UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: August 30, 2022
(Date of earliest event reported)

RING ENERGY, INC.
(Exact name of registrant as specified in its charter)

Nevada	**001-36057**	**90-0406406**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1725 Hughes Landing Blvd. Suite 900
The Woodlands, TX 77380
(Address of principal executive offices) (Zip Code)

(281) 397-3699
(Registrant's telephone number, including area code)

Not Applicable.
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	**REI**	**NYSE American**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Introductory Note

As previously disclosed in its Current Report on Form 8-K filed on September 6, 2022 (the "Prior 8-K") with the United States Securities and Exchange Commission (the "SEC"), on August 31, 2022, Ring Energy, Inc. (the "Company"), as buyer, and Stronghold Energy II Operating, LLC, a Delaware limited liability company ("Stronghold OpCo"), and Stronghold Energy II Royalties, LP, a Delaware limited partnership ("Stronghold RoyaltyCo", together with Stronghold OpCo, collectively, "Stronghold"), as seller, consummated the transactions contemplated in that certain Purchase and Sale Agreement dated July 1, 2022, by and among the Company and Stronghold (the "Purchase Agreement") that was previously reported on Form 8-K filed on July 8, 2022 with the SEC (the "Stronghold Acquisition").

The Company is filing this amendment to the Prior 8-K for the purpose of providing (i) the audited consolidated financial statements of Stronghold as of and for the years ended December 31, 2021 and 2020, (ii) the unaudited interim consolidated financial statements of Stronghold as of and for the three and six months ended June 30, 2022 and 2021, and (iii) the unaudited pro forma financial information giving effect to the Stronghold Acquisition.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial statements of business acquired*.

Audited consolidated financial statements of Stronghold Energy II Holdings, LLC for the years ended December 31, 2021 and 2020 are attached hereto as Exhibit 99.1 and incorporated herein by reference.

Unaudited interim consolidated financial statements of Stronghold Energy II Holdings, LLC as of and for the three and six months ended June 30, 2022 and 2021 are attached hereto as Exhibit 99.2 and incorporated herein by reference.

(b) *Pro forma financial information*.

Unaudited pro forma condensed combined balance sheet of the Company as of June 30, 2022 and the unaudited pro forma condensed combined statements of operations for the twelve months ended December 31, 2021 and the six months ended June 30, 2022 are attached hereto as Exhibit 99.3 and incorporated herein by reference. These unaudited pro forma financial statements give effect to the Stronghold Acquisition on the basis, and subject to the assumptions, set forth in accordance with Article 11 of Regulation S-X.

(d) *Exhibits*.

The following exhibits are included with this Current Report on Form 8-K/A:

Exhibit No.	Description
23.1	Consent of KPMG LLP
99.1	Audited consolidated financial statements of Stronghold Energy II Holdings, LLC for the years ended December 31, 2021 and 2020.
99.2	Unaudited interim consolidated financial statements of Stronghold Energy II Holdings, LLC as of and for the three and six months ended June 30, 2022.
99.3	Unaudited pro forma condensed combined balance sheet of Ring Energy, Inc. as of June 30, 2022 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2021 and the six months ended June 30, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		RING ENERGY, INC.	
Date:	September 9, 2022	By:	/s/ Travis T. Thomas
			Travis T. Thomas
			Chief Financial Officer

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the registration statements (Nos. 333-229515, 333-230966 and 333-237988) on Forms S-3 and (Nos. 333-191485 and 333-257633) on Forms S-8 of Ring Energy, Inc. of our report dated July 1, 2022, with respect to the consolidated financial statements of Stronghold Energy II Holdings, LLC, which report appears in the Form 8-K/A of Ring Energy, Inc. dated September 9, 2022.

