitted to a vote of Unitholders by the Partnership during the fourth quarter of the fiscal year covered by this report.
Cornerstone Propane Partners, L.P. Common Units are traded on the New York Stock Exchange under the symbol CNX. The high and low trading prices for the following quarters were:

<table>
<thead>
<tr>
<th>Fiscal Year 1999</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended September 30</td>
<td>22 1/2</td>
<td>18 1/4</td>
</tr>
<tr>
<td>Quarter ended December 31</td>
<td>21 1/8</td>
<td>16</td>
</tr>
<tr>
<td>Quarter ended March 31</td>
<td>19</td>
<td>15 5/8</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>18 7/8</td>
<td>15 7/16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 1998</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended September 30</td>
<td>23 7/8</td>
<td>21 1/16</td>
</tr>
<tr>
<td>Quarter ended December 31</td>
<td>23 15/16</td>
<td>22 1/4</td>
</tr>
<tr>
<td>Quarter ended March 31</td>
<td>23 3/8</td>
<td>20 1/2</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>22 15/16</td>
<td>21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 1997</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended March 31</td>
<td>22 3/8</td>
<td>20 7/8</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>22 1/8</td>
<td>19 3/4</td>
</tr>
</tbody>
</table>

As of September 22, 1999, there were approximately 16,075 holders of Common Units, including individual participants in security position listings.

There is no established public trading market for the Subordinated Units, all of which are held by the Managing General Partner and the Special General Partner.

The Partnership will distribute to its partners, on a quarterly basis, all of its Available Cash, which is generally all cash on hand at the end of a quarter, as adjusted for reserves. The Managing General Partner has broad discretion in making cash disbursements and establishing reserves. The Partnership intends, to the extent there is sufficient Available Cash, to distribute to each holder of Common Units at least $0.54 per Common Unit per quarter (the "Minimum Quarterly Distribution") or $2.16 per Common Unit on an annualized basis.

To enhance the Partnership's ability to make the Minimum Quarterly Distribution on the Common Units during the Subordination Period, each holder of Common Units will be entitled to receive the Minimum Quarterly Distribution, plus any arrearages thereon, before any distributions are made on the outstanding subordinated limited partner interests of the Partnership (the "Subordinated Units"). The Subordination Period will end and all Subordinated Units will convert if full distribution has occurred for both Common Units and Subordinated

As of September 22, 1999, there were approximately 16,075 holders of Common Units, including individual participants in security position listings.

There is no established public trading market for the Subordinated Units, all of which are held by the Managing General Partner and the Special General Partner.

The Partnership will distribute to its partners, on a quarterly basis, all of its Available Cash, which is generally all cash on hand at the end of a quarter, as adjusted for reserves. The Managing General Partner has broad discretion in making cash disbursements and establishing reserves. The Partnership intends, to the extent there is sufficient Available Cash, to distribute to each holder of Common Units at least $0.54 per Common Unit per quarter (the "Minimum Quarterly Distribution") or $2.16 per Common Unit on an annualized basis.

To enhance the Partnership's ability to make the Minimum Quarterly Distribution on the Common Units during the Subordination Period, each holder of Common Units will be entitled to receive the Minimum Quarterly Distribution, plus any arrearages thereon, before any distributions are made on the outstanding subordinated limited partner interests of the Partnership (the "Subordinated Units"). The Subordination Period will end and all Subordinated Units will convert if full distribution has occurred for both Common Units and Subordinated
Units for twelve consecutive quarters. Upon expiration of the Subordination Period, all Subordinated Units will convert to Common Units on a one-for-one basis and will thereafter participate pro rata with the other Common Units in distributions of Available Cash.

For a further discussion of the Partnership's cash distribution policy, refer to Notes 4 and 7 in the Partnership's Consolidated Financial Statements included in Item 8 of this report. For a discussion of certain restrictions under the Partnership's loan agreements that limit the Partnership's ability to pay cash distributions, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Financing and Sources of Liquidity" included in Item 7 of this report.

ITEM 6. SELECTED FINANCIAL DATA.

CORNERSTONE

The following table presents selected consolidated operating and balance sheet data of Cornerstone Propane Partners, L.P. and its subsidiary as of June 30, 1999, 1998 and 1997, and for the years ended June 30, 1999 and 1998, and the period from inception (December 17, 1996) to June 30, 1997. The financial data of the Partnership was derived from the Partnership's audited consolidated financial statements. The financial data set forth below should be read in conjunction with the Partnership's consolidated financial statements, together with the notes thereto, included in Item 8 of this report.
CORNERSTONE PROPANE PARTNERS, L.P.
(IN THOUSANDS, EXCEPT PER UNIT DATA)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 1,154,608</td>
<td>$ 768,129</td>
<td>$ 389,630</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>973,367</td>
<td>635,924</td>
<td>15,324</td>
</tr>
<tr>
<td></td>
<td>181,241</td>
<td>144,205</td>
<td>74,306</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$ 181,241</td>
<td>144,205</td>
<td>74,306</td>
</tr>
<tr>
<td>Operating, general and administrative expenses</td>
<td>123,735</td>
<td>97,184</td>
<td>50,023</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>27,253</td>
<td>18,246</td>
<td>8,519</td>
</tr>
<tr>
<td>Operating income</td>
<td>30,253</td>
<td>28,775</td>
<td>15,764</td>
</tr>
<tr>
<td>Interest expense</td>
<td>25,033</td>
<td>19,222</td>
<td>9,944</td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>5,220</td>
<td>9,553</td>
<td>5,820</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>47</td>
<td>127</td>
<td>64</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 5,173</td>
<td>$ 9,426</td>
<td>$ 5,766</td>
</tr>
<tr>
<td>BALANCE SHEET DATA: (As of June 30)</td>
<td>1999</td>
<td>1998</td>
<td>1997</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Current assets</td>
<td>$91,089</td>
<td>$53,221</td>
<td>$50,461</td>
</tr>
<tr>
<td>Total assets</td>
<td>781,244</td>
<td>572,511</td>
<td>521,193</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>71,063</td>
<td>51,955</td>
<td>40,942</td>
</tr>
<tr>
<td>Long-term debt (including current maturities)</td>
<td>398,940</td>
<td>240,938</td>
<td>237,268</td>
</tr>
<tr>
<td>Partners' capital</td>
<td>319,527</td>
<td>279,594</td>
<td>243,929</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING DATA:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures (including acquisitions)</td>
<td>$175,285</td>
<td>$30,096</td>
<td>$3,754</td>
</tr>
<tr>
<td>EBITDA(a)</td>
<td>57,506</td>
<td>47,021</td>
<td>24,283</td>
</tr>
<tr>
<td>Limited Partners' net income per unit</td>
<td>.23</td>
<td>.50</td>
<td>.34</td>
</tr>
<tr>
<td>Retail propane gallons sold</td>
<td>261,600</td>
<td>235,000</td>
<td>213,700</td>
</tr>
</tbody>
</table>
EBITDA consists of net income before interest, income taxes, depreciation and amortization. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow, and it is not a measure of performance or financial condition under generally accepted accounting principles, but it provides additional information for evaluating the Partnership's ability to distribute the Minimum Quarterly Distribution and to service and incur indebtedness. Cash flows in accordance with generally accepted accounting principles consist of cash flows from operating, investing and financing activities; cash flows from operating activities reflect net income (including charges for interest and income taxes, which are not reflected in EBITDA), adjusted for non-cash charges or income (which are reflected in EBITDA) and changes in operating assets and liabilities (which are not reflected in EBITDA). Further, cash flows from investing and financing activities are not included in EBITDA.

SYNERGY

The financial information set forth below is derived from the audited financial statements of Synergy. On August 15, 1995, Synergy Group Incorporated ("SGI"), the predecessor of Synergy, was acquired by Synergy. The financial information below as of March 31, 1994 and 1995, is derived from the audited financial statement of SGI. The comparability of financial matters is affected by the change in ownership of SGI and the concurrent sale of approximately 25% of SGI's operations to Empire Energy (which at that time was not related to Synergy). The Statement of Operations Data and the Operating Data for the four and one-half months ended August 14, 1995, represent information for the period from the end of the last fiscal year of SGI until the date of the sale to Synergy, and are presented only to reflect operations of Synergy for a complete five-year period. The retail propane gallons sold for all periods presented is derived from the accounting records of Synergy and SGI and is unaudited. The Selected Historical Financial and Operating Data below should be read in conjunction with the consolidated financial statements of Synergy and SGI included in Item 8 of this report.

<table>
<thead>
<tr>
<th>Synergy Group Incorporated</th>
<th>Syn Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four and One-Half Months</td>
<td>Ten and One-Half Months</td>
</tr>
<tr>
<td>Fiscal Year Ended March 31,</td>
<td>Ended</td>
</tr>
<tr>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>STATEMENT OF OPERATIONS DATA:</td>
<td></td>
</tr>
<tr>
<td>Revenues $133,731</td>
<td>$123,562</td>
</tr>
<tr>
<td>Cost of product sold 63,498</td>
<td>59,909</td>
</tr>
<tr>
<td>Gross profit 70,233</td>
<td>63,653</td>
</tr>
<tr>
<td>Depreciation and amortization 5,170</td>
<td>5,100</td>
</tr>
<tr>
<td>Operating income (loss) 3,609</td>
<td>(2,291)</td>
</tr>
<tr>
<td>Interest expense 13,126</td>
<td>11,086</td>
</tr>
<tr>
<td>Provision (benefit) for income taxes (400)</td>
<td>(84)</td>
</tr>
<tr>
<td>Net income (loss) (11,615)</td>
<td>(13,417)</td>
</tr>
<tr>
<td>Fiscal Year Ended March 31, 1994</td>
<td>Syn Inc.</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Four and One-Half Months Ended</td>
<td>Ten and One-Half Months Ended</td>
</tr>
</tbody>
</table>

(In Thousands)
BALANCE SHEET DATA
(End of Period)

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>31,149</td>
<td>27,542</td>
<td>21,501</td>
<td>59,027</td>
<td>21,271</td>
</tr>
<tr>
<td>Total assets</td>
<td>112,914</td>
<td>103,830</td>
<td>96,500</td>
<td>166,762</td>
<td>174,140</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>161,360</td>
<td>109,685</td>
<td>119,946</td>
<td>34,850</td>
<td>9,139</td>
</tr>
<tr>
<td>Total debt</td>
<td>122,626</td>
<td>92,717</td>
<td>89,546</td>
<td>79,524</td>
<td>84,285</td>
</tr>
<tr>
<td>Redeemable preferred stock</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>55,312</td>
<td>55,312</td>
</tr>
<tr>
<td>Stockholders' equity (deficit)</td>
<td>(55,424)</td>
<td>(15,762)</td>
<td>(25,576)</td>
<td>(1,899)</td>
<td>(5,617)</td>
</tr>
</tbody>
</table>

OPERATING DATA:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA (a)</td>
<td>8,779</td>
<td>2,809</td>
<td>(4,815)</td>
<td>17,849</td>
<td>5,673</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>3,141</td>
<td>3,737</td>
<td>596</td>
<td>8,708</td>
<td>3,751</td>
</tr>
<tr>
<td>Retail propane gallons sold</td>
<td>137,937</td>
<td>126,205</td>
<td>27,282</td>
<td>92,621</td>
<td>39,468</td>
</tr>
</tbody>
</table>

(a) EBITDA consists of net income before depreciation, amortization, interest and income taxes. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow, and it is not a measure of performance or financial condition under generally accepted accounting principles, but it provides additional information for evaluating the Partnership's ability to distribute the Minimum Quarterly Distribution and to service and incur indebtedness. Cash flows in accordance with generally accepted accounting principles consist of cash flows from operating, investing and financing activities; cash flows from operating activities reflect net income (including charges for interest and income taxes, which are not reflected in EBITDA), adjusted for noncash charges or income (which are reflected in EBITDA). Further, cash flows from investing and financing activities are not included in EBITDA.

EMPIRE ENERGY

The financial information set forth below is derived from the audited financial statements of Empire Energy. Empire Energy was formed in June 1994 as a result of a tax-free split-off (the "Split-Off") from Empire Gas Corporation. As discussed in Note 2 to Empire Energy's Consolidated Financial Statements included in Item 8, on August 1, 1996, the principal shareholder of Empire Energy and certain other shareholders sold their interests in Empire Energy to certain members of management (the "Management Buy-Out"). On October 7, 1996, Northwestern Growth purchased 100% of the Empire Energy common stock. The results of operations and other data for the five and one-half months ended December 16, 1996, are stated on a pro forma basis to combine the one month ended prior to the Management Buy-Out, the two months ended prior to the Northwestern Growth acquisition and the two and one-half months beginning with the Northwestern Growth acquisition. The retail propane gallons sold for all periods presented is derived from the accounting records of Empire Energy and is unaudited.
The Selected Historical Financial and Operating Data below should be read in conjunction with the consolidated financial statements of Empire Energy included in Item 8 of this report.

<table>
<thead>
<tr>
<th></th>
<th>Five and One-Half Months</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year Ended June 30,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In Thousands)</td>
<td>(In Thousands)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**STATEMENT OF OPERATIONS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$60,216</td>
<td>$56,689</td>
<td>$98,821</td>
<td>$43,201</td>
</tr>
<tr>
<td>Cost of product sold</td>
<td>26,529</td>
<td>26,848</td>
<td>50,080</td>
<td>23,310</td>
</tr>
<tr>
<td>Gross profit</td>
<td>32,187</td>
<td>29,841</td>
<td>48,741</td>
<td>19,891</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,652</td>
<td>4,322</td>
<td>5,875</td>
<td>2,929</td>
</tr>
<tr>
<td>Operating income</td>
<td>6,015</td>
<td>1,084</td>
<td>9,846</td>
<td>3,567</td>
</tr>
<tr>
<td>Interest expense</td>
<td>118</td>
<td>39</td>
<td>2,598</td>
<td>3,631</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>2,400</td>
<td>600</td>
<td>3,550</td>
<td>32</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>3,497</td>
<td>445</td>
<td>3,698</td>
<td>(86)</td>
</tr>
</tbody>
</table>
**BALANCE SHEET DATA:**

(END OF PERIOD)

<table>
<thead>
<tr>
<th>Current assets</th>
<th>$ 9,292</th>
<th>$ 9,615</th>
<th>$ 16,046</th>
<th>$ 27,491</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>64,734</td>
<td>69,075</td>
<td>107,102</td>
<td>183,046</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,697</td>
<td>4,277</td>
<td>12,126</td>
<td>11,210</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>135</td>
<td>1,701</td>
<td>25,442</td>
<td>111,853</td>
</tr>
<tr>
<td>Stockholders' equity</td>
<td>46,111</td>
<td>46,535</td>
<td>50,233</td>
<td>15,922</td>
</tr>
</tbody>
</table>

**OPERATING DATA:**

<table>
<thead>
<tr>
<th>EBITDA (a)</th>
<th>$ 10,667</th>
<th>$ 5,406</th>
<th>$ 15,721</th>
<th>$ 6,496</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>4,058</td>
<td>6,365</td>
<td>39,164</td>
<td>2,823</td>
</tr>
<tr>
<td>Retail propane gallons sold</td>
<td>67,286</td>
<td>40,430</td>
<td>104,036</td>
<td>40,647</td>
</tr>
</tbody>
</table>

(a) EBITDA consists of net income before depreciation, amortization, interest and income taxes. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow, and it is not a measure of performance or financial condition under generally accepted accounting principles, but it provides additional information for evaluating the Partnership's ability to distribute the Minimum Quarterly Distribution and to service and incur indebtedness. Cash flows in accordance with generally accepted accounting principles consist of cash flows from operating, investing and financing activities; cash flows from operating activities reflect net income (including charges for interest and income taxes, which are not reflected in EBITDA), adjusted for noncash charges or income (which are reflected in EBITDA) and changes in operating assets and liabilities (which are not reflected in EBITDA). Further, cash flows from investing and financing activities are not included in EBITDA.
The financial information set forth below is derived from the audited financial statements of Coast. The Selected Historical Financial and Operating Data below should be read in conjunction with the consolidated financial statements of Coast included in Item 8 of this report.

<table>
<thead>
<tr>
<th></th>
<th>Four and One-Half Months Ended</th>
<th>December 16, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year Ended July 31,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>STATEMENT OF OPERATIONS</strong>,</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DATA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 242,986</td>
<td>$ 266,842</td>
</tr>
<tr>
<td>Cost of product sold</td>
<td>214,632</td>
<td>234,538</td>
</tr>
<tr>
<td>Gross profit</td>
<td>28,354</td>
<td>32,304</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,282</td>
<td>3,785</td>
</tr>
<tr>
<td>Operating income</td>
<td>3,843</td>
<td>4,535</td>
</tr>
<tr>
<td>Interest expense</td>
<td>4,029</td>
<td>5,120</td>
</tr>
<tr>
<td>Benefit for income taxes</td>
<td>(158)</td>
<td>(889)</td>
</tr>
<tr>
<td>Net loss (a)</td>
<td>(158)</td>
<td>(889)</td>
</tr>
</tbody>
</table>
BALANCE SHEET DATA: (END OF PERIOD)

Current assets $ 29,150 $ 33,676
Total assets 93,559 100,145
Current liabilities 31,178 27,605
Long-term debt 31,080 46,021
Mandatorily redeemable securities 8,874 7,781
Stockholders' equity 7,641 7,853

OPERATING DATA (UNAUDITED):

EBITDA (b) $ 7,125 $ 8,320
Capital expenditures (c) 4,451 5,581
Retail propane gallons sold 30,916 36,569

(a) Included in the net loss for the year ended July 31, 1995, is an extraordinary charge to income of $506,000 for the early retirement of debt, net of the income tax benefit.

(b) EBITDA consists of net income before depreciation, amortization, interest and income taxes. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow, and it is not a measure of performance or financial condition under generally accepted accounting principles, but it provides additional information for evaluating the Partnership's ability to distribute the Minimum Quarterly Distribution and to service and incur indebtedness. Cash flows in accordance with generally accepted accounting principles consist of cash flows from operating, investing and financing activities; cash flows from operating activities reflect net income (including charges for interest and income taxes, which are not reflected in EBITDA), adjusted for noncash charges or income (which are reflected in EBITDA) and
changes in operating assets and liabilities (which are not reflected in EBITDA). Further, cash flows from investing and financing activities are not included in EBITDA.

(c) Capital expenditures fall generally into three categories: (i) growth capital expenditures, which include expenditures for the purchase of new propane tanks and other equipment to facilitate expansion of the retail customer base, (ii) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment, and (iii) acquisition capital expenditures.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the historical financial condition and results of operations for Cornerstone Propane Partners, L.P. and its subsidiary, Cornerstone Propane, L.P. (collectively "Cornerstone" or the "Partnership") should be read in conjunction with the historical financial statements and accompanying notes thereto included elsewhere in this report and the pro forma financial information elsewhere herein.

GENERAL

The Partnership is a Delaware limited partnership formed in October 1996 to own and operate the propane businesses and assets of SYN Inc. and its subsidiaries ("Synergy"), Empire Energy Corporation and its subsidiaries ("Empire"), and CGI Holdings, Inc. and its subsidiaries ("Coast"). The Partnership's two principal business segments are its retail and Coast Energy Group ("CEG") operations. The Partnership believes it is the fourth largest retail marketer of propane in the United States, serving more than 460,000 residential, commercial, industrial and agricultural customers from 298 customer service centers in 34 states.

Because a substantial portion of the Partnership's propane is used in the weather-sensitive residential markets, the heating degree days in the Partnership's areas of operations, particularly during the six-month peak-heating season, have a significant effect on the financial performance of the Partnership. Heating degree days are a general indicator of weather impacting propane usage and are calculated by taking the difference between 65 degrees and the average temperature of the day (if less than 65 degrees). Warmer-than-normal temperatures will generally result in reduced propane use.

Gross profit margins are not only affected by weather patterns but also by changes in customer mix. For example, sales to residential customers ordinarily generate higher margins than sales to other customer groups, such as commercial or agricultural customers. In addition, gross profit margins vary by geographic region. Accordingly, gross profit margins could vary significantly from year to year in a period of identical sales volumes.

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS

The following discussion compares the results of operations and other data of Cornerstone for the years ended June 30, 1999, 1998, and the pro forma year ended June 30,
1997. The pro forma consolidated statement of income was prepared to reflect
the effects of the Partnership's December 17, 1996 Initial Public Offering
("IPO") as if it had been completed in its entirety as of July 1, 1996.

<table>
<thead>
<tr>
<th>Years Ended June 30, thousands of dollars</th>
<th>1999</th>
<th>1998</th>
<th>Pro Forma 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,154,608</td>
<td>$768,129</td>
<td>$664,157</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>973,367</td>
<td>623,924</td>
<td>534,892</td>
</tr>
<tr>
<td>Gross profit</td>
<td>181,241</td>
<td>144,205</td>
<td>129,305</td>
</tr>
<tr>
<td>Operating, general and administrative expenses</td>
<td>123,735</td>
<td>97,184</td>
<td>88,264</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>27,253</td>
<td>18,246</td>
<td>15,073</td>
</tr>
<tr>
<td>Operating income</td>
<td>30,253</td>
<td>28,775</td>
<td>25,968</td>
</tr>
<tr>
<td>Interest expense</td>
<td>25,033</td>
<td>19,222</td>
<td>18,215</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>47</td>
<td>127</td>
<td>109</td>
</tr>
<tr>
<td>Net income</td>
<td>$5,173</td>
<td>$9,426</td>
<td>$7,644</td>
</tr>
</tbody>
</table>

FISCAL 1999 COMPARED TO FISCAL 1998:

In fiscal 1999, Cornerstone consummated fifteen retail acquisitions,
which in aggregate will add approximately 65.0 million annual retail gallons and
83,700 customers, compared to fiscal 1998 which included eleven retail
acquisitions with 23,000 customers and over 17.0 million annual gallons. In
December 1998, Cornerstone acquired Propane Continental, Inc., the nation's 19th
largest distributor of propane gas, which added approximately 60,000 customers,
34 service centers in eleven states and 50.0 million annual retail gallons.
During fiscal 1999, CEG's acquisitions included Propane Continental, Inc.'s
wholesale business as well as two other acquisitions in Calgary, Canada.

In fiscal 1999, Cornerstone sold 261.6 million retail propane gallons,
an increase of 26.6 million gallons or 11.3% from the 235.0 million retail
propane gallons sold in fiscal 1998. The increase in retail volume was
attributable to acquisitions, which added 32.6 million gallons. Excluding
acquisitions, retail volumes were down, with increases in customer base being
more than offset by the warmer weather conditions. Temperatures during the heart
of the heating season (October through February) were 18% warmer than normal and
12% warmer than last year. The heating season for fiscal 1999 was the warmest on
record in the last 104 years, since weather records have been maintained, a fact
both noted and felt by the Partnership.

Revenues increased by $386.5 million or 50.3% to $1,154.6 million in
fiscal 1999, as compared to $768.1 million in fiscal 1998. This increase was
attributable to an increase in CEG's revenues of $364.8 million or 69.5% to
$890.0 million in fiscal 1999, as compared to $525.2 million in fiscal 1998, due
primarily to CEG's business acquisitions consummated during fiscal 1999.
Revenues for the retail business increased by $21.7 million or 8.9% to $264.6
million in fiscal 1999, as compared to $242.9 million in fiscal 1998. This increase in retail revenues was due to acquisitions, offset to some extent by lower gallon sales associated with a warmer than normal retail heating season and lower selling prices related to lower fuel costs.

Cost of sales increased by $349.5 million or 56.0% to $973.4 million in fiscal 1999, as compared to $623.9 million in fiscal 1998. The increase in cost of sales was due to higher CEG volumes. As a percentage of revenues, cost of sales increased to 84.3% in fiscal 1999, as compared to 81.2% in fiscal 1998. This increase is due to acquisitions and internal growth in the CEG business segment, which has a higher cost of sales to revenue ratio.

Gross profit increased by $37.0 million or 25.7% to $181.2 million in fiscal 1999, as compared to $144.2 million in fiscal 1998. This increase was due primarily to acquisitions and increases in retail fuel margins offset to some extent by lower retail volumes associated with the abnormally mild fiscal 1999 heating season.