/s/ KPMG LLP

Dallas, Texas
September 9, 2022

Exhibit 99.1

STRONGHOLD ENERGY II HOLDINGS, LLC

Consolidated Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

STRONGHOLD ENERGY II HOLDINGS, LLC

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Independent Auditors' Report

The Board of Directors
Stronghold Energy II Holdings, LLC:

Opinion

We have audited the consolidated financial statements of Stronghold Energy II Holdings, LLC and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Accounting principles generally accepted in the United States of America require that the supplemental information relating to oil and natural gas producing activities be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the United States Financial Accounting Standards Board who as described in Accounting Standards Codification Topic 932-235-50 considers the supplemental information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/ KPMG LLP

Dallas, Texas
July 1, 2022

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Balance Sheets
December 31, 2021 and 2020
(In thousands)

Assets		2021	2020
Current assets:			
Cash and cash equivalents	$	5,794	1,602
Accounts receivable, net of allowance for doubtful accounts:			
Joint interest owners and other		111	56
Oil, natural gas and NGLs		14,548	4,469
Other current assets		5,559	961
Total current assets		26,012	7,088
Property, plant and equipment:			
Oil and natural gas properties, successful efforts method		236,979	178,172
Accumulated depreciation, depletion, amortization and impairment		(51,434)	(30,748)
Total oil and natural gas properties, net		185,545	147,424
Other property, plant and equipment net		432	719
Total property, plant and equipment, net		185,977	148,143
Noncurrent assets:			
Debt costs – net of amortization		642	692
Total noncurrent assets		642	692
Total assets	$	212,631	155,923
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable and accrued expenses	$	17,179	2,469
Revenue and severance taxes payable		2,900	1,080
Short-term derivative instruments		11,122	5,126
Total current liabilities		31,201	8,675
Noncurrent liabilities:			
Borrowings under credit agreement		67,500	42,000
Asset retirement obligation		10,706	9,466
Long-term derivative instruments		5,047	575
Total noncurrent liabilities		83,253	52,041
Commitments and contingencies (note 10)			
Members' equity		98,177	95,207
Total liabilities and equity	$	212,631	155,923

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Operations
Years ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Revenues:		
Oil sales	$ 73,985	32,855
Natural gas sales	11,707	2,689
Natural gas liquids sales	12,937	3,876
Total revenues	98,629	39,420
Operating expenses:		
Lease operating expenses	19,899	12,442
Transportation and processing costs	5,703	3,269
Production taxes	4,441	1,622
Depreciation, depletion and amortization	21,124	16,797
General and administrative expenses	8,114	6,954
Exploration and abandonment costs	2,136	734
Accretion of asset retirement obligations	956	867
Total operating expenses	62,373	42,685
Operating income (loss)	36,256	(3,265)
Other income (expense):		
Loss on derivatives	(31,080)	(3,772)
Interest expense	(2,073)	(2,059)
Other income (expense)	(33)	(860)
Total other income (expense)	(33,186)	(6,691)
Net income (loss)	$ 3,070	(9,956)

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Changes in Members' Equity
Years ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Balance at December 31, 2020	$ 95,207	105,163
Distribution to members	(100)	—
Net income (loss)	3,070	(9,956)
Balance at December 31, 2021	$ 98,177	95,207

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Cash Flows
Years ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 3,070	(9,956)
Adjustments to reconcile net income (loss) to net cash provided in operating activities:		
Depreciation, depletion and amortization	21,125	16,797
Amortization of debt issuance costs	256	225
Exploration and abandonment costs	1,779	(85)
Accretion of asset retirement obligations	956	867
Unrealized loss on derivatives	10,467	4,260
Loss on divestitures	238	1,068
Changes in operating assets and liabilities:		
Accounts receivable	(10,134)	1,168
Other current assets	(3,791)	(62)
Accounts payable and accrued expenses	2,449	(1,641)
Revenue and severance taxes payable	1,820	(358)
Net cash provided by operating activities	28,235	12,283
Cash flows from investing activities:		
Development of oil and natural gas properties	(49,034)	(16,222)
Acquisitions of oil and natural gas properties	(23)	450
Proceeds (settlement) from sales of oil and natural gas properties	(30)	1,386
Purchase of other property and equipment	(151)	(131)
Net cash (used in) investing activities	(49,238)	(14,517)
Cash flows from financing activities:		
Borrowings under credit agreement	26,500	3,000
Debt costs	(205)	—
Repayments of borrowings under credit agreement	(1,000)	(5,000)
Member distributions	(100)	—
Net cash provided by (used in) financing activities	25,195	(2,000)
Net increase (decrease) in cash and cash equivalents	4,192	(4,234)
Cash and cash equivalents, beginning of period	1,602	5,836
Cash and cash equivalents, end of period	$ 5,794	1,602
Supplemental disclosure of noncash activities:		
Asset retirement obligations, including changes in estimate	$ 354	124
Additions to oil and natural gas properties – change in capital accruals	11,453	(5,663)