Operating, general and administrative expenses increased by $26.5 million or 27.3% to $123.7 million in fiscal 1999, as compared to $97.2 million in fiscal 1998. This increase was related primarily to acquisitions, with some additional costs required to support the increased business growth. As a percentage of revenues, operating, general and administrative expenses decreased to 10.7% in fiscal 1999, as compared to 12.7% in fiscal 1998. Depreciation and amortization increased $9.1 million or 50.0% to $27.3 million in fiscal 1999, as compared to $18.2 million in fiscal 1998. This increase was primarily due to the additional amortization and depreciation expense associated with newly acquired businesses.

Operating income increased $1.5 million or 5.1% to $30.3 million for fiscal 1999, as compared to $28.8 million for fiscal 1998. This increase was primarily the result of the increased gross profit described above, partially offset by the increased operating, general and administrative expenses also described above.

Interest expense increased by $5.8 million or 30.2% to $25.0 million in fiscal 1999, as compared to $19.2 million in fiscal 1998. The increase was due to higher borrowings related to business acquisitions.

Net income decreased $4.2 million or 44.7% to $5.2 million in fiscal 1999, as compared to $9.4 million in fiscal 1998, as a result of the factors outlined above. Total earnings before interest, taxes, depreciation and amortization ("EBITDA") increased by $10.5 million or 22.3% to $57.5 million for fiscal 1999, as compared to $47.0 million for fiscal 1998. The increase in EBITDA is due to the earnings contributions from acquisitions, partially offset by lower volumes due to warmer winter weather. Retail operations contributed approximately 23% of the revenue and 85% of the EBITDA from operations for fiscal 1999.

EBITDA should not be considered as an alternative to net income (as an indication of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) but provides additional information to evaluate the Partnership's ability to distribute the Minimum Quarterly Distribution.
In fiscal 1998, Cornerstone sold 235.0 million retail propane gallons, an increase of 21.3 million gallons or 10.0% from the 213.7 million retail propane gallons sold in fiscal 1997. The increase in retail volume was primarily attributable to acquisitions, which added 22.0 million gallons. Excluding acquisitions, retail volumes were flat, with increases in customer base being offset by the warmer weather conditions attributable to the El Nino winter weather pattern. The heating season for 1998 was the third warmest on record in the last 104 years, since weather records were maintained, which negatively impacted retail sales volumes and profits.

Revenues increased by $103.9 million or 15.6% to $768.1 million in fiscal 1998, as compared to $664.2 million in fiscal 1997. This increase was attributable to an increase in CEG's revenues of $124.5 million or 31.1% to $525.2 million in fiscal 1998, as compared to $400.7 million in fiscal 1997, due primarily to higher volumes which were offset by lower selling prices. Revenues for the retail business declined by $20.6 million or 7.8% to $242.9 million in fiscal 1998, as compared to $263.5 million in fiscal 1997, as a result of lower product selling prices, partially offset by higher gallons.

Cost of sales increased by $89.0 million or 16.6% to $623.9 million in fiscal 1998, as compared to $534.9 million in fiscal 1997. The increase in cost of sales was due to higher CEG volumes. As a percentage of revenues, cost of sales increased to 81.2% in fiscal 1998, as compared to 80.5% in fiscal 1997, due to higher growth in the CEG business segment, which has a higher cost of sales to revenue ratio.

Gross profit increased $14.9 million or 11.5% to $144.2 million in fiscal 1998, as compared to $129.3 million in fiscal 1997, primarily due to acquisitions.

Operating, general and administrative expenses increased by $8.9 million or 10.1% to $97.2 million in fiscal 1998, as compared to $88.3 million in fiscal 1997. This increase was related primarily to acquisitions, with some additional costs required to support the increased business growth. As a percentage of revenues, operating, general and administrative expenses decreased to 12.7% in fiscal 1998, as compared to 13.3% in fiscal 1997. Depreciation and amortization increased $3.1 million or 20.5% to $18.2 million in fiscal 1998, as compared to $15.1 million in fiscal 1997, due to the additional depreciation and amortization expense related to acquisitions.

Operating income increased $2.8 million or 10.8% to $28.8 million in fiscal 1998, as compared to $26.0 million in fiscal 1997. This increase was primarily the result of the increased gross profit described above, partially offset by the increased operating, general and administrative expenses also described above.

Interest expense increased by $1.0 million or 5.5% to $19.2 million in fiscal 1998, as compared to $18.2 million in fiscal 1997 due to higher borrowings in the current period related to business acquisitions.

Net income increased $1.8 million or 23.7% to $9.4 million in fiscal 1998, as compared to $7.6 million in fiscal 1997. This increase reflects the increased operating income discussed.
above, partially offset by increased depreciation, amortization and interest costs. Total EBITDA increased by $6.0 million or 14.6% to $47.0 million for fiscal 1998, as compared to $41.0 million for fiscal 1997. The increase in EBITDA reflects the increased operating income discussed above. Retail operations contributed approximately 32% of the revenue and 91% of the EBITDA from operations for fiscal year 1998.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES.

FISCAL 1999:

Cash provided by operating activities during 1999 totaled $27.0 million. Cash flow from operations included net income of $5.2 million and non-cash charges of $21.8 million for the period, comprised of depreciation expense, amortization expense, foreign currency revaluation and the loss on sale of assets. The impact of working capital changes decreased cash flow by approximately $5.6 million.

Cash used in investing activities for 1999 totaled $175.3 million, which was principally used for acquisitions and, to a lesser extent, for purchases of property and equipment. The acquisition of Propane Continental, Inc. was the largest component of the cash used for investing activities, comprising approximately 73% of cash used in investing activities in fiscal 1999. Cash provided by financing activities was $148.1 million for 1999. This amount reflects funds from a secondary offering of Common Units, net borrowings on the Working Capital Facility, and the issuance of additional Senior Notes, partially offset by the payment of Partnership quarterly distributions.

FISCAL 1998:

Cash provided by operating activities during 1998 totaled $24.9 million. Cash flow from operations included net income of $9.4 million and non-cash charges of $17.5 million for the period, comprised of depreciation and amortization expense and the gain on sale of assets. The impact of working capital changes decreased cash flow by approximately $2.0 million.

Cash used in investing activities for 1998 totaled $30.1 million, which was principally used for acquisitions and purchases of property and equipment. Cash provided by financing activities was $6.2 million for 1998. This amount reflects funds from a secondary offering of Common Units and net borrowings on the Working Capital Facility, partially offset by the payment of Partnership distributions.

FINANCING AND SOURCES OF LIQUIDITY:

Financing of investments in acquisitions and property, plant and equipment had been obtained through a balanced funding approach which included issuance of additional Common Units, placement of Senior Notes and utilization of bank credit facility advances.
In October 1998, the Partnership filed a Form S-3 registration statement covering the proposed issuance of 3,487,500 Common Units for general corporate purposes, which may include acquisitions, working capital, expansion of the Partnership's propane business by internal growth and repayment of indebtedness. In December 1998, the Partnership issued 3.1 million additional Common Units as part of the funding for the Propane Continental, Inc. acquisition. Approximately 387,500 units are available for issuance under this registration statement as of June 30, 1999.

Additionally, approximately 454,000 units were issued in fiscal 1999 to the selling shareholders of Propane Continental, Inc. and other acquired businesses, which did not require the use of cash.

In June 1999, Cornerstone Propane Partners, L.P. (the "Master Limited Partnership") issued $45.0 million of Senior Notes with a fixed annual interest rate of 10.26% pursuant to note purchase agreements with various investors. These notes were issued principally to fund various acquisitions and for general corporate purposes. These notes mature on June 30, 2009, and require semi-annual interest payments each December 31 and June 30. The Note Agreement requires that the principal be paid in equal annual installments of $9.0 million starting June 30, 2005.

In December 1998, Cornerstone Propane, L.P. (the "Operating Partnership") issued $85.0 million of Senior Notes with a fixed annual interest rate of 7.33% pursuant to note purchase agreements with various investors. The proceeds from these notes were principally related to the Propane Continental, Inc. acquisition. These notes mature on January 31, 2013, and require semi-annual interest payments each January 31 and July 31. The Note Agreement requires that the principal be paid in equal annual installments of $9.4 million starting January 31, 2005.

In addition to the Senior Notes mentioned above, the Operating Partnership had previously issued $220.0 million of Senior Notes with a fixed annual interest rate of 7.53% pursuant to note purchase agreements with various investors. These notes were issued in conjunction with the IPO in December 1996. These notes mature on December 30, 2010, and require semi-annual interest payments each December 30 and June 30. The Note Agreement requires that the principal be paid in equal annual installments of $27.5 million starting December 30, 2003.

During fiscal 1999, the Operating Partnership entered into a refunding credit agreement (the "Refunding Credit Agreement") which principally modified the allocation of funds available for working capital and acquisition needs and revised some of the debt covenants from the previous agreement. The Refunding Credit Agreement has a working capital facility (the "Working Capital Facility") and an acquisition facility (the "Acquisition Facility"). The Working Capital Facility provides for revolving borrowings up to $75 million (including a $20 million sublimit for letters of credit) and matures on November 30, 2001. The Refunding Credit Agreement provides that there must be no amount outstanding under the Working Capital Facility (excluding letters of credit) in excess of $10 million for at least 30 consecutive days during each fiscal year. At June 30, 1999, $8.1 million was outstanding under the Working Capital Facility. Issued outstanding letters of credit totaled $12.8 million at June 30, 1999. The Acquisition Facility provides the Operating Partnership with the ability to borrow up to $35
million to finance propane business acquisitions. The Acquisition Facility operates as a revolving facility through November 30, 2001. There were no amounts outstanding on the Acquisition Facility at June 30, 1999. Both the Working Capital Facility and the Acquisition Facility can be extended one year upon approval of the banks. The Acquisition Facility can be converted to a two year term note beginning on November 30, 2001. At June 30, 1999, the applicable base and Eurodollar rates were 8.50% and 6.81%, respectively. In addition, an annual fee is payable quarterly by the Operating Partnership (whether or not borrowings occur) ranging from .25% to .50% depending upon coverage ratios.

The Operating Partnership's obligations under the Senior Notes and Refunding Credit Agreements and the Master Limited Partnership's obligations are secured by a security interest in the Partnership's inventory, accounts receivable and propane storage tanks. The Notes and Refunding Credit Agreements contain various terms and covenants including financial covenants with respect to debt and interest coverage and limitations, among others, on the ability of the Partnership and its subsidiaries to incur additional indebtedness, create liens, make investments and loans, sell assets and enter into mergers, consolidations or sales of all or substantially all assets. The Operating Partnership and Master Limited Partnership were in compliance with all terms and covenants at June 30, 1999.

MARKET RISK

The Partnership has limited exposure to technology risk, credit risk, interest rate risk, foreign currency risk and commodity price risk.

STRATEGIES AND PROCEDURES - In the normal course of business, the Partnership employs various strategies and procedures to manage its exposure to changes in interest rates, fluctuations in the value of foreign currencies and changes in commodity prices.

CONCENTRATION OF CREDIT RISK - The Partnership's trade receivables and short-term investments do not represent significant concentration of credit risk at June 30, 1999, due to the wide variety of customers and markets in which the Partnership's products and services are sold. None of the Partnership's customers account for more than 10% of the Partnership's revenue or receivable balances at June 30, 1999. Short-term investments at any single financial institution account for less than 10% of the Partnership's current assets.

COMMODITY PRICE RISK - Commodity price risk arises from the risk of price changes in the commodities that the Partnership buys and sells and as a consequence of providing price risk management services to customers. Futures and forward contracts are utilized to alter the Partnership's exposure to price fluctuations related to the purchase of propane, natural gas and crude oil. If commodity prices changed by 5%, the impact on open positions at June 30, 1999 would be approximately $0.3 million. In the past, price changes have generally been passed along to the Partnership's customers to maintain gross margins, mitigating the commodity price risk. The Partnership enters into hedging instruments to lock into purchases when prices are deemed favorable by management.

INTEREST RATE RISK - Interest rate risk arises from having variable rate debt obligations, as changing interest rates impact the Partnership's future cash flows and net income. The
Partnership's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve this objective, the Partnership maintains the majority of its debt in fixed rate instruments and periodically places some of its floating rate debt under short-term fixed rate Eurodollar loans. On the Partnership's variable rate debt, a change in interest rates of one percentage point would change interest expense by approximately $0.3 million.

FOREIGN CURRENCY EXCHANGE RATE RISK - Foreign currency rate risk arises from the Partnership's Canadian operations. The Partnership's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign exchange rate changes and to allow management to focus its attention on its core business issues and activities. Accordingly, the Partnership enters into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets, liabilities and foreign currency sales. If foreign exchange rates changed by 5%, projected earnings would change by approximately $0.1 million due to the translation of earnings in foreign currencies.

It is the Partnership's policy to enter into interest rate and foreign currency transactions only to the extent considered necessary to meet its objectives as stated above. The Partnership does not enter into interest or foreign currency transactions for speculative purposes.

YEAR 2000 READINESS DISCLOSURE

The Year 2000 issue is the result of computer programs using only the last two digits to indicate the year. If uncorrected, such computer programs will not be able to interpret dates correctly beyond the year 1999 and, in some cases prior to that time (as some computer experts believe), which could cause computer system failures or other computer errors disrupting business operations. Recognizing the potentially severe consequences of the failure to be Year 2000 compliant, the Partnership's management has developed and implemented a company-wide program to identify and remedy the Year 2000 issues. A project team, consisting of the Partnership's Director of Information Systems and the Partnership's key IS managers who supervise operations at each of the Partnership's three main regional facilities in California, Missouri and Texas, together with the Chief Information Officer of Northwestern Corporation, the Managing General Partner's parent corporation, was created to manage the Partnership's Year 2000 issues, enabling a smooth transition into the Year 2000. The project team reports directly to executive management who have assigned a high priority to such efforts within the Partnership.

The scope of the Partnership's Year 2000 readiness program includes the review and evaluation of (i) the Partnership's information technology ("IT") such as hardware and software utilized in the operation of the Partnership's business; (ii) the Partnership's non-IT systems or embedded technology such as micro-controllers contained in various equipment and facilities; and (iii) the readiness of third parties, including customers, suppliers and other key vendors to the Partnership, and the electronic data interchange ("EDI") with those key third parties. If needed modifications and conversions are not made on a timely basis, the Year 2000 issue could have a material adverse effect on the Partnership's operations.
The Partnership is currently using internal and external resources to identify, correct and test large quantities of lines of application software code for systems that were developed internally. Remediation of these systems is scheduled for completion in October 1999 except for the Partnership's Retail Information System, consisting principally of its billing and accounts receivable systems, which is already Year 2000 compliant. Since January 1997, the Partnership has been converting its old billing system installed at each of the approximately 300 customer service centers to the new Retail Information System. Currently, approximately 95% of the Partnership's customer service centers are running the new system, with the roll-out to the balance of the centers scheduled to be completed in October 1999.

Software developed externally has been evaluated for Year 2000 compliance and is being upgraded or replaced. The Partnership's NT-platform-based year 2000 compliant financial system was installed in January 1999. The new financial system encompasses general ledger, accounts payable and fixed assets. Remediation efforts for sub-systems integrated with the financial system are scheduled for completion in October 1999. The Partnership's oil and gas systems are being replaced with a year 2000 compliant third party vendor solution. Scheduled completion date for this project is November 1999. The Partnership is using this process as an opportunity to upgrade and enhance its information systems.

In addition to internal Year 2000 remediation activities, the Partnership has contacted key suppliers, vendors and customers to determine their readiness for the Year 2000, surveying each of them about their compliance and contingency plans to supply the Partnership upon the approach and arrival of the Year 2000. The Partnership's products are directly date sensitive, the supply and transportation of propane gas products are dependent upon companies whose own systems may need to be Year 2000 compliant. If third parties do not convert their systems in a timely manner and in a way compatible with the Partnership's systems, the arrival of the Year 2000 could have an adverse effect on Partnership operations. The Partnership believes that its actions with key suppliers, vendors and customers minimizes these risks. Furthermore, no single customer accounts for more than 10% of the Partnership's consolidated gross profits, thus mitigating the adverse risk to the Partnership's business if some but not all customers are not Year 2000 compliant. Also, only a minimal number of transactions are conducted through EDI.

The Partnership's primary focus has been directed at resolving the Year 2000 problem. While the Partnership expects its internal IT and non-IT systems to be Year 2000 compliant by the dates specified, the Partnership has developed a contingency plan specifying what the Partnership will do if it or important third parties are not Year 2000 compliant by the required dates. A majority of such a contingency plan is based on manual back-up systems, procedures and practices.

Through June 30, 1999, the Partnership estimates that incremental costs of approximately $1.7 million have been incurred and expensed related to Year 2000 issues. Since many systems are being modified to provide significant enhanced capabilities, the Year 2000 expenses have not been nor are planned to be specifically tracked. The current estimated additional cost to complete remediation is expected to be less than $0.3 million. The Partnership expects that a portion of these costs will be capitalized, as they are principally related to adding new software applications and functionality. Other costs will continue to be expensed as incurred.
The Partnership's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of existing resources, Year 2000 modification plans, implementation success by third-parties, and other factors. New developments may occur that could affect the Partnership's estimates of the amount of time and costs necessary to modify and test its IT and non-IT systems for Year 2000 compliance. These developments include, but are not limited to; (i) the availability and cost of personnel trained in this area, (ii) the ability to locate and correct all relevant computer codes and equipment and (iii) the planning and Year 2000 compliance success that key suppliers, vendors and customers attain.

In October 1998, President Clinton signed into law the Year 2000 Readiness Disclosure Act. The Partnership intends to obtain the benefits of the Act's protections by implementing certain procedures described in that Act.

FORWARD-LOOKING STATEMENTS

The information presented herein may contain certain "forward-looking statements" within the meaning of the federal securities laws. The Partnership's actual future performance will be affected by a number of factors, risks and uncertainties, including without limitation, weather conditions, regulatory changes, competitive factors, the Partnership's success in dealing with the Year 2000 issues and the operations of vendors, suppliers and customers, many of which are beyond the Partnership's control. Future events and results may vary substantially from what the Partnership currently foresees, and there can be no assurance that the Partnership's actual results will not differ materially from its expectations. The Partnership undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

INFLATION AND ECONOMIC TRENDS

Although its operations are affected by general economic trends, the Partnership does not believe that inflation had a material effect on the results of its operations during the past three fiscal years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.


ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The Managing General Partner manages and operates the activities of the Partnership. The following table sets forth certain information with respect to the executive officers and members of the Board of Directors of the Managing General Partner. Executive officers and directors are elected for one-year terms.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position with Managing General Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merle D. Lewis</td>
<td>51</td>
<td>Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Richard R. Hylland</td>
<td>38</td>
<td>Vice Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Keith G. Baxter</td>
<td>50</td>
<td>President, Chief Executive Officer and Director</td>
</tr>
<tr>
<td>Charles J. Kittrell</td>
<td>59</td>
<td>Executive Vice President, Chief Operating Officer and Secretary</td>
</tr>
<tr>
<td>Ronald J. Goedde</td>
<td>50</td>
<td>Executive Vice President, Chief Financial Officer and Treasurer</td>
</tr>
<tr>
<td>Vincent J. Di Cosimo</td>
<td>41</td>
<td>Executive Vice President</td>
</tr>
<tr>
<td>William L. Woods</td>
<td>49</td>
<td>Vice President</td>
</tr>
<tr>
<td>Paul Christen</td>
<td>70</td>
<td>Director</td>
</tr>
<tr>
<td>Kurt Katz</td>
<td>66</td>
<td>Director</td>
</tr>
<tr>
<td>Daniel K. Newell</td>
<td>42</td>
<td>Director</td>
</tr>
</tbody>
</table>

Each of the officers and directors has served since 1996, except Messrs. Christen and Katz, who were elected directors in 1997.

Section 16(a) Beneficial Ownership Reporting Compliance.

Based solely upon a review of Forms 3, 4 and 5 and related representations furnished to the Partnership during the most recent fiscal year, no person who, at any time during the fiscal year, was a director, officer or beneficial owner of more than ten percent of the Common Units failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934 during the most recent fiscal year.
ITEM 11. EXECUTIVE COMPENSATION.

The following table provides compensation information from commencement of operations through the year ended June 30, 1999, for the Chief Executive Officer and for each of the four other most highly compensated executive officers of the Managing General Partner whose total compensation exceeded $100,000 for the most recent fiscal period.

### SUMMARY COMPENSATION TABLE

<table>
<thead>
<tr>
<th>Name and Principal Position</th>
<th>Year</th>
<th>Salary</th>
<th>Acquisition(1)</th>
<th>Bonus(2)</th>
<th>Other Annual Compensation(3)</th>
<th>Long Term Compensation on Restricted Unit Awards(4)</th>
<th>All Other Compensation(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keith G. Baxter</td>
<td>1999</td>
<td>$313,958</td>
<td>$924,785</td>
<td>$256,947</td>
<td>$135,000</td>
<td>$81,120</td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>1998</td>
<td>158,485</td>
<td>580,814</td>
<td>135,000</td>
<td>11,059</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>109,333</td>
<td>364,670</td>
<td>87,500</td>
<td>3,683</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Charles J. Kittrell</td>
<td>1999</td>
<td>219,375</td>
<td>633,543</td>
<td>65,000</td>
<td>200,000</td>
<td>55,845</td>
<td></td>
</tr>
<tr>
<td>Chief Operating Officer</td>
<td>1998</td>
<td>155,243</td>
<td>392,876</td>
<td>5,000</td>
<td>10,125</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>86,125</td>
<td>243,113</td>
<td>3,500</td>
<td>4,256</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Ron L. Goedde</td>
<td>1999</td>
<td>172,917</td>
<td>579,233</td>
<td>40,000</td>
<td>200,000</td>
<td>40,348</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>1998</td>
<td>145,171</td>
<td>328,230</td>
<td>40,000</td>
<td>4,143</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>79,192</td>
<td>202,894</td>
<td>20,000</td>
<td>2,998</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Vincent J. Di Cosimo</td>
<td>1999</td>
<td>194,771</td>
<td>--</td>
<td>777,233</td>
<td>150,000</td>
<td>39,342</td>
<td></td>
</tr>
<tr>
<td>Senior Vice President</td>
<td>1998</td>
<td>154,933</td>
<td>--</td>
<td>245,000</td>
<td>5,003</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>81,236</td>
<td>--</td>
<td>12,500</td>
<td>2,333</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>William L. Woods</td>
<td>1999</td>
<td>164,690</td>
<td>356,518</td>
<td>--</td>
<td>60,000</td>
<td>31,959</td>
<td></td>
</tr>
<tr>
<td>Vice President</td>
<td>1998</td>
<td>130,495</td>
<td>187,560</td>
<td>--</td>
<td>300,000</td>
<td>3,179</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>62,292</td>
<td>115,766</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

(1) Reflects amounts awarded under the Acquisition Incentive Plan for Messrs. Baxter, Kittrell, Goedde and Woods. See "Incentive Plans."

(2) Reflects (a) bonus paid under the Annual Operating Incentive Plan payable to Messrs. Baxter, Kittrell, Goedde, Di Cosimo and Woods; (b) the bonus payable to Mr. Di Cosimo under the Coast Energy Group Bonus Plan; (c) the amounts vested under the CEG Stock Appreciation Rights Plan to Mr. Baxter and Mr. Di Cosimo; and (d) a one-time special consolidating bonus awarded to Messers. Baxter, Kittrell, Goedde and Woods in 1997. See "Incentive Plans."

(3) Reflects the Management Fees payable to Messrs. Baxter, Kittrell, Goedde and Di Cosimo in connection with the acquisition of Empire Energy and Coast by Northwestern Growth. See "Employment Agreements."

(4) The total number of restricted Common Units and their aggregate market value as of June 30, 1999, were: Mr. Baxter, 148,286 Common Units valued at $2,613,546; Mr. Kittrell,
86,159 Common Units valued at $1,518,550; Mr. Goedde, 85,159 Common Units valued at $1,518,550; Mr. Di Cosimo, 55,095 Common Units valued at $971,049 and Mr. Woods, 16,360 Common Units valued at $288,350. Amounts listed in the table are units valued at time of issuance. There were no payouts under the Restricted Unit Plan during the fiscal period ended June 30, 1999.

The "All Other Compensation" category reflects (a) the Managing General Partner's matching contributions to its 401(k) Plan; (b) amounts vested in the Supplemental Executive Retirement Plan; and (c) payments for life and disability insurance. Amounts relate to all Executives listed. See "Employment Agreements".

EMPLOYMENT AGREEMENTS

The Managing General Partner has entered into employment agreements (the "Employment Agreements") with each of Keith G. Baxter, Charles J. Kittrell, Ronald J. Goedde and Vincent J. Di Cosimo and William L. Woods (the "Executives").

Pursuant to the Employment Agreements, Messrs. Baxter, Kittrell, Goedde, Di Cosimo and Woods serve as President and Chief Executive Officer, Executive Vice President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, Senior Vice President and Vice President, respectively, of the Managing General Partner. Each of the Employment Agreements has a term of three years from July 1, 1998, unless sooner terminated as provided in the Employment Agreements. The Employment Agreements provide for an annual base salary of $300,000, $210,000, $165,000, $185,000 and $165,000 for each of Messrs. Baxter, Kittrell, Goedde, Di Cosimo and Woods, respectively, subject to such increases as the Board of Directors of the Managing General Partner may authorize from time to time, plus a fee for each of the Executives of approximately $135,000, $65,000, $40,000, $25,000 and $0, respectively, per year for three years related to the acquisition of Empire Energy and Coast by Northwestern Growth (the "Management Fee"). In addition, the Managing General Partner pays for a $725,000 life insurance policy for Mr. Baxter and $410,000 life insurance policies for each of Messrs. Kittrell, Goedde and Di Cosimo and $250,000 for Mr. Woods. Each of the Executives participates in the Annual Operating Performance Incentive Plan of the Managing General Partner and Messrs. Baxter, Kittrell, Goedde and Woods participate in the New Acquisition Incentive Plan of the Managing General Partner (together with the Annual Operating Performance Incentive Plan, the "Plans") as described below. Messrs. Baxter and Di Cosimo participate in the Coast Energy Group Stock Appreciation Rights Plan. The Executives are also entitled to participate in such other benefit plans and programs as the Managing General Partner may provide for its employees in general (the "Other Benefit Plans").

The Employment Agreements provide that in the event an Executive's employment is terminated without "cause" (as defined in the Employment Agreements) or if an Executive terminates his employment due to a "Fundamental Change" (as defined below), such Executive will be entitled to receive a severance payment in an amount equal to his total compensation for the remainder of the employment term under the Employment Agreement and will receive benefits under the Other Benefit Plans for a period of twelve months after termination. In the event of termination due to disability, the Executive will be entitled to his base salary, his Management Fee and benefits under the Plans and the Other Benefit Plans for twelve months. In
the event of termination due to death, benefits under the Other Benefit Plans will be continued for the Executive's dependents for twelve months. In the event the Executive's employment is terminated for "cause," the Executive will receive accrued salary and benefits (including his Management Fee and benefits under the Plans) up to the date of termination and, if the Managing General Partner does not waive the Executive's covenant not to compete, benefits under the Other Benefit Plans for 12 months.

A Fundamental Change is defined in the Employment Agreements to have occurred (i) if the Executive's duties, authority, responsibilities and/or compensation is reduced without performance or market-related justification; (ii) if the Executive's primary office is moved more than 50 miles from Watsonville, California (or, with respect to Mr. Di Cosimo, Houston, Texas) without his consent; (iii) if the Partnership disposes of business and assets which reduce the annual EBITDA of the Partnership below 70% of the annual EBITDA level existing at the time employment commenced; or (iv) if securities representing 10% of the voting power in elections of directors of NOR become beneficially owned by any party or group or other prescribed events occur constituting a change of control of NOR.

In addition, each Employment Agreement contains non-competition and confidentiality provisions.

INCENTIVE PLANS

The Managing General Partner has adopted the Annual Operating Performance Incentive Plan, which provides for the payment of annual incentive bonuses to participants in the plan (who will be determined by the Board of Directors of the Managing General Partner from time to time and who will include the Executives) equal to a percentage of annual salary (plus in the case of the Executives, his Management Fee) based on the Partnership's performance compared to budgeted levels of net income and EBITDA. Such bonuses will range from zero for performance at 10% below budget to 50% for performance at budget. In addition, in the event EBITDA exceeds budgeted amounts, there will be established a bonus pool equal to 10% of the excess of EBITDA over budget, which will be divided among Messrs. Baxter, Kittrell, Goedde and Woods and any other participants that the Board of Directors of the Managing General Partner may determine. The period covered by the plan began December 17, 1996, and ends on the fifth anniversary thereof.

The Managing General Partner has an Acquisition Incentive Plan, which provides for bonuses to participants in the plan (who will be determined by the Board of Directors of the Managing General Partner from time to time and who will include the Executives) for adding new businesses to the Partnership's propane operations. The bonuses will be an amount equal to 4% of the gross acquisition purchase price, allocated among the participants in the plan based on defined percentages. The transactions covered by the plan will include those occurring on or after December 17, 1997 through the fifth anniversary thereof. Awards under this program will be payable in cash 90 days after the close of the particular acquisition transaction.
RESTRICTED UNIT PLAN

LONG-TERM INCENTIVE PLAN

The following table sets forth the restricted unit grants made under the Restricted Unit Plan to the named executive officers of the Partnership.

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares, Units or Other Rights</th>
<th>Performance or Other Period Until Maturation or Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keith G. Baxter</td>
<td>148,286 Common Units(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>Charles J. Kittrell</td>
<td>86,159 Common Units(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>Ronald J. Goedde</td>
<td>86,159 Common Units(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>Vincent J. Di Cosimo</td>
<td>55,095 Common Units(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>William L. Woods</td>
<td>16,360 Common Units(2)</td>
<td>(3)</td>
</tr>
</tbody>
</table>

(1) Granted on December 17, 1996 upon consummation of the IPO and on December 1, 1998.
(2) Granted during fiscal year 1998 and on December 1, 1998.
(3) Restricted units are subject to a bifurcated vesting procedure such that (a) 25% of a participant's restricted units will vest over time, with one-third vesting on the third, fifth and seventh anniversaries of the date of grant and (b) the remaining 75% of a participant's restricted units will vest automatically upon, and in the same proportions as, the conversion of the Subordinated Units to Common Units. See Note 4 to the Partnership's Consolidated Financial Statements included in Item 8. If a participant's employment is terminated without "cause" (as defined in the Restricted Unit Plan) or a participant resigns with "good reason" (as defined in the Restricted Unit Plan), the participant's rights to receive Common Units which vest over time will immediately vest. In the event of a "change of control" of the Partnership (as defined in the Restricted Unit Plan), all rights to receive Common Units pursuant to the Restricted Unit Plan will immediately vest. Until rights to receive Common Units have vested, the Common Units to which they relate are not issued, and the participant is not entitled to any distributions or allocations of income or loss, and has no voting or other rights, with respect to such Common Units.

DIRECTOR COMPENSATION

The Chairman of the Board of the Managing General Partner receives $50,000 annually and each of its other nonemployee directors receives $15,000 annually, plus $1,000 per Board meeting attended and $500 per committee meeting attended. Committee chairmen receive $500 per quarter.

In connection with the consummation of the IPO and in connection with the acquisition of Propane Continental, Inc., the three initial nonemployee directors of the Managing General Partner received rights with respect to restricted units, as follows: Mr. Lewis, 23,035 Common Units valued at $480,000; Mr. Hylland, 17,276 Common Units valued at $360,000; and Mr. Newell, 11,518 Common Units valued at $240,000. In addition, under the Restricted Unit Plan, upon his or her election to the Board of Directors of the Managing General Partner, each nonemployee director receives rights with respect to restricted units having an aggregate value of
$240,000. The directors' restricted units vest in accordance with the same procedure as is described in Note 3 to the Long-Term Incentive Plan - Awards in Last Fiscal Year table above.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

The Nominating and Compensation Committee of the Board of Directors of the Managing General Partner is comprised of Messrs. Lewis, Christen and Katz. None of these persons is an officer, employee or former employee of the Managing General Partner, the Partnership or any of their subsidiaries.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OWNERSHIP OF PARTNERSHIP UNITS BY THE GENERAL PARTNERS AND DIRECTORS AND EXECUTIVE OFFICERS OF THE MANAGING GENERAL PARTNER

The table below sets forth, as of June 30, 1999, the beneficial ownership of Units by each person known to the Managing General Partner to be the beneficial owner of more than 5% of any class of Units of the Partnership, each director and named executive officer of the Managing General Partner, as well as the directors and all of the executive officers of the Managing General Partner as a group.

<table>
<thead>
<tr>
<th>Name and Address of Beneficial Owner</th>
<th>Class</th>
<th>Amount and Nature of Beneficial Owner</th>
<th>Percent of Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing General Partner(1)</td>
<td>Subordinated</td>
<td>5,677,040</td>
<td>86.0%</td>
</tr>
<tr>
<td>Special General Partner(2)</td>
<td>Subordinated</td>
<td>920,579</td>
<td>14.0%</td>
</tr>
<tr>
<td>Merle Lewis</td>
<td>Common</td>
<td>5,078 (3)(4)</td>
<td>*</td>
</tr>
<tr>
<td>Richard R. Hylland</td>
<td>Common</td>
<td>610 (3)(4)</td>
<td>*</td>
</tr>
<tr>
<td>Keith G. Baxter</td>
<td>Common</td>
<td>36,316 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Charles J. Kittrell</td>
<td>Common</td>
<td>18,736 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Ronald J. Goedde</td>
<td>Common</td>
<td>33,153 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Vincent J. Di Cosimo</td>
<td>Common</td>
<td>4,367 (3)</td>
<td>*</td>
</tr>
<tr>
<td>William L. Woods</td>
<td>Common</td>
<td>13,764 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Paul Christen</td>
<td>Common</td>
<td>692 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Kurt Katz</td>
<td>Common</td>
<td>30,692 (3)</td>
<td>*</td>
</tr>
<tr>
<td>Daniel K. Newell</td>
<td>Common</td>
<td>2,805 (3)(4)</td>
<td>*</td>
</tr>
<tr>
<td>All directors and executive officers (10 persons) as a common group</td>
<td></td>
<td>146,213 (3)</td>
<td>*</td>
</tr>
</tbody>
</table>

*Less than 1%

(1) The business address of the Managing General Partner is 432 Westridge Drive, Watsonville, California 95076.

(2) The business address of the Special General Partner is 600 Market Street W., Huron, South Dakota 57350.

(3) Excludes Common Units awarded under the Restricted Unit Plan as follows: Mr. Lewis - 23,035 Common Units; Mr. Hylland - 17,276 Common Units; Mr. Baxter - 148,286 Common Units; Mr. Kittrell - 86,159 Common Units; Mr. Goedde - 86,159 Common Units;
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

As of June 30, 1999, the General Partners own the entire general partner interest in the Partnership and all of the Subordinated Units, representing an aggregate 27.6% limited partner interest and a 2% General Partner interest in the Partnership. Through the Managing General Partner's ability, as managing general partner, to manage and operate the Partnership and the ownership of all of the outstanding Subordinated Units by the General Partners (effectively giving the General Partners the ability to veto certain actions of the Partnership), the General Partners have the ability to control the management of the Partnership.

The Managing General Partner is a wholly-owned subsidiary of NOR, and the Special General Partner is a majority-owned subsidiary of NOR. Mr. Lewis serves as the Chairman of the Board, and Messrs. Hylland and Newell are executive officers of NOR.

The Managing General Partner does not receive any management fee or other compensation in connection with its management of the Partnership, but it and its affiliates performing services for the Partnership are reimbursed at cost for all expenses incurred on behalf of the Partnership, including the cost of compensation properly allocable to the Partnership. The Partnership's Partnership Agreement provides that the Managing General Partner will determine the expenses that are allocable to the Partnership in any reasonable manner.

In addition, the General Partners are entitled to receive distributions on their general partner interest, certain incentive distributions and distributions on their Subordinated Units.
ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) (1) Financial Statements

Cornerstone Propane Partners, L.P.

Report of Independent Public Accountants
Consolidated Balance Sheets as of June 30, 1999 and 1998
Consolidated Statements of Income for the years ended June 30, 1999 and 1998, and the period ended June 30, 1997
Consolidated Statements of Partners' Capital for the years ended June 30, 1999 and 1998, and the period ended June 30, 1997

Empire Energy Corporation

Independent Accountants' Report
Consolidated Statements of Stockholders' Equity for the periods ended December 16, 1996, and the Year Ended June 30, 1996

CGI Holdings, Inc.

Report of Independent Accountants
Consolidated Statements of Operations for the four and one-half month period ended December 16, 1996 and for the fiscal year ended July 31, 1996
Consolidated Statements of Stockholders' Equity for the four and one-half month period ended December 16, 1996 and for the fiscal year ended July 31, 1996
Consolidated Statements of Cash Flows for the four and one-half month period ended December 16, 1996 and for the fiscal year ended July 31, 1996
SYN, Inc.

Report of Independent Public Accountants
Consolidated Statements of Operations for the period ended
December 16, 1996, and the period ended June 30, 1996
Consolidated Statements of Stockholders' Equity for the period ended
December 16, 1996, and the period ended June 30, 1996
Consolidated Statements of Cash Flows for the period ended
December 16, 1996, and the period ended June 30, 1996

Synergy Group Incorporated

Independent Accountants Report
Consolidated Statement of Operations for the period ended August 14,
1995
Consolidated Statement of Stockholders' Equity (Deficit) for the
period ended August 14, 1995
Consolidated Statement of Cash Flows for the period ended August 14,
1995

(a) (2) Financial Statement Schedules

All financial statement schedules are omitted because the information is
not required, is not material or is otherwise included in the financial
statements or related notes thereto.

(a) (3) Exhibits

3.1 Amended and Restated Agreement of Limited Partnership of Cornerstone
Propane Partners, L.P. dated as of December 17, 1996. (Incorporated by
reference to Exhibit 3.1 of the Partnership’s report on Form 8-K dated
April 14, 1997 (The Form 8-K).)

3.2 Amended and Restated Agreement of Limited Partnership of Cornerstone
Propane, L.P. dated as of December 17, 1996. (Incorporated by
reference to Exhibit 3.2 to the Form 8-K.)

10.1 Credit Agreement dated December 17, 1996, among Cornerstone Propane,
L.P., various financial institutions and Bank of America National
Trust and Savings Association, as agent. (Incorporated by reference to
Exhibit 10.1 to the Form 8-K.)

10.2 Note Purchase Agreement dated December 17, 1996, among Cornerstone
Propane, L.P. and various investors. (Incorporated by reference to
Exhibit 10.2 to the Form 8-K.)

10.3 Contribution, Conveyance and Assumption Agreement dated as of December
17, 1996 among Cornerstone Propane Partners, L.P., Cornerstone
Propane, L.P., Cornerstone Propane GP, Inc., Empire Energy SC
Corporation and SYN Inc. (Incorporated by reference to Exhibit 10.3 to
the Form 8-K.)

10.4* 1996 Cornerstone Propane Partners, L.P. Restricted Unit Plan
(Incorporated by reference to Exhibit 10.4 to the Form 8-K.)
10.5* Form of Employment Agreements for Messrs. Baxter, Kittrell, Goedde, Di Cosimo, and Woods (Incorporated by reference to Exhibit 10.5 of the Partnership's report on Form 10-Q dated November 13, 1998.)

10.6 Amendment No. 1 to Credit Agreement (Incorporated by reference to Exhibit 10.6 to the Partnership's previous report on Form 10-K, dated September 28, 1997.)

10.7 Amendment No. 2 to Credit Agreement (Incorporated by reference to Exhibit 10.7 to the Partnership's previous report on Form 10-K, dated September 28, 1997.)

10.8* Cornerstone Propane Deferred Compensation Plan, effective July 1, 1998 (Incorporated by reference to Exhibit 10.8 of the Partnership's report on Form 10-Q, dated February 15, 1999)


21.1 List of Subsidiaries

23.1 Consent of Arthur Andersen LLP

23.2 Consent of Baird, Kurtz & Dobson

23.3 Consent of PricewaterhouseCoopers LLP

27 Financial Data Schedule

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

None
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Cornerstone Propane Partners, L.P.
By: Cornerstone Propane GP, Inc.
Managing General Partner

By: /s/ Keith G. Baxter

----------------------------
Keith G. Baxter

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Capacity in which Signed</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ Merle D. Lewis</td>
<td>Chairman of the Board Of Directors of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Merle D. Lewis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Richard R. Hylland</td>
<td>Vice Chairman of the Board Of Directors of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Richard R. Hylland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Keith G. Baxter</td>
<td>President, Chief Executive Officer and Director of the Managing General Partner (principal executive officer)</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Keith G. Baxter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Ronald J. Goedde</td>
<td>Executive Vice President, Chief Financial Officer and Treasurer of the Managing General Partner (principal financial/accounting officer)</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Ronald J. Goedde</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Paul R. Christen</td>
<td>Director of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Paul R. Christen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Kurt Katz</td>
<td>Director of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Kurt Katz</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Daniel K. Newell</td>
<td>Director of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Daniel K. Newell</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Richard D. Nye</td>
<td>Vice President - Finance of the Managing General Partner</td>
<td>September 23, 1999</td>
</tr>
<tr>
<td>Richard D. Nye</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
To the Cornerstone Propane Partners, L.P.:

We have audited the accompanying consolidated balance sheets of Cornerstone Propane Partners, L.P. (a Delaware limited partnership) and Subsidiary as of June 30, 1999 and 1998, and the related consolidated statements of income, partners' capital and cash flows for the years ended June 30, 1999 and 1998, and for the period from commencement of operations (December 17, 1996) to June 30, 1997. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Propane Partners, L.P. and Subsidiary as of June 30, 1999 and 1998, and the results of their operations and their cash flows for the years ended June 30, 1999 and 1998, and for the period from commencement of operations (December 17, 1996) to June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
August 4, 1999
### CORNERSTONE PROPANE PARTNERS, L.P. AND SUBSIDIARY
### CONSOLIDATED BALANCE SHEETS

#### June 30

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 9,229</td>
<td>$ 9,366</td>
</tr>
<tr>
<td>Trade receivables, net</td>
<td>29,097</td>
<td>18,467</td>
</tr>
<tr>
<td>Inventories</td>
<td>42,629</td>
<td>18,238</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>5,444</td>
<td>1,107</td>
</tr>
<tr>
<td>Other current assets</td>
<td>4,690</td>
<td>6,043</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$91,089</td>
<td>$53,221</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>$336,820</td>
<td>$275,288</td>
</tr>
<tr>
<td>Goodwill, net</td>
<td>314,735</td>
<td>224,064</td>
</tr>
<tr>
<td>Other intangible assets, net</td>
<td>31,612</td>
<td>18,135</td>
</tr>
<tr>
<td>Due from related party</td>
<td>3,020</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,968</td>
<td>1,803</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$781,244</td>
<td>$572,511</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND PARTNERS' CAPITAL** |          |          |
| **Current liabilities:** |          |          |
| Current portion of long-term debt | $10,456  | $3,800   |
| Trade accounts payable      | 33,182   | 18,460   |
| Accrued expenses            | 27,425   | 29,335   |
| **Total current liabilities** | $71,063  | $51,596  |
| Long-term debt              | 388,484  | 237,138  |
| Due to related party        | 6,170    | 1,684    |
| Other noncurrent liabilities |         | 2,500    |
| **Total liabilities**       | 465,717  | 292,917  |
| **Partners' capital:**     |          |          |
| Common Unitholders (16,786,899 and 13,234,411 units issued and outstanding) | 220,077 | 185,803 |
| Subordinated Unitholders (6,597,619 units issued and outstanding) | 88,965  | 88,117   |
| General Partners            | 6,485    | 5,674    |
| **Total partners' capital** |          |          |
| **Total liabilities and partners' capital** | $781,244 | $572,511 |

The accompanying notes are an integral part of these consolidated balance sheets.
# CORNERSTONE PROPANE PARTNERS, L.P. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF INCOME

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$ 1,154,608</td>
<td>$ 766,129</td>
<td>$ 389,630</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>973,367</td>
<td>623,924</td>
<td>315,324</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>181,241</td>
<td>144,205</td>
<td>74,306</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating, general and administrative</td>
<td>123,735</td>
<td>97,184</td>
<td>50,023</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>27,253</td>
<td>18,246</td>
<td>8,519</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>150,988</td>
<td>115,430</td>
<td>58,542</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>30,253</td>
<td>28,775</td>
<td>15,764</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>25,033</td>
<td>19,222</td>
<td>9,944</td>
</tr>
<tr>
<td><strong>Income before provision for income taxes</strong></td>
<td>5,220</td>
<td>9,553</td>
<td>5,820</td>
</tr>
<tr>
<td>** Provision for income taxes**</td>
<td>47</td>
<td>127</td>
<td>64</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$ 5,173</td>
<td>$ 9,426</td>
<td>$ 5,756</td>
</tr>
<tr>
<td><strong>General Partners' interest in net income</strong></td>
<td>$ 103</td>
<td>$ 189</td>
<td>$ 212</td>
</tr>
<tr>
<td><strong>Limited Partners' interest in net income</strong></td>
<td>$ 5,070</td>
<td>$ 9,237</td>
<td>$ 5,544</td>
</tr>
<tr>
<td><strong>Limited Partners' net income per unit</strong></td>
<td>$ 0.23</td>
<td>$ 0.50</td>
<td>$ 0.34</td>
</tr>
<tr>
<td><strong>Weighted average number of units outstanding</strong></td>
<td>21,605</td>
<td>18,429</td>
<td>16,531</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
CORNERSTONE PROPANE PARTNERS, L.P. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

<table>
<thead>
<tr>
<th>Total</th>
<th>General Partners' Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Common</td>
</tr>
<tr>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Balance at commencement of operations on December 17, 1996</td>
<td>-</td>
</tr>
<tr>
<td>Contributions of net assets of predecessor companies and issuance of Common Units</td>
<td>9,821,000</td>
</tr>
<tr>
<td>Issuance of Common Units in connection with acquisitions</td>
<td>691,805</td>
</tr>
<tr>
<td>Issuance of 2% General Partners' interest</td>
<td>-</td>
</tr>
<tr>
<td>General Partners' contribution in connection with acquisitions</td>
<td>-</td>
</tr>
<tr>
<td>Quarterly distributions</td>
<td>-</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
</tr>
<tr>
<td>Balance at June 30, 1997</td>
<td>10,512,805</td>
</tr>
<tr>
<td>Issuance of Common Units</td>
<td>1,960,000</td>
</tr>
<tr>
<td>General Partners' contribution in connection with additional units</td>
<td>-</td>
</tr>
<tr>
<td>Issuance of Common Units in connection with acquisitions</td>
<td>761,606</td>
</tr>
<tr>
<td>General Partners' contribution in connection with acquisitions</td>
<td>-</td>
</tr>
<tr>
<td>Quarterly distributions</td>
<td>-</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
</tr>
</tbody>
</table>
Balance at June 30, 1998 13,234,411 6,597,619 185,803 88,117 5,674 279,594
Comprehensive net income:
Net income - - 4,158 912 103 5,173
Other comprehensive income - - (160) (64) (5) (229)
Issuance of Common Units 3,100,000 - 53,790 - - 53,790
General Partners' contribution in connection with additional units - - - 1,201 1,201
Issuance of Common Units in connection with acquisitions 454,478 - 8,959 - - 8,959
General Partners' contribution in connection with acquisitions - - - 178 178
Quarterly distributions - - (32,473) - - (32,473)
Balance at June 30, 1999 16,788,889 6,597,619 $ 220,077 $ 88,965 $ 6,485 $ 315,527

The accompanying notes are an integral part of these consolidated financial statements.
## CORNERSTONE PROPANE PARTNERS, L.P. AND SUBSIDIARY
### CONSOLIDATED STATEMENTS OF CASH FLOWS