See accompanying notes to consolidated financial statements.

(1) Formation and Operations of the Company

Stronghold Energy II Holdings, LLC (Stronghold Energy II) is a Delaware limited liability company formed on December 4, 2017 (Inception) for the purpose of engaging in the acquisition, development, and operation of oil and gas properties in the United States of America. Stronghold Energy II is capitalized by an equity commitment of approximately $150 million from funds affiliated with Warburg Pincus, LLC and the Stronghold Energy II management team, and others (collectively, the Members) through Series A Units contributed as needed to fund oil and natural gas property acquisitions and other working capital needs.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Stronghold Energy II Holdings, LLC and its wholly owned subsidiaries, Stronghold Energy II Operating, LLC, Stronghold Energy II Management, LLC, Stronghold Energy II Management Holdings, LLC, Stronghold Energy II Royalties, LP, and Stronghold Energy II Intermediate, LLC (collectively, the Company). All significant intercompany transactions and balances have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include, among other things, determining oil and gas reserve estimates recoverable in the future, future plugging and abandonment costs and fair values of assets acquired and liabilities assumed. While management believes current estimates are reasonable and appropriate, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains cash balances at financial institutions in the United States of America, which from time to time, may exceed federally insured amounts. The Company has not experienced any losses in such accounts.

(d) Accounts Receivable

Accounts receivable consist of receivables from joint interest owners on properties the Company operates and crude oil, natural gas and natural gas liquids (“NGLs”) production delivered to purchasers. The purchasers remit payment for production directly to the Company. Most payments are received within three months after the production date. For receivables from joint interest owners, the Company typically has the ability to withhold future revenue disbursements to recover any non-payment of joint interest billings. Accounts receivable outstanding longer than the contractual payment terms are considered past due.

The Company recognizes an allowance for doubtful accounts in an amount equal to anticipated future uncollectible receivables. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the debtor's current ability to pay its obligation to the Company, the condition of the general economy and the industry as a whole. The Company writes off specific accounts receivable when they become uncollectible and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of December 31, 2021, and 2020, management believes all accounts receivable are collectible and no allowance is required.

(e) Oil and Gas Properties

The Company accounts for its investment in oil and gas producing activities using the successful efforts method of accounting. Under this method, costs of productive wells, development dry holes, oil and gas leasehold costs and productive leases are capitalized into appropriate groups of properties based on geographical and geological similarities and amortized on a unit-of-production basis over the life of the remaining related oil and gas reserves. Cost centers for amortization purposes are determined on a field area basis. Proceeds from sales of properties are credited to property costs, and a gain or loss is recognized when a significant portion of an amortization base is sold or abandoned.

Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves. The determination of an exploratory well's ability to produce must be made within one period from the completion of drilling activities. The acquisition costs of unproved acreage are initially capitalized and are carried at cost, net of accumulated impairment provisions, until such leases are transferred to proved properties or charged to exploration expense as impairments of unproved properties.