From Commencement of Operations on December 17, 1996 to June 30, 1997

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Year Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 1999</td>
<td>June 30, 1998</td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM OPERATING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$5,173</td>
<td>$9,426</td>
<td>$5,756</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash from operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>(229)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>27,253</td>
<td>18,246</td>
<td>8,519</td>
</tr>
<tr>
<td>Loss (gain) on sale of assets</td>
<td>363</td>
<td>(734)</td>
<td>-</td>
</tr>
<tr>
<td>Changes in assets and liabilities, net of effect of acquisitions and dispositions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>(1,217)</td>
<td>4,768</td>
<td>37,100</td>
</tr>
<tr>
<td>Inventories</td>
<td>864</td>
<td>(4,206)</td>
<td>11,020</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(1,383)</td>
<td>(5,354)</td>
<td>(734)</td>
</tr>
<tr>
<td>Trade accounts payable and accrued expenses</td>
<td>(3,821)</td>
<td>3,146</td>
<td>(39,299)</td>
</tr>
<tr>
<td>Other assets and liabilities</td>
<td>-</td>
<td>(434)</td>
<td>(11,211)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>27,003</td>
<td>24,860</td>
<td>11,151</td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM INVESTING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures for property, plant and equipment</td>
<td>(21,948)</td>
<td>(13,532)</td>
<td>(1,954)</td>
</tr>
<tr>
<td>Acquisitions, net of cash received</td>
<td>(153,337)</td>
<td>(16,564)</td>
<td>(1,800)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(175,285)</td>
<td>(30,096)</td>
<td>(3,754)</td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM FINANCING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net borrowings (payments) on Working Capital Facility</td>
<td>9,380</td>
<td>4,120</td>
<td>(8,200)</td>
</tr>
<tr>
<td>Net (payments) borrowings on purchase obligations</td>
<td>(7,171)</td>
<td>(4,609)</td>
<td>799</td>
</tr>
<tr>
<td>Proceeds from Senior Note Offerings</td>
<td>130,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payments for debt financing</td>
<td>(1,390)</td>
<td>(2,420)</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from additional unit offering</td>
<td>58,900</td>
<td>43,365</td>
<td>-</td>
</tr>
<tr>
<td>Payments for additional unit offering</td>
<td>(5,110)</td>
<td>(2,537)</td>
<td>-</td>
</tr>
<tr>
<td>General Partners' payments and contributions, net</td>
<td>(3,325)</td>
<td>1,640</td>
<td>-</td>
</tr>
<tr>
<td>Partnership distributions</td>
<td>(33,139)</td>
<td>(33,363)</td>
<td>(10,614)</td>
</tr>
<tr>
<td>Net cash provided by (used by) financing activities</td>
<td>148,145</td>
<td>6,196</td>
<td>(18,015)</td>
</tr>
</tbody>
</table>

### PARTNERSHIP FORMATION TRANSACTIONS:

<table>
<thead>
<tr>
<th>Description</th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net proceeds from issuance of Common and Subordinated Units</td>
<td>-</td>
<td>-</td>
<td>191,804</td>
</tr>
<tr>
<td>Borrowings on Working Capital Facility</td>
<td>-</td>
<td>-</td>
<td>12,800</td>
</tr>
<tr>
<td>Issuance of Senior Notes</td>
<td>-</td>
<td>-</td>
<td>220,000</td>
</tr>
<tr>
<td>Cash transfers from predecessor companies</td>
<td>-</td>
<td>-</td>
<td>22,418</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt and related interest</td>
<td>(337,631)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution to Special General Partner for the redemption of preferred stock</td>
<td>(61,196)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution to Special General Partner</td>
<td>(15,500)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other fees and expenses</td>
<td>(13,673)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net cash provided by partnership formation transactions</strong></td>
<td>19,022</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS, beginning of period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,406</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS, END OF PERIOD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$9,229</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$9,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$8,406</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
PARTNERSHIP ORGANIZATION AND FORMATION

Cornerstone Propane Partners, L.P. ("Cornerstone Partners") was formed on October 7, 1996, as a Delaware limited partnership. Cornerstone Partners and its subsidiary, Cornerstone Propane, L.P., a Delaware limited partnership (the "Operating Partnership"), were formed to acquire, own and operate substantially all of the propane businesses and assets of Synergy, Empire Energy Corporation and its subsidiaries ("Empire"), and CGI Holdings, Inc. and its subsidiaries ("Coast"). The principal predecessor entities, Synergy, Empire, and Coast, are collectively referred to herein as the "Predecessor Companies." The consolidated financial statements include the accounts of Cornerstone Partners, the Operating Partnership and its corporate subsidiaries, Cornerstone Sales & Service Corporation, a California corporation, Flame, Inc., an Arizona corporation and Propane Continental, Inc. ("PCI"), a Delaware corporation, collectively referred to herein as the "Partnership." The Operating Partnership is, and the Predecessor Companies were, principally engaged in (a) the retail marketing and distribution of propane for residential, commercial, industrial, agricultural and other retail uses; (b) the wholesale marketing and distribution of propane, other natural gas liquids, crude oil and natural gas to the retail propane industry, the chemical and petrochemical industries and other commercial and agricultural markets; (c) the repair and maintenance of propane heating systems and appliances; and (d) the sale of propane-related supplies, appliances and other equipment. The Partnership entities commenced operations on December 17, 1996 pursuant to a Contribution, Conveyance and Assumption Agreement dated as of the same date, wherein substantially all of the assets and liabilities of the Predecessor Companies were contributed to the Operating Partnership (the "Conveyance"). As a result of the Conveyance, Cornerstone Propane GP, Inc., a California corporation and the managing general partner of Cornerstone Partners and the Operating Partnership (the "Managing General Partner"); and Synergy Inc., a Delaware corporation and the special general partner of Cornerstone Partners and the Operating Partnership (the "Special General Partner"), received all interests in the Operating Partnership, and the Operating Partnership received substantially all assets and assumed substantially all liabilities of the Predecessor Companies. Immediately after the Conveyance, and in accordance with the Amended and Restated Agreement of Limited Partnership of Cornerstone Partners (the "Partnership Agreement"), the Managing General Partner and the Special General Partner (collectively the "General Partners") conveyed their limited partner interests in the Operating Partnership to Cornerstone Partners in exchange for a 2% interest in Cornerstone Partners and the Operating Partnership.

Following these transactions, on December 17, 1996, Cornerstone Partners completed its initial public offering of 9,821,000 Common Units (the "IPO") at a price to the public of $21.00 a unit. The net proceeds of approximately $191.8 million from the IPO, the proceeds from the issuance of $220.0 million aggregate principal amount of the Operating Partnership's 7.53% Senior Notes, and $12.8 million borrowings under the Working Capital Facility (as described in Note 3) were used to repay $337.6 million in liabilities assumed by the Operating Partnership (including $141.8 million paid to affiliates of the Managing General Partner) that were in large part incurred in connection with the transactions entered into prior to the IPO. A portion of the funds was distributed to the Special General Partner to redeem its preferred stock ($61.2 million) to provide net worth to the Special General Partner ($15.5 million) and to pay expenses ($13.7 million).

Partners' capital of limited partners immediately after the IPO consisted of 9,821,000 Common Units and 6,597,619 Subordinated Units, representing an aggregate 58.6% and 39.4% limited partner interest in Cornerstone Partners, respectively. Partners' capital of General Partners consists of a 2% interest in the Partnership.
During the Subordination Period (see Note 4), the Partnership may issue up to 4,270,000 additional Parity Units (generally defined as Common Units and all other Units having rights to distribution or in liquidation ranking on a parity with the Common Units), excluding Common Units issued in connection with (a) employee benefit plans and (b) the conversion of Subordinated Units into Common Units, without the approval of a majority of the Unitholders. As of June 30, 1999, 4,265,318 Parity Units are available for issuance. The Partnership may issue an unlimited number of additional Parity Units without Unitholder approval if such issuance occurs in connection with acquisitions, including, in certain circumstances, the repayment of debt incurred in connection with an acquisition. In addition, under certain conditions the Partnership may issue without Unitholder approval an unlimited number of parity securities for the repayment of up to $75.0 million of long-term indebtedness of the Partnership. After the Subordination Period, the Managing General Partner may cause the Partnership to issue an unlimited number of additional limited partner interests and other equity securities of the Partnership for such consideration and on such terms and conditions as shall be established by the Managing General Partner at its sole discretion.

The Partnership consummated several acquisitions during the years ended June 30, 1999 and 1998 and the period ended June 30, 1997. The total consideration for these acquisitions consisted of both Common Units and debt, as follows:

<table>
<thead>
<tr>
<th># of acquisitions</th>
<th>Total consideration</th>
<th>Dollar Value of Partnership Units issued</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(MILLIONS)</td>
<td>(MILLIONS)</td>
</tr>
<tr>
<td>Period ended:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 30, 1997</td>
<td>4</td>
<td>$ 20.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$14.8</td>
</tr>
<tr>
<td>June 30, 1998</td>
<td>11</td>
<td>$ 38.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$17.6</td>
</tr>
<tr>
<td>June 30, 1999</td>
<td>15</td>
<td>$160.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 9.0</td>
</tr>
</tbody>
</table>

All acquisitions have been accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on preliminary estimates of fair value as of the date of acquisition. In addition, costs are accrued at the time of the acquisition to be incurred as a direct result of the acquisition which will have no future benefit. The balance of these costs was $0.8 million at June 30, 1998; fiscal 1999 additions were $11.2 million, expenses were $5.1 million, and the balance at June 30, 1999 was $6.9 million. The estimated purchase price allocations (including estimates of these costs) are subject to adjustments, generally within one year of the date of the acquisitions, should new or additional facts about the acquisitions become available. The excess of the total purchase price over the estimated fair value of the net tangible and intangible assets acquired has been recorded as goodwill. Operating activities of the acquired companies have been included in the accompanying consolidated financial statements since their purchase dates.

The following unaudited pro forma financial data presents the effect of the significant acquisition (PCI) as if it had occurred on July 1, 1997. The pro forma financial data is provided for informational purposes only and does not purport to be indicative of the results which would have been obtained if the acquisition had been effective on the first day of the period presented. Pro forma 1999 net income does not include a $3.3 million (pre-tax) litigation settlement that was paid by the selling shareholders of PCI prior to the completion of the PCI acquisition. The unaudited pro forma financial information reflects the amortization of the excess purchase price over the fair value of net assets acquired and the income tax effect thereof (in thousands, except per unit data):

<table>
<thead>
<tr>
<th>Pro Forma</th>
<th>Twelve Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1999</td>
</tr>
<tr>
<td>Revenue</td>
<td>$1,217,990</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,973</td>
</tr>
</tbody>
</table>
2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - The Partnership believes it is the fourth largest retail marketer of propane in the United States in terms of volume, serving more than 460,000 residential, commercial, industrial and agricultural customers from 298 customer service centers in 34 states. The Partnership was formed to own and operate the propane businesses and assets of Synergy, Empire and Coast. The Partnership's operations are concentrated in the east, south, central and west coast regions of the United States.

BASIS OF PRESENTATION - The consolidated financial statements include the accounts of the Partnership and its Subsidiary. The acquisitions of the Predecessor Companies have been accounted for as purchase business combinations based on the fair value of the assets acquired. Certain 1998 amounts in the accompanying financial statements have been reclassified to conform to the 1999 presentation. These reclassifications had no effect on net income or partners' capital as previously reported. All significant intercompany transactions and accounts have been eliminated.

FISCAL YEAR - The Partnership's fiscal year is July 1 to June 30. Because the Partnership commenced operations upon completion of the IPO, the accompanying consolidated statements of income, partners' capital and cash flows for the period ended June 30, 1997 are for the period from commencement of operations on December 17, 1996 to June 30, 1997.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FINANCIAL INSTRUMENTS - THE carrying amounts for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. Based on the borrowing rates currently available to the Partnership for bank loans with similar terms and average maturities, the fair value of long-term debt was substantially the same as its carrying value at June 30, 1999 and 1998.

The Partnership routinely uses commodity futures contracts to reduce the risk of future price fluctuations and to help ensure supply during periods of high demand for natural gas and liquefied petroleum gas ("LPG") inventories and contracts. Gains and losses on futures and forward contracts designated as hedges are deferred and recognized in cost of sales as a component of the product cost for the related hedged transaction. In order for a future or forward contract to be accounted for as a hedge, the item hedged must expose the Partnership to price risk and the future or forward contract must reduce such price risk. The Partnership accounts for financial investments that do not meet the hedge criteria or for terminated hedging transactions under mark to market rules, which require gains or losses to be immediately recognized in earnings. In the Consolidated Statements of Cash Flows, cash flows from qualifying hedges are classified in the same category as the cash flows from the items being hedged. Net realized gains and losses for the current and prior fiscal years, and unrealized gains and losses on open positions as of June 30, 1999 and 1998 were not material.

REVENUE RECOGNITION - Sales of natural gas, crude oil, natural gas liquids and LPG and the related cost of product are recognized at the time product is shipped or delivered to the customer. Revenue from the sale of propane appliances
and equipment is recognized at the time of sale or installation, while revenue from repairs and maintenance is recognized upon completion of the service.

CASH AND CASH EQUIVALENTS - The Partnership considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of money market accounts and certificates of deposit. There was no restricted cash or cash equivalents at June 30, 1999. At June 30, 1998 the Partnership had approximately $3.0 million of restricted cash equivalents.

TRADE RECEIVABLES, NET - Trade receivables are stated net of allowance for doubtful accounts of $1.9 million and $2.8 million at June 30, 1999 and 1998, respectively.

INVENTORIES - Inventories are stated at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") method for LPG and parts and fittings, and the specific identification method for appliances. At June 30, the major components of inventory consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPG and other</td>
<td>$33,384</td>
<td>$8,777</td>
</tr>
<tr>
<td>Appliances</td>
<td>4,887</td>
<td>5,023</td>
</tr>
<tr>
<td>Parts and fittings</td>
<td>4,358</td>
<td>4,438</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$42,629</td>
<td>$18,238</td>
</tr>
</tbody>
</table>

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are stated at cost of acquisition, primarily based upon estimates of fair value at the date of the IPO, with subsequent additions being added at their actual cost or based upon estimates of their fair value at the dates the applicable companies or assets were acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: buildings and improvements, 10 to 40 years; LPG storage and consumer tanks, together with applicable installation costs, 10 to 40 years; and vehicles, equipment, office furnishings and software costs, 3 to 10 years. The Partnership capitalizes both internal and external costs to develop and implement software. Leasehold improvements are amortized over the shorter of the estimated useful lives or the applicable lease terms. When property, plant or equipment is retired or otherwise disposed, the cost and related accumulated depreciation is removed from the accounts, and the resulting gain or loss is credited or charged to operations. Maintenance and repairs are expensed as incurred, while replacements and betterments that extend estimated useful lives are capitalized. Property, plant and equipment at June 30 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$15,157</td>
<td>$13,515</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>17,046</td>
<td>14,351</td>
</tr>
<tr>
<td>Storage and consumer tanks</td>
<td>263,597</td>
<td>211,104</td>
</tr>
<tr>
<td>Other equipment</td>
<td>71,282</td>
<td>50,783</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$367,082</td>
<td>289,753</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>30,262</td>
<td>14,465</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$336,820</td>
<td>$275,288</td>
</tr>
</tbody>
</table>

GOODWILL - Goodwill represents the excess of acquisition cost over the estimated fair market value of identifiable net assets of acquired businesses and is being amortized on a straight-line basis over 40 years. Goodwill at June 30 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>$326,868</td>
<td>$229,039</td>
</tr>
</tbody>
</table>
OTHER INTANGIBLE ASSETS - Noncompete and other agreements are amortized over the terms of the applicable agreements. Financing costs incurred in connection with the placement of Partnership debt are amortized over the terms of the applicable notes using the straight-line method. Other intangible assets at June 30 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncompete agreements</td>
<td>$21,444</td>
<td>$7,912</td>
</tr>
<tr>
<td>Financing costs</td>
<td>9,922</td>
<td>8,532</td>
</tr>
<tr>
<td>Other</td>
<td>7,841</td>
<td>6,136</td>
</tr>
<tr>
<td>Less accumulated amortization</td>
<td>7,595</td>
<td>4,445</td>
</tr>
<tr>
<td></td>
<td>$31,612</td>
<td>$18,135</td>
</tr>
</tbody>
</table>

It is the Partnership's policy to review long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of such assets is not recoverable, it is the Partnership's policy to reduce the carrying amount of such assets to fair value.

FOREIGN CURRENCY - The Partnership uses the U.S. Dollar as its functional currency. Financial statements of the Partnership's Canadian operations are translated to U.S. Dollars for consolidation purposes using current rates of exchange for assets and liabilities. Revenues and expenses are translated at rates that approximate the rates in effect on the transaction date. Gains and losses from this process are included in the Partnership's Consolidated Financial Statements.

INCOME TAXES - Neither Cornerstone Partners nor the Operating Partnership is directly subject to federal and state income taxes. Instead, taxable income or loss is allocated to the individual partners. As a result, no income tax expense has been reflected in the Partnership's consolidated financial statements relating to the earnings of Cornerstone Partners or the Operating Partnership. The Operating Partnership has two subsidiaries that operate in corporate form and are subject to federal and state income taxes. Accordingly, the Partnership's consolidated financial statements reflect income tax expense related to the earnings of these corporate subsidiaries. Net earnings for financial statement purposes may differ significantly from taxable income reportable to Unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the Partnership Agreement and the Internal Revenue Code.

Income taxes are provided based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements and tax returns in different years. Under this method, deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax basis of the assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse.

LIMITED PARTNERS' NET INCOME PER UNIT - Net income per Unit is computed by dividing net income, after deducting the General Partners' 2% interest, by the weighted average number of outstanding Common and Subordinated Units. In accordance with the Offering Prospectus, 100% of the income for the 14-day period ended December 31, 1996, was allocated to the Subordinated Unitholders and the General Partners.
UNIT-BASED COMPENSATION - The Partnership accounts for unit-based compensation as (a) deferred compensation for time-vesting units and (b) compensation for performance-vesting units when the Partnership's performance meets defined criteria. Compensation for the time-vesting units was accrued at the time of the IPO and the time vested units for subsequent awards were accrued when granted. No compensation has been accrued for performance-vesting units since the Partnership has not made any distributions to the Subordinated Unitholders (see Note 6). No time-vesting units or performance-vesting units were fully vested as of June 30, 1999. Neither time-vesting units nor performance-vesting units were considered Common Unit equivalents for the purpose of computing primary earnings per unit. The Partnership follows the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Pro forma net income and net income per unit under the fair value based method of accounting for equity instruments under SFAS No. 123 would be the same as reported net income and net income per unit.

COMPREHENSIVE INCOME - Comprehensive income is comprised of net income and, beginning in fiscal 1999, foreign currency translation adjustments. Total comprehensive income was $4,944 for fiscal 1999.

RECENTLY ISSUED ACCOUNTING STANDARDS - SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which was issued in June 1998, provides a comprehensive standard for the recognition and measurement of derivatives and hedging activities. The standard requires all derivatives to be recorded on the balance sheet at fair value and establishes special accounting for three types of hedges. The accounting treatment for each of these three types of hedges is unique but results in including the offsetting changes in fair values of cash flows of both the hedge and hedged item in results of operations in the same period. Changes in fair value of derivatives that do not meet the criteria of one of the aforementioned categories of hedges are included in the results of operations. The Partnership must adopt the provisions of SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - an amendment of FASB Statement No. 133" for the Partnership's fiscal year beginning July 1, 2000. Management is currently evaluating the impact that SFAS 133 may have on the Partnership's financial statements.

3. LONG-TERM DEBT

Long-term debt at June 30 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital Facility</td>
<td>$18,100</td>
<td>$8,720</td>
</tr>
<tr>
<td>Senior Notes</td>
<td>350,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>30,840</td>
<td>12,218</td>
</tr>
<tr>
<td></td>
<td>398,940</td>
<td>240,938</td>
</tr>
<tr>
<td>Less current maturities</td>
<td>10,456</td>
<td>3,800</td>
</tr>
<tr>
<td></td>
<td>$388,484</td>
<td>$237,138</td>
</tr>
</tbody>
</table>

On November 20, 1998, the Bank Credit Agreement was refinanced under the terms of a Refunding Credit Agreement.

The Working Capital Facility under the Refunding Credit Agreement provides for revolving borrowings up to $75.0 million (including a $20.0 million sub-limit for letters of credit) and matures on November 30, 2001. The Refunding Credit Agreement provides that there must be less than $10.0 million outstanding under the Working Capital Facility (excluding letters of credit) for at least 30 consecutive days during each fiscal year. Outstanding letters of credit totaled $12.8 million at June 30, 1999.

The Acquisition Facility under the Refunding Credit Agreement provides the Operating Partnership with the ability to borrow up to $35.0 million to finance business acquisitions. The Acquisition Facility operates as a revolving facility through November 30, 2001, at which time any loans then outstanding may be converted to term.
loans and be amortized quarterly for a period of two years thereafter. No
amounts were outstanding at June 30, 1999.

Both the Working Capital Facility and the Acquisition Facility can be extended
to November 30, 2002 upon approval of the banks in the Refunding Credit
Facility.

The Operating Partnership's obligations under the Refunding Credit Agreement are
secured, on an equal and ratable basis, with its obligations under its Senior
Note Agreements, by a first priority security interest in the Operating
Partnership's inventory, trade receivables and propane storage tanks. Loans
under the Refunding Credit Agreement are variable interest rate loans, based on
the prime or Eurodollar interest rates. At June 30, 1999, the applicable base
and Eurodollar rates were 8.50% and 6.81%, respectively. In addition, an annual
fee is payable quarterly by the Operating Partnership (whether or not borrowings
occur) ranging from .25% to .50% depending upon the coverage ratio. The
weighted-average interest rates for the Bank Credit Agreement and Senior Notes
for the periods ended June 30, 1999, 1998, and 1997 were 7.7%, 7.6%, and 8.5%,
respectively.

The Refunding Credit Agreement contains various terms and covenants,
including financial covenants with respect to debt and interest coverage, and
limitations, among others, on the ability of the Operating Partnership and its
Subsidiaries to incur or maintain certain indebtedness or liens, make
investments and loans, sell assets, and enter into mergers, consolidations or
sales of all or substantially all of its assets. The Operating Partnership was
in compliance with all terms and covenants at June 30, 1999.

On the IPO date, the Operating Partnership issued $220.0 million of
Senior Notes with a fixed annual interest rate of 7.53% pursuant to note
purchase agreements with various investors (the "7.53% Notes"). These notes rank
on an equal and ratable basis with the Operating Partnership's obligations under
the bank Refunding Credit Agreement discussed above, mature on December 30,
2010, and require semi-annual interest payments each December 30 and June 30.
This note agreement requires that the principal be paid in equal annual
installments of $27.5 million starting December 30, 2003.

On December 11, 1998, the Operating Partnership issued $85.0 million of
Senior Notes with a fixed annual interest rate of 7.33% pursuant to note
purchase agreements with various investors (the "7.33% Notes"). These notes rank
on an equal and ratable basis with the Operating Partnership's obligations under
the bank Refunding Credit Agreement discussed above, mature on January 31, 2013,
and require semi-annual interest payments each January 31 and July 31. This note
agreement requires that the principal be paid in equal annual installments of

On June 25, 1999, Cornerstone Partners issued $45.0 million of Senior
Notes with a fixed annual interest rate of 10.26% pursuant to note purchase
agreements with various investors. These notes are subordinated to the 7.53%
Notes, the 7.33% Notes and the Refunding Credit Agreement, mature on June 30,
2009, and require semi-annual interest payments each December 31 and June 30.
This note agreement requires that the principal be paid in equal annual
installments of $9.0 million starting June 30, 2005. Cornerstone Partners was in
compliance with all terms and covenants at June 30, 1999.

Notes payable consist of mortgages, capital leases and noncompete
agreements. At June 30, 1999, these notes payable carried interest rates ranging
from 7.5% to 10.5% and were due periodically through fiscal 2008.

Aggregate annual maturities of the long-term debt outstanding at June 30 are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$10,456</td>
</tr>
<tr>
<td>2001</td>
<td>$5,907</td>
</tr>
<tr>
<td>2002</td>
<td>$22,093</td>
</tr>
</tbody>
</table>
4. DISTRIBUTIONS OF AVAILABLE CASH

The Partnership will make distributions to its partners for each fiscal quarter of the Partnership within 45 days after the end of the fiscal quarter in an aggregate amount equal to its Available Cash for such quarter. Available Cash generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Managing General Partner in its reasonable discretion for future cash requirements. These reserves are retained to provide for the proper conduct of the Partnership's business, the payment of debt principal and interest and to provide funds for distribution during the next four quarters.

The Partnership will distribute 100% of its Available Cash (98% to all Unitholders and 2% to the General Partners) until the Minimum Quarterly Distribution ($0.54 per unit) for such quarter has been met. During the Subordination Period (defined below), to the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution, plus any arrearages, prior to the distribution of Available Cash to holders of Subordinated Units.

The Subordination Period will end the first day of any quarter in which:

distributions from Operating Surplus (as defined in the Partnership Agreement) on the Common Units and the Subordinated Units with respect to each of the twelve consecutive quarter periods immediately preceding such date equaled or exceeded the Minimum Quarterly Distribution on all of the outstanding Common and Subordinated Units during such periods,

the Adjusted Operating Surplus (as defined in the Partnership Agreement) generated during each of the twelve consecutive quarter periods immediately preceding such date equaled or exceeded the Minimum Quarterly Distribution on all of the outstanding Common and Subordinated Units plus the related distribution on the General Partner interests in the Partnership during such periods, and

there were no outstanding Common Unit arrearages.

Distributions are determined on a quarterly basis. During fiscal 1999, Common Unitholders were paid $0.54 per unit for each quarter. There were no distributions to Subordinated Unitholders in fiscal 1999.

5. COMMITMENTS AND CONTINGENCIES

The Partnership has succeeded to obligations of the self-insurance programs maintained by Empire and Synergy for any incidents occurring prior to December 17, 1996. These companies' insurance programs provided coverage for comprehensive general liability and vehicle liability for catastrophic exposures as well as those risks required to be insured by law or contract. These companies retained a significant portion of certain expected losses related primarily to comprehensive general liability and vehicle liability. Estimated liabilities for self-insured losses were recorded based upon the Partnerships' estimates of the aggregate self-insured liability for claims incurred.

A number of personal injury, property damage and product liability suits are pending or threatened against the Partnership. These lawsuits have arisen in the ordinary course of the Partnership's business and involve claims for actual damages and in some cases, punitive damages, arising from the alleged negligence of the Partnership or as
a result of product defects or similar matters. Of the pending or threatened matters, a number involve property damage and several involve serious personal injuries. In certain cases, the claims made are for relatively large amounts. Although any litigation is inherently uncertain, based on past experience, the information currently available and the presence of insurance coverage, the Partnership does not believe that these pending or threatened litigation matters will have a material adverse effect on its results of operations or its financial condition.

6. **REstricted UNIT Plan**

   The Partnership adopted the 1996 Restricted Unit Plan (the "Restricted Unit Plan"), as amended, to authorize the issuance of Common Units with an aggregate value of $17.5 million (approximately 870,000 Common Units) to directors, executives, managers and selected supervisors of the Partnership. Units issued under the Restricted Unit Plan are subject to a bifurcated vesting procedure such that (a) 25% of the issued Units will vest over time with one-third of such units vesting at the end of each of the third, fifth and seventh anniversaries of the issuance date, and (b) the remaining 75% of the Units will vest automatically upon the conversion of Subordinated Units to Common Units. Restricted Unit Plan participants are not eligible to receive quarterly distributions or vote their respective units until vested. Restrictions generally limit the sale or transfer of the Units during the restricted periods. The value of the restricted unit is established by the market price of the Common Unit at the date of grant. As of June 30, 1999, restricted common units with a value of $14.6 million have been awarded and the compensation cost related to such units will be recognized over the vesting period of the related awards.

7. **Partners' Capital**

   Partners' Capital consists of General Partner ownership (2.0%), Common Unitholder Interest (70.4%) and Subordinated Unitholder Interest (27.6%) as of June 30, 1999. When additional units are issued, the General Partners are required to make additional contributions to maintain their 2% interest in the Partnership.

   During fiscal 1999, the Minimum Quarterly Distribution was made to the Common Unitholders, with 2% of the distribution made to the General Partners; no distribution was made to the Subordinated Unitholders.

   Upon expiration of the Subordination Period (see Note 4), all remaining Subordinated Units will convert into Common Units on a one-for-one basis and will thereafter participate pro rata with the other Common Units in distributions of Available Cash.

8. **Employee Benefit Plan**

   The Partnership maintains a defined contribution retirement plan (the "Plan") available to substantially all employees. Employees who elect to participate may contribute a percentage of their salaries to the Plan. The Partnership contributed from 10% to 40% of the employee's contributions to the Plan up to a maximum of 5% of the employee's salary. Contributions to the Plan were not material for the years ended June 30, 1999, 1998, or the period ended June 30, 1997.

9. **Operating Leases**

   The Partnership leases retail sales offices and administrative office space under cancelable and noncancelable operating leases expiring in various years through 2008. These leases generally contain renewal options and require the Partnership to pay all executory costs (property taxes, maintenance and insurance). Rental expense under all operating leases was $5.6 million in each of the years ended June 30, 1999 and 1998, and $2.5 million for the period December 17, 1996 to June 30, 1997.

   Future minimum lease payments under noncancelable operating leases at June 30 were:
2000  $ 2,909
2001  2,821
2002  2,463
2003  2,111
2004  1,513
Thereafter  3,515

10. SEGMENT AND RELATED INFORMATION

In 1999, the Partnership adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which requires the reporting of certain financial information by business segment. For the purpose of providing segment information, the Partnership's two principal business segments are its retail and Coast Energy Group ("CEG") operations. The retail segment includes propane sales, principally to end-users; repair and maintenance of propane heating systems and appliances; and the sale of propane-related supplies, appliances and other equipment. These transactions are accounted for as one business segment internally and share the same customer base. CEG provides marketing and distribution services to other resellers of propane and end-users. Principal products are propane, other natural gas liquids, crude oil, and natural gas. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intra-company transactions between segments are recorded approximately at market value at the transaction date. The segments are evaluated internally using earnings before interest, taxes, depreciation and amortization ("EBITDA"). Depreciation, amortization, interest and some operating, general and administrative expenses are not specifically tracked by business segment, and are therefore included in the "Other" category in the following schedules:

<table>
<thead>
<tr>
<th>YEAR ENDED JUNE 30, 1999</th>
<th>Retail</th>
<th>CEG</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 264,631</td>
<td>$ 889,977</td>
<td>$ -</td>
<td>$ 1,154,608</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>111,402</td>
<td>861,965</td>
<td>-</td>
<td>973,367</td>
</tr>
<tr>
<td>Gross profit</td>
<td>153,229</td>
<td>28,012</td>
<td>-</td>
<td>181,241</td>
</tr>
<tr>
<td>Operating, general and administrative expenses</td>
<td>93,646</td>
<td>17,712</td>
<td>12,377</td>
<td>123,735</td>
</tr>
<tr>
<td>EBITDA</td>
<td>59,583</td>
<td>10,300</td>
<td>(12,377)</td>
<td>57,506</td>
</tr>
<tr>
<td>Non-allocated expenses</td>
<td>-</td>
<td>-</td>
<td>52,333</td>
<td>52,333</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 59,583</td>
<td>$ 10,300</td>
<td>(64,710)</td>
<td>$ 5,173</td>
</tr>
<tr>
<td>Trade receivables and inventories</td>
<td>$ 33,578</td>
<td>$ 38,148</td>
<td>$ -</td>
<td>$ 71,726</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>709,518</td>
<td>709,518</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 33,578</td>
<td>$ 38,148</td>
<td>$ 709,518</td>
<td>781,244</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>CEG</td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>-----------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Revenues</td>
<td>$242,925</td>
<td>$525,204</td>
<td>$-</td>
<td>$768,129</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>111,572</td>
<td>506,352</td>
<td>$-</td>
<td>623,924</td>
</tr>
<tr>
<td>Gross profit</td>
<td>125,353</td>
<td>18,852</td>
<td>$-</td>
<td>144,205</td>
</tr>
<tr>
<td>Operating, general</td>
<td>73,324</td>
<td>13,723</td>
<td>10,137</td>
<td>97,184</td>
</tr>
<tr>
<td>and administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>52,029</td>
<td>5,129</td>
<td>$-10,137</td>
<td>47,021</td>
</tr>
<tr>
<td>Non-allocated expenses</td>
<td></td>
<td></td>
<td>37,595</td>
<td>37,595</td>
</tr>
<tr>
<td>Net income</td>
<td>$52,029</td>
<td>$5,129</td>
<td>$(47,732)</td>
<td>$9,426</td>
</tr>
<tr>
<td>Trade receivables and</td>
<td>$24,200</td>
<td>$12,505</td>
<td>$-</td>
<td>36,705</td>
</tr>
<tr>
<td>inventories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td>535,806</td>
<td>535,806</td>
</tr>
<tr>
<td>Total assets</td>
<td>$24,200</td>
<td>$12,505</td>
<td>$535,806</td>
<td>572,511</td>
</tr>
</tbody>
</table>
FROM COMMENCEMENT OF OPERATIONS ON DECEMBER 17, 1996 TO JUNE 30, 1997

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>CEG</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$148,906</td>
<td>$240,724</td>
<td>$-</td>
<td>$389,630</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>81,231</td>
<td>234,093</td>
<td>-</td>
<td>315,324</td>
</tr>
<tr>
<td>Gross profit</td>
<td>67,675</td>
<td>6,631</td>
<td>-</td>
<td>74,306</td>
</tr>
</tbody>
</table>

Operating, general and administrative expenses

|                      | $40,393 | 4,501 | 5,129 | 50,023 |

EBITDA

|                      | 27,282 | 2,130 | (5,129) | 24,283 |

Non-allocated expenses

|                      | -      | -     | 18,527  | 18,527 |

Net income

|                      | $27,282 | $2,130 | ($23,656) | $5,756 |

Trade receivables and inventories

|                      | $24,831 | $12,831 | $- | $37,662 |

Other assets

|                      | -      | -     | 483,531  | 483,531 |

Total assets

|                      | $24,831 | $12,831 | $483,531  | 521,193 |

11. ADDITIONAL CASH FLOW INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncash Transactions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets acquired in exchange for partnership units</td>
<td>$8,959</td>
<td>$17,589</td>
<td>$14,784</td>
</tr>
<tr>
<td>Assets acquired in exchange for assumption of current liabilities and long term debt</td>
<td>$31,078</td>
<td>$7,243</td>
<td>$3,527</td>
</tr>
<tr>
<td>Cash Payment Information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td>$29,002</td>
<td>$10,939</td>
<td>$9,942</td>
</tr>
</tbody>
</table>

12. QUARTERLY DATA (UNAUDITED)

<table>
<thead>
<tr>
<th></th>
<th>SEPTEMBER 30</th>
<th>DECEMBER 31</th>
<th>MARCH 31</th>
<th>JUNE 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$169,991</td>
<td>$224,053</td>
<td>$338,536</td>
<td>$422,028</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>(4,104)</td>
<td>10,289</td>
<td>28,093</td>
<td>(4,025)</td>
</tr>
</tbody>
</table>
CGI HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Warrants</th>
<th>Additional Paid-In Capital</th>
<th>Accumulated Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 31, 1995</td>
<td>42</td>
<td>2,134</td>
<td>8,945</td>
<td>(3,292)</td>
</tr>
<tr>
<td>Net loss</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>(953)</td>
</tr>
<tr>
<td>Repurchase of common stock</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>(24)</td>
</tr>
<tr>
<td>Accrued dividends on redeemable and exchangeable preferred stock</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>(776)</td>
</tr>
<tr>
<td>Balance at July 31, 1996</td>
<td>42</td>
<td>2,134</td>
<td>8,945</td>
<td>(5,023)</td>
</tr>
<tr>
<td>Net loss</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>(1,368)</td>
</tr>
<tr>
<td>Accrued dividends on redeemable and exchangeable preferred stock</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>(116)</td>
</tr>
<tr>
<td>Balance at December 16, 1996</td>
<td>42</td>
<td>2,134</td>
<td>8,945</td>
<td>(6,507)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
CGI HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>August 1, 1996 to December 16, 1996 (Fiscal Year Ended July 31, 1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM (USED FOR)</td>
</tr>
<tr>
<td>OPERATING ACTIVITIES:</td>
</tr>
<tr>
<td>Net loss $</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash from (used for) operating activities:</td>
</tr>
<tr>
<td>Depreciation and amortization $</td>
</tr>
<tr>
<td>Deferred income taxes $</td>
</tr>
<tr>
<td>Sale of partnership interest $</td>
</tr>
<tr>
<td>Changes in assets and liabilities net of acquisitions:</td>
</tr>
<tr>
<td>Accounts and notes receivable $(1,532) $(2,950)</td>
</tr>
<tr>
<td>Inventories $</td>
</tr>
<tr>
<td>Prepaid expenses and deposits $(729) $(410)</td>
</tr>
<tr>
<td>Other assets $(154) $(193)</td>
</tr>
<tr>
<td>Accounts payable $(1,082) $(9,327)</td>
</tr>
<tr>
<td>Accrued liabilities $(1,007) $</td>
</tr>
<tr>
<td>TOTAL $</td>
</tr>
<tr>
<td>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:</td>
</tr>
<tr>
<td>Payments for acquisitions of retail outlets $</td>
</tr>
<tr>
<td>Proceeds from sale of property and Equipment $</td>
</tr>
<tr>
<td>Purchases of and investments in property and equipment $(1,503) $(3,060)</td>
</tr>
<tr>
<td>TOTAL $</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Description</th>
<th>1996</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase of common stock</td>
<td>$ ---</td>
<td>$(24)</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(562)</td>
<td>(1,250)</td>
</tr>
<tr>
<td>Borrowings on capital leases and other term loans</td>
<td>--</td>
<td>1,248</td>
</tr>
<tr>
<td>Repayment of other notes payable</td>
<td>(252)</td>
<td>(561)</td>
</tr>
<tr>
<td>Principal payments under capital lease obligations</td>
<td>(506)</td>
<td>(1,579)</td>
</tr>
<tr>
<td>Borrowings (repayments) under acquisition line</td>
<td>5,999</td>
<td>(2,275)</td>
</tr>
</tbody>
</table>

| Net increase (decrease) in cash                              | 4,856       | (2,904)     |
| Cash balance, beginning of period                             | 1,519       | 4,423       |

| Cash balance, end of period                                   | $ 6,375     | $ 1,519     |

The accompanying notes are an integral part of these financial statements.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

Pursuant to a Stock Purchase Agreement dated March 31, 1993, by and among CGI Holdings, Inc., a Delaware corporation (the "Company") formed to effect this transaction and a major shareholder of Coast Gas Industries ("Industries"), the Company acquired all of the outstanding stock of Industries (the "Buyout"). The accompanying financial statements are presented on the Company's basis of accounting giving effect to the Stock Purchase Agreement.

The Company engages in the sale and distribution of natural gas, crude oil, natural gas liquids, liquefied petroleum gas ("LPG"), LPG storage and transportation equipment through its wholly-owned subsidiary, Coast Gas, Inc. Its operations consist primarily of the sale, transportation and storage of LPG to wholesale and retail customers; the sale of LPG storage equipment; and the leasing of LPG storage and transportation equipment under monthly operating leases. Sales are made to approximately 77,000 customers in seven states, primarily in the western regions of the United States.

In connection with the Stock Purchase Agreement, the Company pays a monthly fee to Aurora Capital Partners ("Aurora"), an investor in the Company, for management services provided. Payments for the four and one-half month period ended December 16, 1996 were $101,625. Payments for the year ended July 31, 1996 amounted to $250,000.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Coast Gas, Inc., and its wholly-owned subsidiary Coast Energy Group, Inc. ("CEG"). In 1989 the Company formed CEG, headquartered in Houston, Texas, to conduct its wholesale procurement and distribution operations. All significant intercompany transactions have been eliminated in consolidation.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Sales of natural gas, crude oil, natural gas liquids and LPG are recognized when delivered to the customer.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company offers credit terms on sales to its retail and wholesale customers. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable.

CASH FLOWS

For purposes of the comparative statements of cash flows, the Company considers all highly liquid investments having original maturities of three months or less to be cash equivalents. The carrying amount of cash, cash equivalents and short-term debt approximates fair market value due to the short maturity of these instruments.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of LPG is determined using the last-in, first-out (LIFO) method. The cost of parts and fittings is determined using the first-in, first-out (FIFO) method.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES (CONTINUED)

During the four and one-half months ended December 16, 1996, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of purchases for the four and one-half month period ended December 16, 1996, the effect of which decreased cost of goods sold by approximately $0.2 million and increased net income by approximately $0.1 million.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: buildings and improvements, 25 years; LPG storage and rental tanks, 40 to 50 years; and office furniture, equipment and tank installation costs, 5 to 10 years. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term. Depreciation of equipment acquired under capital leases of $54,500 and $132,000 for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, respectively, is included in depreciation and amortization expense.

When property or equipment is retired or otherwise disposed, the cost and related accumulated depreciation is removed from the accounts, and the resulting gain or loss is credited or charged to operations. Maintenance and repairs are charged to earnings, while replacements and betterments that extend estimated useful lives are capitalized.

A majority of the LPG rental and storage tanks are leased to customers on a month-to-month basis under operating lease agreements. Tank rental income of approximately $0.9 million and $2.3 million for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, respectively, is included in sales and other revenue. Direct costs associated with the installation of LPG storage tanks leased to customers are capitalized and amortized over the estimated average customer retention term.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COST IN EXCESS OF NET ASSETS ACQUIRED

The excess of acquisition cost over the estimated fair market value of identifiable net assets of acquired businesses is amortized on a straight-line basis over forty years.

It is the Company's policy to review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of intangible assets is not recoverable, it is the Company's policy to reduce the carrying amount of such assets to fair value.

DEFERRED CHARGES AND OTHER ASSETS

Deferred charges consist primarily of deferred debt issuance costs and capitalized non-compete covenant agreement costs. Deferred debt issuance costs are amortized using the bonds outstanding method over the life of the related loans, other deferred charges are amortized on a straight-line basis over varying lives, ranging from five to seven years. Other assets include customer lists purchased in business acquisitions that are amortized on a straight-line basis over a ten-year life.

FUTURES CONTRACTS

The Company routinely uses commodity futures contracts to reduce the risk of future price fluctuations for natural gas and LPG inventories and contracts. Gains and losses on futures contracts purchased as hedges are deferred and recognized in cost of sales as a component of the product cost for the related hedged transaction. In the statement of cash flows, cash flows from qualifying hedges are classified in the same category as the cash flows from the items being hedged. Contracts that do not qualify as hedges are marked to market, with the resulting gains and losses charged to current operations. Net realized gains and losses for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996 are not material.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTEREST RATE SWAP AGREEMENT

Interest rate differentials to be paid or received under interest rate swap agreements are accrued and recognized over the life of the agreements. Interest payable or receivable under these interest rate swap agreements is recognized in the periods when market rates exceed contract limits as an increase or reduction in interest expense. Interest rate swap agreements held by the Company expired during fiscal 1996.

IMPAIRMENT OF LONG-LIVED ASSETS

On August 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"). This statement requires impairment losses to be recorded on long-lived assets used in operations and certain identifiable intangible assets when indications of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Adoption of SFAS No. 121 did not have a material impact on the financial statements.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company applies APB Opinion 25 and related interpretations in accounting for the stock options and stock appreciation rights. Had compensation cost for the Company's options and stock appreciation rights been determined based on the fair market value at the grant date of these awards consistent with the methodology described by SFAS 123 "Accounting for Stock-Based Compensation" the effect on the Company's net income would not have been material.

NOTE 2: ACCOUNTS AND NOTES RECEIVABLE AND OTHER ASSETS

Notes receivable arise in the ordinary course of business from the sale of LPG storage and transportation equipment. Terms are generally from one to five years, with interest rates ranging from 12.0% to 13.0%.
NOTE 2: ACCOUNTS AND NOTES RECEIVABLE AND OTHER ASSETS (CONTINUED)

The Company has accounts and notes receivable due from employees that primarily relate to employee stock purchase loans and employee housing assistance programs. The terms of the employee stock purchase loans require interest payments of 6.0% per annum on the outstanding principal balance and that all outstanding principal and interest be paid by October 31, 1997. Under the employee housing assistance program, the Company is a guarantor on primary residential notes issued in conjunction with the Company's relocation program for a fixed term of seven years through October 1997. In conjunction with the purchase of the Company (see Note 12), the balance of accounts and notes receivable due from employees was either repaid or forgiven.

The Company, through its wholly-owned subsidiary Coast Gas, Inc., holds a 50% limited interest in Coast Energy Investments, Inc., a limited partnership. The partnership was established to facilitate the formation of a trading fund and is accounted for under the equity method. Coast Gas, Inc. receives a management fee.

Effective October 1, 1996, the Company terminated its participation and interest in Coast Energy Investments, Inc. The original partnership agreement provided for a minimum investment term through December 1997. The termination resulted in the sale of the Company's partnership interest to its 50% partner and an employee of the partnership. The Company recorded a pretax loss on the disposition of the partnership interest of $660,000. This amount consisted of a $202,000 loss on the partnership investment and $458,000 of termination costs consisting of salary, consulting, noncompete agreements and other related expenses.

Beginning on December 12, 1996, insurance coverage for CGI Holdings, Inc. was provided by Cornerstone Propane Partners, L.P. (see Note 12). The coverage maintained was consistent with the coverage previously held by the Company.
NOTE 3: PROPERTY AND EQUIPMENT

LPG rental and storage tanks acquired under capital leases are pledged as collateral under the capital lease agreements. All assets of the Company are pledged as collateral for the Company’s long-term debt under the provisions of the Credit Agreement (see Note 4).

Depreciation expense for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, totaled $1.0 million and $2.4 million, respectively.

NOTE 4: LONG-TERM DEBT

During the year ended July 31, 1995, Coast Gas, Inc. entered into a Credit Agreement (the “Credit Agreement”) with Bank of America, which provided financing of up to $35.0 million, consisting of $15.0 million in term debt and a $20.0 million revolving credit facility. The revolving and term loans, at the election of Coast Gas, Inc., bear interest at the Bank of America prime rate plus 1.50% or Libor plus 2.75% per annum. Concurrently, Coast Gas, Inc. issued $15.0 million in senior subordinated notes with a fixed interest rate of 12.50% per annum. The proceeds of the subordinated notes and a portion of the proceeds available under the Credit Agreement were used to repay the notes to Heller Financial, Inc. (“Heller”). The balance of the funds available under the Credit Agreement (“Working Capital Line”) will be used for general corporate purposes and to finance future acquisitions.

The terms of the Credit Agreement were amended during the year ended July 31, 1996 to increase the Working Capital line by an additional $3.0 million. An additional provision of the amendment requires that the maximum amount of the facility is fixed at $23.0 million until May 1, 1997, at which point it begins decreasing annually to $16.0 million by May 1, 2000 and matures on September 14, 2000. Advances against the line used to finance acquisitions were $0 and $3.0 million for the four and one-half month period ended December 16, 1996 and the year ended July 31, 1996, respectively.

The terms of the Credit Agreement contain restrictions on the issuance of new debt or liens, the purchase or sale of assets not in the ordinary course of business and the declaration and payment of dividends, and requires that Coast Gas, Inc. maintain specified levels of fixed charge and interest payment coverage ratios. The Credit Agreement also provides for prepayment of excess funds in the event of sales of pledged assets if such funds are not reinvested in like kind assets. The Credit Agreement provides for an unused commitment fee of .5% on funds not drawn against the revolving line.
NOTE 4: LONG-TERM DEBT (CONTINUED)

Total interest paid during the four and one-half month period ended December 16, 1996, was $1.6 million of which interest paid on bank long-term and subordinated debt totaled $1.4 million. Total interest paid during the year ended July 31, 1996 was $5.4 million, of which interest paid on bank long-term and subordinated debt totaled $4.4 million.

Annual maturities of revolving, term and other long-term debt through July 31, 2001, are as follows: 1997 - $2.9 million; 1998 - $3.5 million; 1999 - $3.9 million; 2000 - $4.4 million; 2001 - $13.3 million; and thereafter - $15.1 million. The subordinated notes amortize $5.0 million per annum commencing in fiscal 2003.

Debt issuance costs associated with the new subordinated, revolving and term bank debt totaling $2.2 million are being amortized using the bonds outstanding method over the life of the related loans.

The carrying value of the Company's long-term debt approximates fair value, in that most of the long-term debt is at floating market rates, or incurred at rates that are not materially different from those current at July 31, 1996.