(f) Oil and Gas Reserves

The estimates of proved oil and natural gas reserves utilized in the preparation of the consolidated financial statements are estimated in accordance with the guidelines established by the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB), which require that reserve estimates be prepared under existing economic and operating conditions using a 12-month historical average first of month price with no provision for price and cost escalations in future periods except by contractual arrangements. Reserves for proved developed producing wells were estimated using the evaluation of performance history method. Certain new producing properties with little production history were forecasted using a combination of the evaluation of performance history method and analogy method. Proved undeveloped reserves are identified using the deterministic method and forecasted using the analogy method. The reserve estimates were updated internally at December 31, 2021 to adjust for ownership changes due to acquisitions and divested assets and increased operated production due to well optimization, recompletes and new drills.

Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of a reserve estimate depends on the quality of available geological and engineering data, the precision of and the interpretation of that data, and judgment based on experience and training.

(g) Depreciation, Depletion & Amortization (DD&A)

The Company computes depletion expense on a unit-of-production method. Capitalized drilling and development costs of producing oil and natural gas properties are depleted over proved developed reserves and leasehold costs are depleted over total proved reserves.

Reserve estimates have a significant impact on the depletion rate. It is possible that, because of changes in market conditions or the inherent imprecision of reserve estimates, that the estimates of future cash inflows, future gross revenues, the amount of oil and natural gas reserves, the remaining estimated lives of oil and natural gas properties, or any combination of the above may be increased or decreased.

Increases in recoverable economic volumes generally reduce per unit depletion rates while decreases in recoverable economic volumes generally increase per unit depletion rates.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

(h) Impairment

Oil and gas properties subject to depletion are assessed for impairment when events or changes in circumstances dictate that the carrying value of those assets may not be recoverable. The Company assesses the impairment of its capitalized costs of oil and gas properties on a field by field basis. The estimated future cash flows expected in connection with the property are compared to the carrying value of the property to determine if the carrying amount is recoverable. If the carrying value of the property exceeds its estimated undiscounted future cash flows, the carrying amount of the property is reduced to its estimated fair value. To the extent that the carrying cost for the affected property exceeds its estimated fair value, the Company makes a provision for impairment of proved properties. If the fair value is revised upward in a future period, the Company does not reverse the prior provision, and continues to carry the property at a net cost that is lower than its estimated fair value. If the fair value is revised downward in a future period, an additional provision for impairment is made in that period. The impairment assessment for unproved properties is affected by factors such as the results of exploration and development activities, commodity price projections, remaining lease terms, and potential shifts in the Company’s business strategy. No impairments of proved properties were recorded for the year ended December 31, 2021 or 2020.

Unproved oil and natural gas properties are not subject to depletion, depreciation, or impairment until a determination is made as to the existence of proved reserves. Impairment of individually significant unproved properties is assessed on a property-by-property basis, and impairment of other unproved properties is assessed on an aggregate basis. As exploration work progresses, if reserves on these properties are proved, capitalized costs attributable to the properties will be subject to depreciation and depletion. If the exploration work is unsuccessful or management’s plans change with respect to these properties as a result of economic, operating, or contractual conditions, the capitalized costs of the related properties is expensed in the period in which the determination is made. The timing of any write-downs of these unproved properties, if warranted, depends upon management’s plans, the nature, timing, and extent of planned exploration and development activities and their results. To the extent that the carrying cost of a property exceeds its estimated fair value, the Company makes a provision for impairment of unproved properties and records the provision as abandonments and impairments within exploration costs on its Consolidated Statements of Operations. If the value is revised upward in a future period, the Company does not reverse the prior provision and continues to carry the properties at a net cost that is lower than its estimated value. If the value is revised downward in a future period, an additional provision for impairment is made in that period. For the year ended December 31, 2021, and 2020, the Company recorded $1.8 million, and $67 thousand, in exploration and abandonment costs related to dry hole costs and associated impairment to unproved properties.

(i) Other Property, Plant and Equipment

Other property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful life of the asset type. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which generally range between 3 to 15 years. Expenditures for the maintenance and repair of the assets are expensed as incurred and expenditures that significantly improve or extend the useful life of the assets are capitalized and depreciated.