The Company has a Continuing Letter of Credit Agreement with Banque Paribas to provide a $25.0 million credit guidance line for the operations of Coast Energy Group, Inc., the Company's wholly owned subsidiary. The agreement provides for a compensating balance of $1.3 million, and grants Banque Paribas a security interest in certain pledged accounts receivable of CEG.
NOTE 5: MANDATORILY REDEEMABLE SECURITIES

The Company has outstanding 62,500 shares of cumulative redeemable, exchangeable preferred stock, with par value of $0.01 and stated value of $100. Cumulative dividends of 10% are payable annually. Payment of dividends is restricted under the terms of the Credit Agreement with Coast Gas, Inc. (see Note 4). Each share of preferred stock may be redeemed at a price equal to stated value per share plus accrued and unpaid dividends. The stock is also exchangeable, at the option of the Company, for Coast Gas, Inc.'s subordinated exchange debentures due September 15, 2002 (see Note 4). The stock shall, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank senior to all classes of common stock. The Company shall redeem the stock in full at the earliest of twelve consecutive years of unpaid dividends, sale or disposal of substantially all the assets of the Company or merger of the Company, subject to certain conditions. No dividends have been declared or paid since April 1, 1993. Pursuant to the Stock Purchase and Merger Agreement (see Note 11), no dividends were accrued after September 9, 1996.

NOTE 6: INCOME TAXES

The income tax provision for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996 are summarized as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>December 16, 1996</th>
<th>July 31, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current provision:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$ --</td>
<td>$ --</td>
</tr>
<tr>
<td>State</td>
<td>--</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>-----------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Deferred provision (benefit):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>(632)</td>
<td>(428)</td>
</tr>
<tr>
<td>State</td>
<td>(116)</td>
<td>(70)</td>
</tr>
<tr>
<td></td>
<td>(748)</td>
<td>(498)</td>
</tr>
<tr>
<td></td>
<td>-----------------</td>
<td>--------------</td>
</tr>
<tr>
<td>$</td>
<td>(748)</td>
<td>$ (473)</td>
</tr>
<tr>
<td></td>
<td>-----------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
NOTE 6: INCOME TAXES (CONTINUED)

A reconciliation of the Company's income tax provision computed at the United States federal statutory rate to the effective rate for the recorded provision for income taxes for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 16, 1996</th>
<th>July 31, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory rate</td>
<td>(34)%</td>
<td>(34)%</td>
</tr>
<tr>
<td>Amortization of cost in excess of assets</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Acquired</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State franchise taxes, net of federal income tax benefit</td>
<td>(5)</td>
<td>2</td>
</tr>
<tr>
<td>Prior year tax adjustments</td>
<td>--</td>
<td>(5)</td>
</tr>
<tr>
<td>Other, net</td>
<td>2</td>
<td>(3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(35)%</td>
<td></td>
<td>(33)%</td>
</tr>
</tbody>
</table>

Tax payments during the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996 were minimal due to the Company's tax loss position. Payments were solely for state income taxes in various states.

As of July 31, 1996, the Company has a federal and state net operating loss carryforward of approximately $20.0 million and $2.3 million, respectively, available to reduce future payments of income tax liabilities. If not used, the tax benefits of these NOL carryforwards expire during the period from 2006 to 2011.

Under the provisions of Internal Revenue Code Section 382, the annual utilization of the Company's net operating loss carryforwards may be limited under certain circumstances. Events which may affect utilization include, but are not limited to, cumulative stock ownership changes of more than 50% over a three-year period. An ownership change occurred effective March 31, 1993, due to cumulative changes in the Company's ownership. The annual and cumulative limits on the utilization of net operating losses incurred prior to March 31, 1993 are approximately $1.6 million and $5.5 million, respectively.
On December 17, 1996, a more than 50% ownership change occurred (see Note 12). As a result, utilization of net operating losses incurred before that date will be subject to an annual limitation. Management believes the net operating losses will be fully utilizable.

Coast Gas, Inc. leases rental tanks and vehicles from a former owner of the Company on a month-to-month operating lease. The lease provides for cancellation within 90 days, and includes a lease purchase option at the greater of the original cost or current list price. Coast Gas, Inc. also leases real estate, LPG storage tanks, and office equipment from certain of its current directors, officers and employees under operating and capital lease agreements.

Rental payments under such leases totaled $403,000 and $204,000 for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, respectively.

Coast Gas, Inc. generally leases vehicles, computer equipment, office equipment and real property under operating lease agreements. The typical equipment lease term is four to six years. Real property leases generally have terms in excess of ten years with renewal options. Rent expense under all operating lease agreements for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996 totaled $9 million and $2.5 million, respectively.

Capital leases consist primarily of financing agreements for the acquisition of LPG storage tanks with terms ranging from five to seven years. These leases provide fixed price purchase options at the end of the noncancelable lease term.
NOTE 7: LEASES (CONTINUED)

As of July 31, 1996, future minimum lease commitments under noncancelable leases, with terms in excess of one year were as follows:

<table>
<thead>
<tr>
<th>Years Ended July 31,</th>
<th>Operating (In Thousands)</th>
<th>Capital (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$2,020</td>
<td>$1,624</td>
</tr>
<tr>
<td>1998</td>
<td>1,495</td>
<td>1,336</td>
</tr>
<tr>
<td>1999</td>
<td>991</td>
<td>1,150</td>
</tr>
<tr>
<td>2000</td>
<td>753</td>
<td>885</td>
</tr>
<tr>
<td>2001</td>
<td>679</td>
<td>113</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td><strong>$5,938</strong></td>
<td><strong>5,108</strong></td>
</tr>
</tbody>
</table>

Less amounts representing interest

Present value of future minimum lease payments

Less amounts due within one year

Total assets acquired under capital leases totaled $0 and $1.2 million for the four and one-half months ended December 16, 1996 and for the year ended July 31, 1996, respectively.

In addition to these minimum lease rentals, Coast Gas, Inc. has an agreement to lease the assets of a retail LPG distributor at a fixed percentage of the gross profits generated by the business. Contingent lease rents paid under this lease agreement for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, totaled $119,000 and $344,000, respectively. The original lease term of five years, which expired in 1995, was extended for five years and has various renewal and purchase options available to Coast Gas, Inc. through January 31, 2014.

Coast Gas, Inc. subleases some of its LPG storage tanks and vehicles to other propane distributors under non-cancelable operating lease agreements. The lease terms are generally for one year with automatic renewal provisions. Additionally, these distributors may purchase the LPG storage tanks under lease, at the greater of original cost or current list price. Sublease income totaled $96,000 and $270,000 for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, respectively.
NOTE 8: STOCKHOLDERS' EQUITY

EMPLOYEE BENEFIT PLANS

The Company has a 401(k) employee benefit plan. All full-time employees who have completed one year of service and are twenty-one years of age or older are eligible to participate. Under the plan provisions, participants are allowed to make monthly contributions on a tax-deferred basis subject to the limitations of the plan. In addition, the Company will contribute a discretionary matching contribution based upon participant contributions. Employees are 100% vested for all contributions. The plan is managed by a trustee, and is fully funded.

In 1990 the Company established a discretionary profit-sharing plan for the benefit of all eligible full time employees. Contributions are made annually at the sole discretion of the Board of Directors. Participant benefits vest and are paid annually over a five-year period. Unvested contributions are forfeited upon termination of employment, and are allocated to the remaining plan participants. Contributions are unfunded until the time of payment. No amounts were accrued during the four and one-half month period ended December 16, 1996 and the year ended July 31, 1996.

EMPLOYEE BENEFIT PLANS (CONTINUED)

Additionally, the Company provides certain health and life insurance benefits to all eligible full time employees. Expenses are recorded based upon actual paid claims and expected liabilities for incurred but not reported claims at year-end.

WARRANTS

In conjunction with the refinancing in fiscal 1995, the Company repurchased 175,438 shares of common stock from officers of the Company for $1.0 million. Warrants in the Company were issued to senior subordinated note holders which have been assigned an estimated fair value of $2.1 million, to be amortized over the life of the credit agreement using the bonds outstanding method. The warrants include 175,438 Series A Warrants with an exercise price of $2.85 and 287,228 Series B Warrants with an exercise price of $0.01. The warrants are exercisable at the earliest of a sale, acquisition or initial public offering, subject to certain conditions, or September 15, 1997 into shares of the Company's Class D non-voting common stock.
NOTE 8: STOCKHOLDERS' EQUITY (CONTINUED)

OPTIONS

The Company has a 1987 stock plan available to grant incentive and nonqualified stock options to officers and other employees. The plan provides for the granting of a maximum of 175,000 options to purchase common shares of the Company. The option price per share may not be less than the fair market value of a share on the date the option is granted and the maximum term of the option may not exceed 10 years. Options granted vest over a period of four years from the date of grant. Granting of options under this plan will expire on the 10th anniversary of the plan. Pursuant to the Merger Agreement (see Note 11), each outstanding option shall be converted into the right to receive cash whether or not such option is exercisable in full. Information regarding the Company's stock option plan is summarized below:

<table>
<thead>
<tr>
<th>Options Per Share Range</th>
<th>Options</th>
<th>Per Share Range</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outstanding at July 31, 1996</td>
<td>$0.01</td>
</tr>
<tr>
<td>Granted</td>
<td>174,973</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Canceled</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Available for grant</td>
<td>174,973</td>
<td></td>
</tr>
<tr>
<td>at December 16, 1996</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

During 1996, the Company adopted a Stock Appreciation Rights (SARs) plan. The Company granted 500,000 SARs, which are to vest over a five-year period, at a per share value of $1.20. Compensation expense related to the grant of SARs of $45,000 and $120,000 was recorded for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, respectively.
NOTE 9: COMMITMENTS AND CONTINGENCIES

The Company has contracts with various suppliers to purchase a portion of its supply needs of LPG for future deliveries with terms ranging from one to twelve months. The contracted quantities are not significant with respect to the Company's anticipated total sales requirements and will generally be acquired at prevailing market prices at the time of shipment. Outstanding letters of credit issued in conjunction with product supply contracts are a normal business requirement.

The Company is engaged in certain legal actions related to the normal conduct of business. In the opinion of management, any possible liability arising from such actions will be adequately covered by insurance or will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 10: BUSINESS ACQUISITIONS

During the year ended July 31, 1996, Coast Gas, Inc. acquired one retail outlet in a transaction accounted for using the purchase method of accounting. The cost of the acquired company totaled $4.0 million, including $1.0 million of seller notes and other liabilities and $3.0 from the increase in the Company's Working Capital/Acquisition bank line. Goodwill resulting from the acquisition totaled $2.8 million. Revenues of the acquired company for the year ended July 31, 1996, subsequent to the dates of acquisition and included in the Company's consolidated sales totaled $1.9 million.

NOTE 11: STOCK PURCHASE AND MERGER AGREEMENT

Effective September 9, 1996, the Company and the preferred shareholders of the Company entered into a Stock Purchase and Merger Agreement (the "Merger Agreement") for the sale of the preferred stock of the Company for $8.7 million. The terms of the Agreement also provided an option to the buyer of the preferred stock to acquire all of the outstanding common stock of the Company, for a period of one year from the date of the sale of the preferred stock. Additionally, the shareholders of the Company have an option to put the common stock of the Company to the buyer of the preferred stock on April 30, 1997, if the buyer has not previously exercised the option to acquire the common stock. Subsequent to December 16, 1996, the common stock of the company was purchased as described in Note 12.
NOTE 12: SUBSEQUENT EVENT

On December 17, 1996, substantially all of the assets and liabilities of the Company were contributed to Cornerstone Propane, L.P., a Delaware limited partnership, a subsidiary of Cornerstone Propane Partners, L.P. Following this transaction, on December 17, 1996, Cornerstone Propane Partners, L.P. completed its initial public offering (see Note 1 to the consolidated financial statements of Cornerstone Propane Partners, L.P. included in this Form 10-K).
We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of SYN Inc. (a Delaware corporation and 52.5% owned subsidiary of Northwestern Public Service Company) and Subsidiaries for the period from inception (August 15, 1995) to June 30, 1996, and for the period from July 1, 1996 to December 16, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of SYN Inc. and Subsidiaries for the period from inception (August 15, 1995) to June 30, 1996 and for the period from July 1, 1996 to December 16, 1996, in conformity with generally accepted accounting principles.
<table>
<thead>
<tr>
<th></th>
<th>For the Period</th>
<th>For the Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>from Inception</td>
<td>from Inception</td>
</tr>
<tr>
<td></td>
<td>July 1, 1996</td>
<td>August 15, 1995</td>
</tr>
<tr>
<td></td>
<td>to</td>
<td>to</td>
</tr>
<tr>
<td></td>
<td>December 16,</td>
<td>June 30,</td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td>1996</td>
</tr>
<tr>
<td>REVENUES</td>
<td>$ 44,066</td>
<td>$ 96,092</td>
</tr>
<tr>
<td>COST OF PRODUCT SOLD</td>
<td>23,322</td>
<td>46,187</td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td>20,744</td>
<td>49,875</td>
</tr>
<tr>
<td>OPERATING EXPENSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and commissions</td>
<td>7,252</td>
<td>14,520</td>
</tr>
<tr>
<td>General and administrative</td>
<td>6,151</td>
<td>14,225</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,904</td>
<td>3,329</td>
</tr>
<tr>
<td>Related-party corporate administration and management fees</td>
<td>1,668</td>
<td>3,281</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>16,975</td>
<td>35,355</td>
</tr>
<tr>
<td>OPERATING INCOME</td>
<td>3,769</td>
<td>14,520</td>
</tr>
<tr>
<td>INTEREST EXPENSE, INCLUDING $2,214 AND $4,388 TO RELATED PARTY</td>
<td>3,311</td>
<td>5,584</td>
</tr>
<tr>
<td>INCOME BEFORE INCOME TAXES</td>
<td>458</td>
<td>8,936</td>
</tr>
<tr>
<td>PROVISION FOR INCOME TAXES</td>
<td>208</td>
<td>3,675</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>160</td>
<td>5,261</td>
</tr>
<tr>
<td>DIVIDENDS ON CUMULATIVE PREFERRED STOCK</td>
<td>(3,878)</td>
<td>17,260</td>
</tr>
<tr>
<td>NET LOSS APPLICABLE TO COMMON STOCKHOLDERS</td>
<td>$ (3,718)</td>
<td>$ (1,999)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share amounts)

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Preferred Stock</th>
<th>Additional Paid-in Capital</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------</td>
<td>---------------------------</td>
<td>---------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td><strong>Balance at Inception, August 15, 1995</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock issued</td>
<td>--</td>
<td>--</td>
<td>100,000</td>
<td>1</td>
</tr>
<tr>
<td>Preferred stock issued</td>
<td>55,312</td>
<td>55,312</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Dividends on preferred stock, $131.25 per share</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Net income</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Balance, June 30, 1996</strong></td>
<td>55,312</td>
<td>55,312</td>
<td>100,000</td>
<td>1</td>
</tr>
<tr>
<td>Dividends on preferred stock, $70.11 per share</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Net income</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Balance, December 16, 1996</strong></td>
<td>55,312</td>
<td>55,312</td>
<td>100,000</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$5,717</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Net income (loss)     (9,266)     4,457     21,230     (11,248)
Net income (loss) per unit       (0.46)     0.21     0.89       (0.48)  

FISCAL 1998:

<table>
<thead>
<tr>
<th></th>
<th>SEPTEMBER 30</th>
<th>DECEMBER 31</th>
<th>MARCH 31</th>
<th>JUNE 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$152,157</td>
<td>$241,778</td>
<td>$229,332</td>
<td>$144,862</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>(2,892)</td>
<td>14,569</td>
<td>19,916</td>
<td>(2,818)</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>(7,694)</td>
<td>9,502</td>
<td>15,049</td>
<td>(7,431)</td>
</tr>
<tr>
<td>Net income (loss) per unit</td>
<td>(0.44)</td>
<td>0.54</td>
<td>0.76</td>
<td>(0.37)</td>
</tr>
</tbody>
</table>

STOCK EXCHANGE AND UNIT PRICE INFORMATION

Cornerstone Propane Partners, L.P. Common Units are traded on the New York Stock Exchange under the symbol CNO. The high and low trading prices for the following quarters were:

<table>
<thead>
<tr>
<th>Fiscal Year 1999</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended September 30</td>
<td>$22 1/2</td>
<td>$18 1/4</td>
</tr>
<tr>
<td>Quarter ended December 31</td>
<td>21 1/8</td>
<td>16</td>
</tr>
<tr>
<td>Quarter ended March 31</td>
<td>19</td>
<td>15 5/8</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>18 7/8</td>
<td>15 7/16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 1998</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended September 30</td>
<td>23 7/8</td>
<td>21 1/16</td>
</tr>
<tr>
<td>Quarter ended December 31</td>
<td>23 15/16</td>
<td>22 1/4</td>
</tr>
<tr>
<td>Quarter ended March 31</td>
<td>23 3/8</td>
<td>20 1/2</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>22 15/16</td>
<td>21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 1997</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ended March 31</td>
<td>22 3/8</td>
<td>20 7/8</td>
</tr>
<tr>
<td>Quarter ended June 30</td>
<td>22 1/8</td>
<td>19 3/4</td>
</tr>
</tbody>
</table>

TAX INFORMATION

Cornerstone Propane Partners, L.P. is a publicly traded limited partnership. Unitholders are partners in the Partnership and receive cash distributions. A partnership is not generally subject to federal or state income tax. The annual income, gains, losses, deductions, or credits of the Partnership flow through to the Unitholders who are required to report their allocated share of these amounts on their individual tax returns as though the Unitholder had incurred these items directly.

In March 2000, Unitholders of Record will receive Schedule K-1 tax packages that will summarize their allocated share of the Partnership's reportable tax items for the calendar year ended December 31, 1999, and certain information required to be included in their tax returns. It is important to note that cash distributions received during 1999 should not be reported as taxable income even though those distributions may be shown on a statement issued by a broker. Only the amounts shown on the Schedule K-1 should be entered on each Unitholder's 1999 tax return.

Should you have questions regarding the Schedule K-1, please call 800-231-0683.
CASH DISTRIBUTIONS

Cornerstone Propane Partners, L.P.'s Minimum Quarterly Distribution of $0.54 per Common Unit was paid within 45 days after the end of September, December, March and June to Unitholders of Record on the applicable record dates.

CERTIFICATE AND CASH DISTRIBUTION PAYMENT INQUIRIES

Unitholder communications regarding transfer of units, lost certificates, lost distribution checks, or change of address should be directed to:

Continental Stock Transfer and Trust Company
Shareholder Services
2 Broadway, 19th Floor
New York, NY 10004
212-509-4000

ADDITIONAL INVESTOR INFORMATION

Investor Relations - Steven M. Chodes
800-299-3101, ext. 213 / 417-532-3100, ext. 213, or access web page

PARTNERSHIP ADDRESS

Cornerstone Propane Partners, L.P.
432 Westridge Drive
Watsonville, CA 95076
800-288-5206 / 831-724-1921

WEB SITE

www.cornerstonepropane.com
Independent Accountants' Report

Board of Directors and Stockholders
Empire Energy Corporation
Lebanon, Missouri

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of EMPIRE ENERGY CORPORATION for each of the periods ended June 30, 1996, July 31, 1996, September 30, 1996, and December 16, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of EMPIRE ENERGY CORPORATION for each of the periods ended June 30, 1996, July 31, 1996, September 30, 1996, and December 16, 1996, in conformity with generally accepted accounting principles.

BAIRD, KURTZ & DOBSON

Springfield, Missouri
August 4, 1997
EMPIRE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATION
FOR THE YEAR ENDED JUNE 30, 1996
THE MONTH ENDED JULY 31, 1996,
THE TWO MONTHS ENDED SEPTEMBER 30, 1996 AND
THE TWO AND ONE-HALF MONTHS ENDED DECEMBER 16, 1996
(IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>$20,166</td>
<td>$12,439</td>
<td>$2,596</td>
<td>$90,821</td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td>15,400</td>
<td>6,471</td>
<td>1,439</td>
<td>50,080</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>12,766</td>
<td>5,968</td>
<td>1,157</td>
<td>48,741</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating, general and administrative</td>
<td>6,386</td>
<td>4,528</td>
<td>2,480</td>
<td>33,020</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,344</td>
<td>1,087</td>
<td>699</td>
<td>3,875</td>
</tr>
<tr>
<td><strong>OPERATING INCOME</strong></td>
<td>10,040</td>
<td>6,141</td>
<td>981</td>
<td>54,145</td>
</tr>
<tr>
<td><strong>INTEREST EXPENSE, NET</strong></td>
<td>5,036</td>
<td>353</td>
<td>(1,822)</td>
<td>9,846</td>
</tr>
<tr>
<td><strong>INCOME (LOSS) BEFORE INCOME TAXES</strong></td>
<td>3,119</td>
<td>(1,134)</td>
<td>(2,039)</td>
<td>(7,248)</td>
</tr>
<tr>
<td><strong>INCOME TAX PROVISION (BENEFIT)</strong></td>
<td>1,197</td>
<td>(400)</td>
<td>(765)</td>
<td>3,550</td>
</tr>
<tr>
<td><strong>NET INCOME (LOSS)</strong></td>
<td>$1,922</td>
<td>$(734)</td>
<td>$(1,274)</td>
<td>$3,698</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
EMPIRE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED JUNE 30, 1996
THE MONTH ENDED JULY 31, 1996,
THE TWO MONTHS ENDED SEPTEMBER 30, 1996 AND
THE TWO AND ONE-HALF MONTHS ENDED DECEMBER 16, 1996
(IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Additional Paid-in Stock</th>
<th>Retained Earnings</th>
<th>Treasury Stock</th>
<th>Total Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCE, JUNE 30, 1995</td>
<td>$ 12</td>
<td>$ 46,099</td>
<td>$ 445</td>
<td>$ (21)</td>
<td>$ 46,535</td>
</tr>
<tr>
<td>NET INCOME</td>
<td></td>
<td></td>
<td>3,698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BALANCE, JUNE 30, 1996</td>
<td>12</td>
<td>46,099</td>
<td>4,143</td>
<td>(21)</td>
<td>50,233</td>
</tr>
<tr>
<td>NET LOSS</td>
<td></td>
<td></td>
<td>(1,274)</td>
<td></td>
<td>(1,274)</td>
</tr>
<tr>
<td>BALANCE, JULY 31, 1996</td>
<td>12</td>
<td>46,099</td>
<td>2,869</td>
<td>(21)</td>
<td>48,959</td>
</tr>
<tr>
<td>PURCHASE OF COMPANY STOCK</td>
<td>(21)</td>
<td>(70,744)</td>
<td>--</td>
<td></td>
<td>(70,755)</td>
</tr>
<tr>
<td>EFFECT OF PURCHASE ACCOUNTING</td>
<td></td>
<td>26,966</td>
<td>(2,869)</td>
<td>21</td>
<td>24,118</td>
</tr>
<tr>
<td>NET LOSS</td>
<td></td>
<td></td>
<td>(734)</td>
<td></td>
<td>(734)</td>
</tr>
<tr>
<td>BALANCE, SEPTEMBER 30, 1996</td>
<td>1</td>
<td>2,321</td>
<td>(734)</td>
<td></td>
<td>1,588</td>
</tr>
<tr>
<td>PURCHASE OF COMPANY STOCK</td>
<td>(1)</td>
<td>(13,999)</td>
<td>--</td>
<td></td>
<td>(14,000)</td>
</tr>
<tr>
<td>EFFECT OF PURCHASE ACCOUNTING</td>
<td></td>
<td>25,677</td>
<td>734</td>
<td></td>
<td>26,412</td>
</tr>
<tr>
<td>NET INCOME</td>
<td></td>
<td></td>
<td>--</td>
<td>1,922</td>
<td></td>
</tr>
<tr>
<td>BALANCE, DECEMBER 16, 1996</td>
<td>$ 1</td>
<td>$ 13,999</td>
<td>$ 1,922</td>
<td></td>
<td>$ 15,922</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
EMPIRE ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 1996  
THE MONTH ENDED JULY 31, 1996,  
THE TWO MONTHS ENDED SEPTEMBER 30, 1996 AND  
THE TWO AND ONE-HALF MONTHS ENDED DECEMBER 16, 1996  
(IN THOUSANDS)  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td>$1,922</td>
<td>($734)</td>
<td>($1,274)</td>
<td>$3,698</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items not requiring (providing) cash:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$1,195</td>
<td>$1,002</td>
<td>$474</td>
<td>$5,593</td>
</tr>
<tr>
<td>(Gain) loss on sale of assets</td>
<td></td>
<td>($4)</td>
<td>$8</td>
<td>$67</td>
</tr>
<tr>
<td>Amortization</td>
<td>$149</td>
<td>$85</td>
<td>$25</td>
<td>$282</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>($126)</td>
<td>$--</td>
<td>$--</td>
<td>$1,075</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>($6,089)</td>
<td>($2,485)</td>
<td>$222</td>
<td>($1,799)</td>
</tr>
<tr>
<td>Inventories</td>
<td>($147)</td>
<td>($3,896)</td>
<td>($340)</td>
<td>($348)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$998</td>
<td>$283</td>
<td>$335</td>
<td>$1,301</td>
</tr>
<tr>
<td>Accrued expenses and self insurance</td>
<td>$2,114</td>
<td>$1,164</td>
<td>($5)</td>
<td>$2,124</td>
</tr>
<tr>
<td>Income taxes payable (refundable)</td>
<td>$1,016</td>
<td>$209</td>
<td>($768)</td>
<td>$270</td>
</tr>
<tr>
<td>Due from SYN, Inc.</td>
<td>($1,863)</td>
<td>$--</td>
<td>$--</td>
<td>$--</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>($1,678)</td>
<td>($536)</td>
<td>($100)</td>
<td>($279)</td>
</tr>
<tr>
<td>Net cash provided by (used in)</td>
<td>($2,509)</td>
<td>($4,912)</td>
<td>($1,423)</td>
<td>$11,850</td>
</tr>
<tr>
<td>operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>$25</td>
<td>$14</td>
<td>$14</td>
<td>$162</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>($1,475)</td>
<td>($9611)</td>
<td>($487)</td>
<td>($3,184)</td>
</tr>
<tr>
<td>Capitalized costs</td>
<td>($242)</td>
<td>$--</td>
<td>$--</td>
<td>$--</td>
</tr>
<tr>
<td>Purchase of assets from SYN Inc.</td>
<td>$--</td>
<td>$--</td>
<td>$--</td>
<td>($35,980)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>($1,692)</td>
<td>($433)</td>
<td>($473)</td>
<td>($39,002)</td>
</tr>
</tbody>
</table>


EMPIRE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 1996
THE MONTH ENDED JULY 31, 1996,
THE TWO MONTHS ENDED SEPTEMBER 30, 1996 AND
THE TWO AND ONE-HALF MONTHS ENDED DECEMBER 16, 1996
(IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in credit facilities</td>
<td>$4,806</td>
<td>$4,800</td>
<td>$--</td>
<td>$(5,500)</td>
</tr>
<tr>
<td>Principal payments on purchase obligations</td>
<td>$(64)</td>
<td>$(35)</td>
<td>$(15)</td>
<td>$(126)</td>
</tr>
<tr>
<td>Checks in process of collection</td>
<td>$(37)</td>
<td>37</td>
<td>--</td>
<td>$(158)</td>
</tr>
<tr>
<td>Proceeds from (repayments of) acquisition credit facility</td>
<td>--</td>
<td>$(31,100)</td>
<td>--</td>
<td>$35,000</td>
</tr>
<tr>
<td>Proceeds from management buy out loan</td>
<td>--</td>
<td>94,000</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Purchase of company stock in management buy out</td>
<td>--</td>
<td>$(59,000)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Payment of debt acquisition costs</td>
<td>--</td>
<td>$(3,100)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>$4,705</td>
<td>$5,602</td>
<td>$(15)</td>
<td>$29,216</td>
</tr>
</tbody>
</table>

| INCREASE (DECREASE) IN CASH | $(504) | $(153) | $(1,911) | $2,064 |
| CASH, BEGINNING OF PERIOD | --    | 153   | 2,064    | 0     |

| CASH, END OF PERIOD | $504 | $0   | $153    | $2,064 |

See Notes to Consolidated Financial Statements
NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the periods ended July 31, 1996, September 30, 1996, and December 16, 1996, are presented because of the changes in control described in Note 2. Due to the seasonal nature of the propane business, the results of operations for these periods are not necessarily indicative of results to be expected for a full year.

NATURE OF OPERATIONS

The Company's principal operations are the retail sale of LP gas. Most of the Company's customers are owners of residential single or multi-family dwellings who make periodic purchases on credit. Such customers are located in the Southeast and Midwest regions of the United States.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Empire Energy Corporation and its subsidiaries. All significant intercompany balances have been eliminated in consolidation.

REVENUE RECOGNITION POLICY

Sales and related cost of product sold are recognized upon delivery of the product or service.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method for retail operations and specific identification method for wholesale operations.
NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURES CONTRACTS

The Company uses commodity futures contracts to reduce the risk of future price fluctuations for LPG inventories and contracts. Gains and losses on futures contracts purchased as hedges are deferred and recognized in cost of sales as a component of the product cost for the related hedged transaction. In the statement of cash flows, cash flows from qualifying hedges are classified in the same category as the cash flows of the items being hedged. Net realized gains and losses and unrealized gains and losses on open positions are not material.

PROPERTY AND EQUIPMENT

Depreciation is provided on all property and equipment on the straight-line method over estimated useful lives of 5 to 33 years.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The company's only financial instruments are cash, long-term debt and related accrued interest for which their carrying amounts approximate fair value.

INCOME TAXES

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

AMORTIZATION

The excess of cost over fair value of net assets acquired (originally $4,850,000) is being amortized on the straight-line basis over 20 years.

NOTE 2: CHANGES OF CONTROL

On June 30, 1994, the Company was separated from Empire Gas Corporation (subsequently All Star Gas referred to hereafter as Empire Gas) in an exchange of the majority ownership of Empire Gas for all of the shares of the Company (a subsidiary of Empire Gas). The Company received locations principally in the Southeast plus certain home office assets and liabilities.
NOTE 2: CHANGES OF CONTROL (CONTINUED)

Professional and other fees amounting to $1,926,000 were incurred in connection with an effort to sell the Company and are included in general and administrative expense during the year ended June 30, 1996.

On August 1, 1996, the principal shareholder of the Company since its inception and certain other shareholders sold their interest in the Company to a new entity formed by the remaining shareholders of the Company (Management Buy Out).

In connection with this transaction, the principal shareholder of the Company terminated employment with the Company as well as terminated certain lease and use agreements. The new entity was principally owned by the son of the former principal shareholder. All references in these financial statements to the principal shareholder relate to the former principal shareholder.

The new entity paid approximately $59,000,000 cash, and distributed certain home office assets and a portion of the SYN Inc. receivable in exchange for the shares of Company stock purchased. In addition to the above consideration, the new entity issued a $5,000,000 note payable to the principal shareholder. The amount paid to the selling shareholders was financed with proceeds from a new credit agreement.

The new credit facility provides for a $42,000,000 term loan, a $52,000,000 second term loan, a $20,000,000 working capital facility and a $10,000,000 acquisition credit facility. The new credit facility includes working capital, capital expenditures, cash flow and net worth requirements as well as dividend restrictions.

On October 7, 1996, the new ownership of the Company pursuant to the Management Buy Out sold 100% of Company common stock for approximately $14,000,000 cash to Northwestern Growth Corporation (NGC).

Because of the changes in control of the Company, the balance sheet accounts were adjusted at August 1, 1996 and October 7, 1996, to reflect new bases determined using the principles of purchase accounting.
NOTE 3: SYNERGY ACQUISITION

On August 15, 1995, the Company acquired the assets of 38 retail locations previously operated by Synergy Group, Inc. These locations were purchased from SYN Inc., a company formed for the purpose of acquiring Synergy Group Incorporated. SYN Inc. is majority owned by Northwestern Growth Corporation, a wholly owned subsidiary of Northwestern Public Service Company, and minority owned and managed by Empire Gas. The purchase price of the 38 retail locations was approximately $38 million. The total consideration for the purchase was approximately $16 million in cash financed by the new acquisition credit facility (see Note 5) plus the assets of nine retail locations principally in Mississippi valued at approximately $2 million. The results of operations for the period after August 15, 1995, of the Synergy locations are included in the accompanying financial statements. The purchase price of the Synergy assets has been allocated as follows (In Thousands):

<table>
<thead>
<tr>
<th>Current assets</th>
<th>$2,499</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment</td>
<td>27,435</td>
</tr>
<tr>
<td>Due from SYN Inc.</td>
<td>7,978</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$37,912</strong></td>
</tr>
</tbody>
</table>

Unaudited pro forma operations assuming the acquisition was made at the beginning of the year ended June 30, 1995, is presented below. Pro forma results for the year ended June 30, 1996, are not presented since they would not differ materially from the audited results of operations presented in the statement of income.

<table>
<thead>
<tr>
<th>1995 (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
</tr>
<tr>
<td>Cost of product sold</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
</tr>
</tbody>
</table>

The purchase price of the assets acquired from SYN Inc. is subject to adjustment based on the amount of working capital acquired by the Company. A receivable has been recorded in the amount of $3,978,000, which reflects the reduction in purchase price of the assets based on the amount of working capital acquired. On August 1, 1996, this receivable was assigned to the former principal shareholder in connection with the management buy out.
The purchase price of the assets acquired from SYN Inc. is also subject to adjustment based on the value of consumer tanks, which cannot be located within a specified period of time. The Company has made a claim to SYN Inc. for approximately $4,000,000, which represents the value of unlocated tanks at June 30, 1996. A receivable for these tanks has been recorded on the balance sheet at June 30, 1996. On August 1, 1996, one-half of this receivable was assigned to the former principal shareholder in connection with the management buy out.

In connection with the October 7, 1996, acquisition of the Company's stock by NGC, the SYN Inc. receivable was paid in full and assumed by NGC.

The Company provides data processing, office rent and other clerical services to two corporations owned by officers and shareholders of the Company and is reimbursed $5,000 per month for these services.

The Company leases a jet aircraft and an airport hangar from a corporation owned by the principal shareholder of the Company. The lease requires annual rent payments of $100,000. In addition to direct lease payments, the Company is also responsible for the operating costs of the aircraft and the hangar. The lease agreement was terminated August 1, 1996, in connection with the management buy out.

The Company has an agreement with a corporation owned by the principal shareholder of the Company, which provides the Company the right to use business guest facilities. The agreement requires annual payments of $250,000. In addition to direct payments, the Company is also responsible for providing vehicles and personnel to serve as security for the facilities. This agreement was terminated August 1, 1996, in connection with the management buy out.

The Company leases the corporate home office, land, buildings and certain equipment from a corporation owned principally by the principal shareholder. The lease requires annual payments of $200,000. The lease was terminated August 1, 1996, in connection with the management buy out.

The Company leases a lodge from a corporation owned by the principal shareholder of the Company. The lease requires annual rent payments of $120,000. The lease was terminated August 1, 1996, in connection with the management buy out.
NOTE 4: RELATED-PARTY TRANSACTIONS (CONTINUED)

On August 1, 1996, the Company entered into a new lease agreement with entities controlled by the former principal shareholder. The new lease agreement provides for the payment of $600,000 per year for the corporate home office, land, buildings and certain equipment, the use of the airport hangar and the right to use land underlying the Company's warehouse facility. This lease was assumed by Cornerstone on December 17, 1996.

A subsidiary of the Company entered into a seven-year services agreement with Empire Gas to provide data processing and management information services beginning July 1, 1994. The services agreement provides for payments by Empire Gas to be based on an allocation of the subsidiary's actual costs based on the gallons of LP gas sold by Empire Gas as a percentage of the gallons of LP gas sold by the Company and Empire Gas combined. For the year ended June 30, 1996, total amount received related to this services agreement was $711,000. For the month ended July 31, 1996, the two months ended September 30, 1996, and the two and one-half months ended December 16, 1996, amounts were $88,000, $195,000 and $173,000, respectively. Such amounts have been netted against related general and administrative expenses in the accompanying statements of operations. This services agreement was assumed by Cornerstone on December 17, 1996.

NOTE 5: LONG-TERM DEBT

Long-term debt at June 30, 1996, consists of the following:

(In Thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolving credit facility (A)</td>
<td>$ --</td>
</tr>
<tr>
<td>Acquisition credit facility (B)</td>
<td>31,100</td>
</tr>
<tr>
<td>Purchase contract obligations (C)</td>
<td>361</td>
</tr>
<tr>
<td></td>
<td>31,461</td>
</tr>
<tr>
<td>Less current maturities</td>
<td>6,019</td>
</tr>
<tr>
<td></td>
<td>$ 25,442</td>
</tr>
</tbody>
</table>

---

EMPIRE ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 5: LONG-TERM DEBT (CONTINUED)

(A) The Company has an agreement with a lender to provide a revolving credit facility. The facility provides for borrowings up to $20 million, bears interest at either 1/2% over the lender's prime rate or 1 1/8% over the Eurodollar rate and matures June 30, 2000. The facility includes working capital, capital expenditure, cash flow and net worth requirements as well as dividend restrictions, which limit the payment of cash dividends to 50% of the preceding year's net income. The Company's unused revolving credit line at June 30, 1996, amounted to $18,148,000 after considering $1,852,000 of letters of credit. The credit facility was terminated August 1, 1996, in connection with the management buy out.

(B) On August 15, 1995, the Company modified the above agreement to include a $35 million acquisition credit facility, which was used for the purchase of assets from SYN Inc. The acquisition credit facility bears interest at either 1/2% over the lender's prime rate or 1 1/8% over the Eurodollar rate. The acquisition credit facility requires quarterly principal payments of $1,944,000. This credit facility was terminated August 1, 1996, in connection with the management buy out.

(C) Purchase contract obligations arise from the purchase of operating businesses and are collateralized by the equipment and real estate acquired in the respective acquisitions. The Company has also entered into purchase contract obligations for equipment used in administrative activities. At June 30, 1996, these obligations carried interest rates ranging from 7% to 10% and are due periodically through 2001.

(D) On August 1, 1996, in conjunction with the management buyout, the Company entered into an agreement with a lender to provide a $42 million term note maturing December 31, 2002, a $52 million term note maturing December 31, 2006, a $20 million revolving working capital credit facility maturing June 30, 2001, and a $10 million acquisition credit facility maturing June 30, 2001. The Company has the choice of keeping the borrowings at prime or transferring the loans to Eurodollar. Amounts at prime on these notes bear interest at the Bank of Boston daily rate or 1/2% over the Federal Funds Rate. Amounts at Eurodollar on these notes bear interest at the Eurodollar rate plus an applicable margin which is dependent on a ratio of debt (excluding note payable to former principal shareholder and purchase contract obligations) to earnings before depreciation, interest and income taxes. The facility includes working capital, capital expenditures, cash flow and net worth requirements as well as dividend restrictions. This credit facility was terminated December 16, 1996, in connection with the public offering.
NOTE 5: LONG-TERM DEBT (CONTINUED)

(E) On August 1, 1996, in conjunction with the management buyout, the Company entered into a $5 million subordinated promissory note bearing interest at 8% with the former principal shareholder of the Company. On October 7, 1996, this note was paid by NGC.

NOTE 6: INCOME TAXES

The provision (credit) for income taxes includes these components (in thousands):

<table>
<thead>
<tr>
<th>Two and One-Half</th>
<th>Two</th>
<th>One</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months Ended</td>
<td>Months</td>
<td>Month</td>
<td>Ended</td>
</tr>
<tr>
<td>------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Taxes currently payable (refundable):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 1,323</td>
<td>$ (400)</td>
<td>$ (765)</td>
<td>$ 2,475</td>
</tr>
<tr>
<td>(126)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 1,197</td>
<td>$ (400)</td>
<td>$ (765)</td>
<td>$ 3,550</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below (in thousands):

<table>
<thead>
<tr>
<th>Two and One-Half</th>
<th>Two</th>
<th>One</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months Ended</td>
<td>Months</td>
<td>Month</td>
<td>Ended</td>
</tr>
<tr>
<td>------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Computed at the statutory rate (34%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase resulting from:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of excess of cost over fair value of net assets acquired</td>
<td>196</td>
<td>33</td>
<td>17</td>
</tr>
<tr>
<td>State income taxes - net of federal tax benefit</td>
<td>102</td>
<td>(54)</td>
<td>(100)</td>
</tr>
<tr>
<td>Change in estimated taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(161)</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual tax provision</td>
<td>$ 1,197</td>
<td>$ (400)</td>
<td>$ (765)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTE 7: SELF-INSURANCE AND RELATED CONTINGENCIES

Under the Company's insurance program, coverage for comprehensive general liability and vehicle liability is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company retains a significant portion of certain expected losses related primarily to comprehensive general liability and vehicle liability. Under these insurance programs, the Company self-insures the first $1 million of coverage (per incident) on general liability and on vehicle liability. In addition, the Company has a $100,000 deductible for each and every liability claim. The Company obtains excess coverage from carriers for these programs on claims-made basis policies. The excess coverage for comprehensive general liability provides a loss limitation that limits the Company's aggregate of self-insured losses to $1.5 million per policy period.

The Company self-insures the first $250,000 of workers' compensation coverage (per incident). The Company purchased excess coverage from carriers for workers' compensation claims in excess of the self-insured coverage. Provisions for losses expected under this program were recorded based upon the Company's estimates of the aggregate liability for claims incurred. The Company provided letters of credit aggregating approximately $1,852,000 in connection with this program.

Provisions for self-insured losses are recorded based upon the Company's estimates of the aggregate self-insured liability for claims incurred.

The Company self-insures health benefits provided to the employees of the Company and its subsidiaries. Provisions for losses expected under this program are recorded based upon the Company's estimate of the aggregate liability for claims incurred.

In conjunction with the restructuring that occurred in June 1994, the Company agreed to indemnify Empire Gas for 47.7% of the self-insured liabilities of Empire Gas incurred prior to June 30, 1994. The Company includes in its self-insurance liability its best estimate of the amount it will owe Empire Gas under the indemnification agreement.

The Company and its subsidiaries are presently defendants in various lawsuits related to the self-insurance program and other business-related lawsuits which are not expected to have a material, adverse effect on the Company's financial position or results of operations. All liabilities related to the insurance program and other business-related lawsuits were assumed by Cornerstone on December 17, 1996.
NOTE 8: INCOME TAX AUDITS

The State of Missouri has assessed Empire Gas approximately $1,400,000 for additional state income tax for the years ended June 30, 1992 and 1993. An amount approximating one-half of the above assessment could be at issue for the year ended June 30, 1994. Empire Gas and Empire Energy have protested these assessments and are currently waiting for a response from the Missouri Department of Revenue. It is likely that this matter will have to be settled in litigation. Empire Gas and Empire Energy believe that they have a strong position on this matter and intend to vigorously contest the assessment. It is not possible at this time to conclude on the outcome of this matter.

The Company and its subsidiaries are presently included in various state tax audits which are not expected to have a material, adverse effect on the Company's financial position or results of operation.

The Company's Federal Income Tax Returns have been audited through the year ended June 30, 1994, and all income taxes due have either been accrued or paid.

As a former member of the Empire Gas controlled group and in connection with a tax indemnity agreement with Empire Gas, the Company agreed to indemnify 47.7% of the total liabilities related to these tax audits of the years ended June 30, 1994, and prior thereto.

NOTE 9: STOCK OPTIONS

The Company's stock options provide for a fixed option price of $7.00 per share for options granted to officers and key employees. Options granted are exercisable beginning one year after the date of grant at the rate of 20% per year and expire six years after the date of grant. Option activity for each period was:


## NOTE 9: STOCK OPTIONS (CONTINUED)

<table>
<thead>
<tr>
<th>Stock options outstanding June 30, 1995</th>
<th>1,145,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options granted</td>
<td>25,000</td>
</tr>
<tr>
<td>Options cancelled</td>
<td>(50,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stock options outstanding June 30, 1996</th>
<th>1,120,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options cancelled</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Options exercised</td>
<td>(970,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stock options outstanding December 16, 1996</th>
<th>0</th>
</tr>
</thead>
</table>

## NOTE 10: ADDITIONAL CASH FLOW INFORMATION (IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NONCASH INVESTING AND FINANCING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase contract obligations incurred</td>
<td>$ --</td>
<td>$ --</td>
<td>$ --</td>
</tr>
<tr>
<td>Nonmonetary assets distributed to former principal shareholders</td>
<td>--</td>
<td>6,755</td>
<td>--</td>
</tr>
<tr>
<td>Note payable issued to former principal shareholder</td>
<td>--</td>
<td>5,000</td>
<td>--</td>
</tr>
</tbody>
</table>

| ADDITIONAL CASH PAYMENT INFORMATION             |                                      |                               |                          |
| Interest paid                                   | --                                   | 804                           | 106                      |
| Income taxes paid (refunded)                    | --                                   | (609)                         | 2,995                    |
NOTE 11: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

DEPENDENCE ON PRINCIPAL SUPPLIERS

Three suppliers, Conoco, Phillips and Texaco, account for approximately 50% of Empire Energy's volume of propane purchases.

Although the Company believes that alternative sources of propane are readily available, in the event that the Company is unable to purchase propane from one of these three suppliers, the failure to obtain alternate sources of supply at competitive prices and on a timely basis would have a material, adverse effect on the Company.

ESTIMATES

Significant estimates related to self-insurance, litigation, collectibility of receivables and income tax assessments are discussed in Notes 3, 7 and 8. Actual losses related to these items could vary materially from amounts reflected in the financial statements.

NOTE 12: SUBSEQUENT EVENT

On December 17, 1996, substantially all of the assets and liabilities of the Company were contributed to Cornerstone Propane, L.P., a Delaware limited partnership, a subsidiary of Cornerstone Propane Partners, L.P. Following this transaction, on December 17, 1996, Cornerstone Propane Partners, L.P. completed its initial public offering (see Note 1 to the consolidated financial statements of Cornerstone Propane Partners, L.P. for the period ended June 30, 1997, included in this form 10-K).
To the Board of Directors and Stockholders of
CGI Holdings, Inc.

In our opinion, the accompanying consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the results of operations and cash flows of CGI Holdings, Inc. and its subsidiaries for the four and one-half month period ended December 16, 1996 and for the year ended July 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

San Francisco, California
August 8, 1997
CGI HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>August 1, 1996 to December 16, 1996</th>
<th>Fiscal Year Ended July 31, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and other revenue</strong></td>
<td>$ 185,460</td>
</tr>
<tr>
<td><strong>Costs and expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of sales, except for depreciation and amortization</td>
<td>173,155</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>8,181</td>
</tr>
<tr>
<td>Sale of partnership interest</td>
<td>660</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>1,738</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,604</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,238</td>
</tr>
<tr>
<td><strong>Loss before income taxes</strong></td>
<td>(2,116)</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>(748)</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>$ (1,368)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
SYN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<table>
<thead>
<tr>
<th>For the Period</th>
<th>For the Period from Inception</th>
</tr>
</thead>
</table>

CASH FLOWS FROM OPERATING ACTIVITIES

Net income $ 160 $ 5,261
Adjustments to reconcile net income to net cash from operating activities:
- Depreciation and amortization 1,904 3,329
- Gain on sale of assets 233 --
- Deferred income tax benefit 298 1,624
- Changes in assets and liabilities, net of effect of acquisitions:
  - Trade receivables (1,991) (1,247)
  - Inventories (1,873) 704
  - Prepaid expenses (569) 189
  - Accounts payable 2,548 (5,773)
  - Accrued expenses 3,602 (3,423)
Net cash provided by operating activities 4,313 2,866

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of assets of Synergy Group Incorporated -- (150,922)
Proceeds from the sale of certain Synergy Group Incorporated assets to Empire Energy Corporation -- 35,980
Expenditures for property and equipment (4,240) (9,182)
Proceeds from sale of assets 129 474
Proceeds from disposal of companies 829 --
Acquisitions, net of cash received -- --
Increase in investments and restricted cash deposits (469) --
Net cash used in investing activities (3,751) (123,580)

CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings on credit facility 20,367 --
Payments on credit facility (16,532) --
Borrowing under long-term debt agreements -- 23,910
Proceeds from issuance of common stock -- 100
Proceeds from issuance of preferred stock -- 52,812
Proceeds from issuance of note payable - related party -- 52,812
Borrowings from related party -- 36,458
Repayments to related party (36,458) --
Payment on long-term debt agreements (242) (1,634)
Preferred stock dividends paid (3,878) (7,072)
Net cash provided by (used in) financing activities (285) 120,728

INCREASE IN CASH 277 14
CASH, BEGINNING OF PERIOD 14 --
-----------
CASH, END OF PERIOD $ 291 $ 14
-----------

The accompanying notes are an integral part of these financial statements.
SYN INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

SYN Inc. (Synergy) is engaged in the retail sale of liquid propane gas primarily in the Southern, Midwest and Eastern regions of the United States. Most of Synergy's customers use propane for residential home heating and make periodic purchases with cash or on credit. Synergy was formed to acquire Synergy Group Incorporated (SGI).