(j) Environmental Remediation

Various federal, state, and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the Company's operations and the costs of its crude oil and gas exploration, development, and production operations. The Company does not anticipate that it will be required in the near future to expend significant amounts due to environmental laws and regulations, and accordingly no reserves have been recorded.

(k) Asset Retirement Obligations

The Company estimates the present value of the amount it will incur to plug, abandon and remediate its producing properties at the end of their productive lives in accordance with Accounting Standards Codification (ASC) 410, *Asset Retirement and Environmental Obligations*. The Company computes its liability for asset retirement obligations by calculating the present value of estimated future cash flows related to each property. This requires the Company to use significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive lives of wells and its risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligations.

Under ASC 410, an asset retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to producing properties in the accompanying balance sheets which is allocated to expense over the useful life of the asset. Periodic accretion of the discount on asset retirement obligations is recorded as an expense in the accompanying Consolidated Statements of Operations.

(l) Revenue Recognition

The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and natural gas liquids (NGLs) are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured.

(m) Gathering and transportation

We generally sell oil and natural gas under two types of agreements which are common in our industry. Both types of agreements include a transportation charge. One is a net-back arrangement, under which the Company sells oil or natural gas from the Company's production facilities and collects a price, net of the transportation incurred by the purchaser. In this case, we record sales at the price received from the purchaser, net of the transportation costs. Under the other arrangement, we sell oil or natural gas at a specific delivery point, pay transportation to a third party and receive proceeds from the purchaser with no transportation deduction. In this case, we record the transportation cost as gathering and transportation expense. As such, our computed realized prices, before the impact of derivative financial instruments, include revenues which are reported under two separate bases. Gathering and transportation expenses totaled $5.7 million for the year ended December 31, 2021 and $3.3 million for the year ended December 31, 2020.

(n) Overhead reimbursement fees

We have classified fees from overhead charges billed to working interest owners of $741 thousand for the year ended December 31, 2021 and $798 thousand for the year ended December 31, 2020, as a reduction of general and administrative expenses and lease operating expenses in the accompanying Consolidated Statement of Operations. We classified our share of these charges as lease operating expense in the amount of $662 thousand for the year ended December 31, 2021 and $717 thousand for the year ended December 31, 2020.

(o) Lease Operating Expenses (LOE)

Lease operating expenses represent field employees' salaries, salt water disposal, repairs and maintenance, expensed work overs, and other operating expenses. Lease operating expenses are expensed as incurred.

(p) Sales-Based Taxes

The Company incurs severance tax on the sale of its production. These taxes are reported on a gross basis and are included in production taxes within the accompanying Consolidated Statements of Operations.

(q) Ad Valorem Taxes

The Company incurs ad valorem tax on the value of its properties. These taxes are included in LOE within the accompanying Consolidated Statements of Operations.

(r) Income Taxes

Organized as a Limited Liability Company, the Company is considered a flow through entity as U.S. federal income taxes are the responsibility of the members. Accordingly, the Company is generally not subject to the provision for U.S. federal income taxes on its operations as its income and expenses flow through directly to its members and no provision for U.S. federal income taxes has been reflected in these consolidated financial statements. Management believes the Company has no uncertain tax positions as of December 31, 2021 and 2020. However, the Company may be subject to certain state taxes in Texas or other states. As of December 31, 2021 and 2020, the Company had an immaterial liability in the state of Texas for Texas Margin Tax and no liabilities in any other states.

(s) Concentrations of Credit Risk

The Company's oil and gas operations have a concentration of purchasers in the energy industry. This customer concentration may impact the Company's overall exposure to credit risk, either positively or negatively, in that the purchasers may be similarly affected by changes in economic or other conditions. As of December 31, 2021 and 2020, the Company did not experience any material credit losses or write-offs of receivables and an allowance for doubtful accounts was not deemed necessary.