SYNERGY ACQUISITION

On August 15, 1995, Synergy acquired the common stock of SGI, a retail distributor of propane with 152 locations, for approximately $151 million. In conjunction with the acquisition, Synergy sold 38 of the retail locations to Empire Energy Corporation (Empire Energy) for approximately $36 million cash and the assets of nine retail locations valued at $2 million. There was no gain or loss recognized on this sale.

The total net purchase price paid by Synergy for the acquisition of SGI consisted of $105.6 million in cash (which was provided by proceeds from the issuance of $52.8 million of preferred stock and the issuance of $52.8 million of debt), $1.25 million in long-term debt and the assumption of certain liabilities. The acquisition was accounted for under the purchase method of accounting with all tangible assets and liabilities acquired recorded at fair value at date of acquisition and the cost in excess of such fair value of $32.5 million recorded as an intangible asset.

The purchase price is subject to adjustment based on the amount of working capital acquired by Synergy. Synergy has made a claim against the former owners of SGI (the Former Stockholders) for a working capital adjustment and recorded a receivable of $26.7 million, which reflects the reduction in purchase price of the assets based on the amount of working capital acquired. The purchase price is also subject to adjustment based on the value of customer tanks which cannot be located within a specified period of time. Synergy has made a claim against the Former Stockholders for the value of unlocated tanks and recorded a receivable for $11.3 million related to this claim. Subsequent to June 30, 1996, a settlement has been reached with the former owners of SGI (the Former Stockholders) for a reduction in the purchase price of $5 million as an adjustment of working capital.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SYNERGY ACQUISITION (CONTINUED)

These amounts receivable in connection with the acquisition of SGI are management's best estimate of the amounts that will ultimately be due from the Former Stockholders. However, the parties continue to negotiate final settlement and the Former Stockholders have objected to a number of the claims made by Synergy. An adjustment of the consideration paid for SGI could also result in an adjustment in the amount of consideration received from Empire Energy.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Synergy and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates related to self-insurance, litigation, collectibility of receivables and income tax assessments are discussed in Notes 6 and 7. Actual results could differ from those estimates.

REVENUE RECOGNITION POLICY

Revenue from propane sales and the related cost of product sold are recognized upon delivery of the product.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method for retail operations inventory and by the specific identification method for wholesale operations inventory.

PROPERTY AND EQUIPMENT

For financial reporting purposes, property and equipment are stated at acquisition cost. Repairs and maintenance costs that do not significantly extend the useful lives of the respective assets are charged to operations as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:
INTANGIBLE ASSETS

The excess of cost over the fair value of the net acquired assets of SGI has been recorded as an intangible asset and is being amortized on a straight-line basis over 40 years. Costs related to arranging the debt financing for the acquisition of SGI have been capitalized and are being amortized on a straight-line basis over the two-year term of the debt.

It is Synergy's policy to review long-lived assets including intangible assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of intangible assets is not recoverable, it is Synergy's policy to reduce the carrying amount of such assets to fair value.

INCOME TAXES

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred asset will not be realized.

NOTE 2: RELATED-PARTY TRANSACTIONS

Synergy entered into a Management Service Agreement with Empire Gas Corporation (Empire Gas), a 30% common stockholder of Synergy, under which Empire Gas provides all management services to Synergy for payment of an annual overhead reimbursement of $3.25 million, and a management fee of $500,000 plus a performance-based payment for certain operating results. Amounts paid at June 30, 1996, and December 16, 1996, were $3.28 million and $1.73 million.

During the period ended December 16, 1996, and the period ended June 30, 1996, Synergy purchased $20.5 and $42 million, respectively, of liquid propane gas from Empire Gas.

During the period ended June 30, 1996, Synergy transferred real and personal property of three retail locations valued at $1,615,000 to Empire Gas in exchange for four Empire Gas retail locations valued at approximately $1,713,000, the value difference of $98,000 paid to Empire Gas in cash.
Synergy paid $6,343,000 during the period ended June 30, 1996, to the controlling stockholder of Synergy and $1,103,000 to Empire Gas for reimbursement of costs incurred relating to the acquisition of SGI.

During the period ended June 30, 1996, Synergy leased, under operating leases, transportation equipment to Propane Resources Transportation, Inc. in which Synergy owns a 15% common stock interest. Synergy received $274,000 in lease income during the period ended June 30, 1996, from these leases.

Aggregate annual maturities of the long-term debt outstanding at June 30, 1996, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$1,025</td>
</tr>
<tr>
<td>1998</td>
<td>$24,603</td>
</tr>
<tr>
<td>1999</td>
<td>$680</td>
</tr>
<tr>
<td>2000</td>
<td>$204</td>
</tr>
<tr>
<td>2001</td>
<td>$200</td>
</tr>
<tr>
<td></td>
<td>$26,712</td>
</tr>
</tbody>
</table>

**NOTE 3: OPERATING LEASES**

Synergy leases retail location sales offices under noncancelable operating leases expiring at various times through 2006. These leases generally contain renewal options and require Synergy to pay all executory costs (property taxes, maintenance and insurance).

Scheduled future minimum lease payments (in thousands) at June 30, 1996, were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$598</td>
</tr>
<tr>
<td>1998</td>
<td>$310</td>
</tr>
<tr>
<td>1999</td>
<td>$206</td>
</tr>
<tr>
<td>2000</td>
<td>$41</td>
</tr>
<tr>
<td>2001</td>
<td>$19</td>
</tr>
<tr>
<td>Thereafter</td>
<td>$53</td>
</tr>
<tr>
<td></td>
<td>$1,227</td>
</tr>
</tbody>
</table>

Lease expense during the five and one-half months ended December 16, 1996, and the period ended June 30, 1996, was approximately $320,000 and $600,000.
NOTE 5: INCOME TAXES

The provision for income taxes includes the following components (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>For the Period</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>for</td>
<td>from</td>
</tr>
<tr>
<td></td>
<td>Period</td>
<td>Inception</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(August 15,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1995)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 30,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1996</td>
</tr>
<tr>
<td>Taxes currently payable</td>
<td>$ --</td>
<td>$ 51</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>298</td>
<td>3,624</td>
</tr>
<tr>
<td></td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td></td>
<td>$ 298</td>
<td>$ 3,675</td>
</tr>
</tbody>
</table>

A reconciliation of income tax expense at the statutory rate to the actual income tax expense is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>For the Period</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>for</td>
<td>from</td>
</tr>
<tr>
<td></td>
<td>Period</td>
<td>Inception</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(August 15,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1995)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 30,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1996</td>
</tr>
<tr>
<td>Taxes computed at statutory rate (34%)</td>
<td>156</td>
<td>3,038</td>
</tr>
<tr>
<td>Amortization of excess of cost over fair value of net assets acquired</td>
<td>126</td>
<td>157</td>
</tr>
<tr>
<td>State income taxes, net of federal tax benefit</td>
<td>18</td>
<td>378</td>
</tr>
<tr>
<td>Other</td>
<td>(2)</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Actual tax provision</td>
<td>$ 298</td>
<td>$ 3,675</td>
</tr>
</tbody>
</table>
NOTE 5:  INCOME TAXES (CONTINUED)

At June 30, 1996, Synergy had approximately $20 million of net operating loss carryforwards for tax reporting purposes expiring in varying amounts from 2007 through 2010. These net operating loss carryforwards have been reflected in the financial statements as deferred income tax assets at June 30, 1996 and are subject to certain limitations on utilization under provisions of the Internal Revenue Code.

NOTE 6:  COMMITMENTS AND CONTINGENCIES

SELF-INSURANCE

Synergy obtains insurance coverage for catastrophic exposures related to comprehensive general liability, vehicle liability and workers' compensation, as well as those risks required to be insured by law or contract. Synergy self-insures the first $250,000 of coverage per incident and obtains excess coverage from carriers for these programs.

Provisions for self-insured losses are recorded based upon Synergy's estimates of the aggregate self-insured liability for claims incurred. Synergy has provided letters of credit aggregating approximately $2.875 million in connection with these programs.

Synergy self-insures for health benefits provided to its employees. Provisions for losses expected under this program are recorded based upon Synergy's estimate of the aggregate liability for claims incurred.

CONTINGENCIES

Synergy and the acquired operations of SGI are presently involved in various federal and state tax audits and are also defendants in other business-related lawsuits which are not expected to have a material adverse effect on Synergy's financial position or results of operations.

In conjunction with the acquisition of SGI, the Former Stockholders of SGI are contractually liable for all insurance claims and tax liabilities that relate to periods prior to the acquisition date. Funds have been placed in escrow accounts to provide for payment of these liabilities. In the event that the escrow amount is insufficient to settle these liabilities, Synergy could be obligated to fund any additional amounts due and would have to seek reimbursement from the Former Stockholders for such amounts. Synergy has recorded its best estimates of the ultimate liabilities expected to arise from these matters and has made claims against the Former Stockholders for reimbursement (see Note 1).
NOTE 7: EMPLOYEE BENEFIT PLAN

Synergy succeeded to the SGI-sponsored defined contribution retirement plan covering substantially all salaried employees. Employees who elect to participate may contribute a percentage of their salaries to the plan and Synergy at its discretion may match a portion of the employee contribution. Synergy may also make profit-sharing contributions to the plan at the discretion of its Board of Directors. Synergy made no profit-sharing contributions to the plan during the period July 1, 1996 to December 16, 1996, and the period from inception (August 15, 1995) to June 30, 1996.

The plan is currently under audit by the U.S. Department of Labor (DOL), which has alleged that the plan violated certain sections of the Employee Retirement Income Security Act of 1974. However, the DOL has advised that it is not contemplating current action regarding these violations. The DOL audit is continuing and the outcome cannot be determined at this time. In the event the Former Stockholders are unable to satisfy any liabilities resulting from the above examination, Synergy could be obligated to fund these liabilities and seek reimbursement from the Former Stockholders. Synergy has recorded its best estimates of the ultimate liabilities expected to arise from these matters and has made claims against the Former Stockholders for reimbursement (see Note 1).

NOTE 8: ADDITIONAL CASH FLOW INFORMATION (IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th>For the Period from Inception (August 15, 1995) to June 30, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the Period from Inception (August 15, 1995) to June 30, 1996</td>
</tr>
<tr>
<td>Assets acquired through issuance of:</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 1,468</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>$ 2,250</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>$ 2,500</td>
</tr>
<tr>
<td>Additional cash payment information:</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>3,339</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>190</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>2,284</td>
</tr>
</tbody>
</table>
NOTE 9: SUBSEQUENT EVENT

On December 17, 1996, substantially all of the assets and liabilities of the Company were contributed to Cornerstone Propane, L.P., a Delaware limited partnership, a subsidiary of Cornerstone Propane Partners, L.P. Following this transaction, on December 17, 1996, Cornerstone Propane Partners, L.P. completed its initial public offering (see Note 1 to the consolidated financial statements of Cornerstone Propane Partners, L.P. for the period ended June 30, 1997, included in this form 10-K.)
INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholders
Northwestern Growth Corporation
Huron, South Dakota

We have audited the accompanying consolidated statements of operations, stockholders' equity (deficit) and cash flows of SYNERGY GROUP INCORPORATED for the period ended August 14, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of SYNERGY GROUP INCORPORATED for the period ended August 14, 1995, in conformity with generally accepted accounting principles.

BAIRD, KURTZ & DOBSON

Springfield, Missouri
October 9, 1996
SYNERGY GROUP INCORPORATED

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE FOUR AND ONE-HALF MONTHS
ENDED AUGUST 14, 1995
(IN THOUSANDS)

For the
Four and
One-Half
Months
Ended
August 14,
1995

OPERATING REVENUE $ 32,179
COST OF PRODUCT SOLD 15,387
GROSS PROFIT 16,792

OPERATING COSTS AND EXPENSES
Provision for doubtful accounts 926
General and administrative 20,681
Depreciation and amortization 1,845
Total operating expenses 23,452
Operating loss 6,660

OTHER INCOME (EXPENSE)
Interest expense (2,436)
Related-party interest expense (787)
Other income 101
Other income (expense) (3,122)

LOSS BEFORE INCOME TAXES (9,782)
PROVISION FOR INCOME TAXES 31
NET LOSS $ (9,813)

See Notes to Consolidated Financial Statements
SYNERGY GROUP INCORPORATED

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE FOUR AND ONE-HALF MONTHS
ENDED AUGUST 14, 1995
(DOLLARS IN THOUSANDS)

<table>
<thead>
<tr>
<th>Series A</th>
<th>Series B</th>
<th>Class A</th>
<th>Class B</th>
<th>Additional</th>
<th>Retained</th>
<th>Stockholders'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Stock</td>
<td>Preferred Stock</td>
<td>Common Stock</td>
<td>Common Stock</td>
<td>Paid-in Capital</td>
<td>Earnings</td>
<td>Equity (Deficit)</td>
</tr>
</tbody>
</table>

BALANCE, MARCH 31, 1995
$ 25,000  $ 16,700  $ 1  $ 40  $ 11,378  $(68,882)  $(15,763)

NET LOSS

$25,000  $16,700  $1  $40  $11,378  $(68,882)  $(15,763)

BALANCE, AUGUST 14, 1995
$ 25,000  $ 16,700  $ 1  $ 40  $ 11,378  $(78,695)  $(25,574)

See Notes to Consolidated Financial Statements
SYNERGY GROUP INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FOUR AND ONE-HALF MONTHS
ENDED AUGUST 14, 1995
(IN THOUSANDS)

For the
Four and
One-Half
Months
Ended
August 14,
1995

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ (9,813)</td>
</tr>
<tr>
<td>Items not requiring (providing) cash:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,770</td>
</tr>
<tr>
<td>Amortization</td>
<td>75</td>
</tr>
<tr>
<td>Gain on sale of assets</td>
<td>(61)</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>5,139</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,251</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>3,591</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>764</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>2,716</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of assets</td>
<td>104</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(596)</td>
</tr>
<tr>
<td>Change in restricted cash deposits</td>
<td>(615)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>(1,107)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments on long-term debt</td>
<td>(108)</td>
</tr>
<tr>
<td>Decrease in credit facilities</td>
<td>(1,000)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td><strong>(1,108)</strong></td>
</tr>
</tbody>
</table>

| INCREASE IN CASH | 501 |
| CASH, BEGINNING OF PERIOD | 1,246 |
| CASH, END OF PERIOD | $ 1,747 |

See Notes to Consolidated Financial Statements
SYNERGY GROUP INCORPORATED

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Synergy Group Incorporated (the Company) is engaged primarily in the retail sale of liquid propane gas through its branch offices located in the Northeast, Mid-Atlantic, Southeast and South-central regions of the United States. Most of the Company's customers use propane for residential home heating and make periodic purchases with cash or on credit.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Synergy Group Incorporated and its subsidiaries. All significant intercompany balances have been eliminated in consolidation.

REVENUE RECOGNITION POLICY

Sales and related cost of product sold are recognized upon delivery of the product or service.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for propane and the first-in, first-out (FIFO) method for all others.
NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Depreciation is provided on all property and equipment primarily by the straight-line method over the estimated useful lives of 3 to 30 years.

INCOME TAXES

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

AMORTIZATION

The excess of current fair value over cost of net assets acquired is being amortized on the straight-line basis over 40 years.

CASH EQUIVALENTS

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

NOTE 2: SALE OF THE COMPANY

On August 15, 1995, the Company was acquired by SYN Inc. which is majority owned by Northwestern Growth Corporation, a wholly owned subsidiary of Northwestern Public Service Company. The acquisition cost was approximately $151 million and included the redemption of the Senior Secured Notes at par value and the repayment of the Company's existing revolving credit facility. As a result of the above sale the financial statements reflect operations for the four and one-half month period ended August 14, 1995.
NOTE 3: DEBT RESTRUCTURING

On September 2, 1993, the Company and a committee of holders of the Company's 11 5/8% Senior Subordinated Notes due 1997 (the 11 5/8% Notes) announced that they had reached agreement on the major issues to restructure the Company's outstanding debt and on August 23, 1994, the Company completed the restructuring. The agreement contemplated that certain related parties to the Company exchange $41,700,000 in debt for Series A Preferred Stock and Series B Preferred Stock (the Recapitalization). This amount included $16,700,000 in 90-day unsecured promissory notes and $25,000,000 of 11 5/8% Notes (see Note 4). The remaining 11 5/8% Notes plus accrued interest through September 14, 1993, were proposed to be exchanged (the Exchange Offer) for new Increasing Rate Senior Secured Notes due 2000 (the Senior Secured Notes).

NOTE 4: NOTES PAYABLE

Long-term debt consists of the following:

<table>
<thead>
<tr>
<th>August 14, 1995</th>
<th>(In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 5/8% Senior subordinated notes due 1997 (A)</td>
<td>$1,700</td>
</tr>
<tr>
<td>Increasing rate senior secured notes due 2000 (A)</td>
<td>$65,054</td>
</tr>
<tr>
<td>Revolving credit facility (B)</td>
<td>$22,100</td>
</tr>
<tr>
<td>Purchase contract obligations (C)</td>
<td>$687</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Less current maturities</td>
<td>$89,541</td>
</tr>
<tr>
<td>$99,104</td>
<td></td>
</tr>
<tr>
<td>$437</td>
<td></td>
</tr>
</tbody>
</table>
NOTE 4: NOTES PAYABLE (CONTINUED)

(A) On April 2, 1987, the Company sold $85,000,000 of 11 5/8% Notes in a public offering. On March 15, 1993, September 15, 1993, and March 15, 1994, the Company failed to make the required $4,941,000 interest payments due on each of such dates on the 11 5/8% Notes. Under the terms of the Indenture to the 11 5/8% Notes, the failure to pay such interest constituted an Event of Default.

On August 23, 1994, the Company completed the Exchange Offer and Recapitalization (see Note 3). The 11 5/8% Notes not tendered in the Exchange Offer, amounting to $1,700,000, remain outstanding at August 14, 1995.

(B) In August 1989, the Company entered into a revolving credit agreement with a bank under which the maximum credit line available is $20,000,000. On September 14, 1990, a party related to the Company repaid the bank and the bank assigned the credit agreement to the related party. The credit agreement contains certain restrictive covenants. Borrowings under the credit facility are secured by cash, accounts receivable and inventory. Interest based on the prime rate plus 1 1/2% is payable quarterly. The amount outstanding under the facility was not repaid by the Company on the maturity date of April 1, 1993. The failure to repay the facility constituted an Event of Default. In November 1993 the maximum credit line available under the facility was increased to $25,000,000 with advances in excess of $20,000,000 at the discretion of the related party. The maturity date of the revolving credit agreement was extended to September 30, 1996.

(C) Purchase contract obligations arise from the purchase of operating businesses or other assets and are collateralized by the respective assets acquired. At August 14, 1995, these obligations carried interest rates from 8% to 14.5% and are due periodically through 1999.
NOTE 5: OPERATING LEASES

The Company leases certain property and equipment under lease agreements expiring through 2011. At August 14, 1995, future minimum lease payments under noncancelable operating leases are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$907</td>
</tr>
<tr>
<td>1997</td>
<td>971</td>
</tr>
<tr>
<td>1998</td>
<td>402</td>
</tr>
<tr>
<td>1999</td>
<td>238</td>
</tr>
<tr>
<td>2000</td>
<td>191</td>
</tr>
</tbody>
</table>

$2,709

Rent charged to operations including rental expense to related parties (see Note 6) for the period ended August 14, 1995, was $929,000.

NOTE 6: RELATED PARTY TRANSACTIONS

The Company leases certain property and equipment from related parties under operating lease agreements. Rental expense for the period ended August 14, 1995, was $318,000.

For the period ended August 14, 1995, interest expense related to the Company's revolving credit facility from a related party (see Note 4) amounted to $787,000, respectively.
NOTE 7: INCOME TAXES

The provision for income taxes includes these components (in thousands):

<table>
<thead>
<tr>
<th>August 14, 1995</th>
<th>(In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes currently payable</td>
<td>$31</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>--</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$31</strong></td>
</tr>
</tbody>
</table>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

<table>
<thead>
<tr>
<th>August 14, 1995</th>
<th>(In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computed at the statutory rate (34%)</td>
<td>$(3,326)</td>
</tr>
<tr>
<td>Increase resulting from:</td>
<td></td>
</tr>
<tr>
<td>Amortization of excess cost over fair value of net assets acquired</td>
<td>$9</td>
</tr>
<tr>
<td>State income taxes - net of federal tax benefit</td>
<td>$31</td>
</tr>
<tr>
<td>Change in deferred tax asset valuation allowance</td>
<td>$3,310</td>
</tr>
<tr>
<td>Other</td>
<td>$7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Actual tax provision</strong></td>
</tr>
<tr>
<td></td>
<td><strong>$31</strong></td>
</tr>
</tbody>
</table>

The Company estimates that as of August 14, 1995, it has available net operating loss carryforwards of approximately $94.6 million to offset future taxable income.
NOTE 8: EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution retirement plan covering substantially all salaried employees. Employees who elect to participate may contribute a percentage of their salaries to the plan, and the Company at its discretion may match a portion of the employee contribution. The Company may also make profit-sharing contributions to the plan at the discretion of its Board of Directors. Contribution expense amounted to $37,000 for the period ended August 14, 1995.

The plan is currently under audit by the U.S. Department of Labor (DOL), which has notified the Company that the prior Plan Trustees engaged in prohibited transactions. The DOL audit is continuing and the outcome cannot be determined at this time. In addition, the Internal Revenue Service has been notified of prohibited transactions. The Company believes that it may be subject to excise taxes, penalties and interest in connection with these prohibited transactions and has recorded its best estimates of the potential liabilities expected to arise from these matters.

NOTE 9: SELF-INSURANCE AND LITIGATION CONTINGENCIES

Under the Company's insurance program, coverage for comprehensive general liability, workers' compensation and vehicle liability was obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company retains a significant portion of certain expected losses related primarily to comprehensive general liability. Under this insurance program, the Company self-insures the first $250,000 of coverage (per incident). The Company obtained excess coverage from carriers for this program. The Company self-insures health benefits provided to employees of the Company and its subsidiaries.

Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred. The Company provides letters of credit aggregating $2,875,000 in connection with these programs which are collateralized with restricted cash deposits.
NOTE 9: SELF-INSURANCE AND LITIGATION CONTINGENCIES (CONTINUED)

At August 14, 1995, the self-insured liability accrued in the balance sheet totaled $4,160,000, which includes $500,000 of incurred but not reported claims. The Company and its subsidiaries are presently defendants in various lawsuits related to the self-insurance program and other business-related lawsuits which are not expected to have a material adverse effect on the Company's results of operations.

NOTE 10: ADDITIONAL CASH FLOW INFORMATION

August 14, 1995

----------------------
(In Thousands)

ADDITIONAL CASH PAYMENT INFORMATION
Interest paid $ 1,146
Income taxes paid 15

NOTE 11: FUTURE ACCOUNTING PRONOUNCEMENTS

IMPACT OF SFAS NO. 121

In 1995 the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for the Impairment of Long-Lived Assets to be Disposed of." The Company must adopt this standard effective April 1, 1996. The Company does not expect that the adoption of this standard will have a material impact on its financial position or results of operations.

NOTE 12: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:
NOTE 12: SIGNIFICANT ESTIMATES AND CONCENTRATIONS (CONTINUED)

DEPENDENCE ON PRINCIPAL SUPPLIERS

Three suppliers, Chevron, Texaco and Powder Horn Petroleum, account for approximately 55% of the Company's volume of propane purchases. Although the Company believes that alternative sources of propane are readily available, in the event that the Company is unable to obtain alternate sources of supply at competitive prices and on a timely basis, such inability would have a material, adverse effect on the Company.

ESTIMATES

Significant estimates related to tax liabilities, self-insurance and litigation are discussed in Notes 8 and 9. Actual losses related to these items could vary materially from amounts reflected in the financial statements.