During 2021, the Company had two customers that accounted for 81.3% of its revenue and two customers in 2020 that accounted for 74.6% of revenue. During 2021, the two customers that accounted for 81.3% of revenue are as follows, 43.6% and 37.7%. During 2020, the two customers that accounted for 74.6% of revenue are as follows, 50.2% and 24.4%. Accounts receivable from these two customers totaled $9.4 million at December 2021 and two customers totaled approximately $683 thousand at December 2020.

(t) Fair Value of Financial instruments

In accordance with the reporting requirements of ASC 825, *Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The guidance states that the fair value of financial instruments is determined at discrete points in time based on relevant market information. Such estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash and cash equivalents, accounts receivable and accounts payable approximate the carrying amounts due to the relatively short maturity of these instruments. None of these instruments are held for trading purposes.

(u) Risks and Uncertainties

Crude oil prices continued to improve during 2021 as COVID-19 vaccination rates increased and pandemic-related restrictions began to loosen resulting in global petroleum demand rising faster than petroleum supply. WTI oil prices in January 2021 were $47 per Bbl and climbed as high as $86 per Bbl by October 2021. The average price per Bbl in 2021 was $68. The Company reinstated its drilling program June 2021 and continued to drill new wells for the remaining part of the year.

In February 2022, Russia invaded Ukraine contributing to higher and more volatile crude oil prices. On March 8, President Biden announced that the United States would ban imports of oil, liquefied natural gas, and coal from Russia. This invasion along with new and expected future sanctions has driven oil prices above $100 per Bbl and adds uncertainty to future crude oil prices. Given the evolving situation, there are many unknown factors and events that could materially impact commodity prices.

(3) Revenue from Contracts with Customers

Revenue is measured based on considerations specified in contracts with customers, excluding any sales incentives or amounts collected on behalf of third parties. The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and natural gas liquids (NGLs) are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured. Generally, the pricing provisions in the Company's contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas, and prevailing supply and demand conditions. As a result, the prices of the Company's oil, natural gas and NGLs fluctuate to remain competitive with other available oil, natural gas and NGLs supplies. Certain of the Company's contracts for the sale of commodities contain embedded derivatives. The Company has elected to utilize the normal purchases and normal sales scope exception as provided by ASC Topic 815, *Derivatives and Hedging*. The Company reports revenues disaggregated by product on its Consolidated Statements of Operations.

(a) Oil Sales

Oil production is sold at the production facilities and the Company collects an agreed-upon index price, net of pricing differentials. In this scenario, revenue is recognized when control transfers to the purchaser at the wellhead at the net price received by the Company.

(b) Natural Gas and NGLs Sales

Under the Company's natural gas processing contracts, it delivers natural gas to a midstream processing company at the meter or the inlet of the midstream processing company's system. The midstream processing company gathers and processes the natural gas and remits proceeds to the Company for the resulting natural gas and NGLs sales. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction, which includes considerations of product redelivery, take-in-kind rights and risk of loss. For those contracts where the Company has concluded that control of the product transfers at the tailgate of the plant, meaning that the Company is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation and processing fees presented as Transportation and processing costs on the Company's consolidated statements of operations. Alternatively, for those contracts where the Company has concluded control of the product transfers at the inlet of the plant, meaning that the Company is the agent and the midstream processing company is the Company's customer, the Company recognizes natural gas and NGLs sales based on the net amount of proceeds received from the midstream processing company. The Company also determined that losses associated with shrinkage and line loss ("FL&U") occur prior to the change in control. As a result, natural gas and NGLs sales are presented net of FL&U costs.

(c) Transaction Price Allocated to Remaining Performance Obligations

A significant number of the Company's product sales are short-term in nature, with a contract term of one year or less. For these contracts, the Company has utilized the practical expedient in ASC 606-10-50-14, which exempts the Company from the requirements to disclose the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

(d) Contract Balances

Under the Company's product sales contracts, the Company invoices customers once performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

(e) Prior-Period Performance Obligations

The Company records revenue in the month production is delivered to the purchaser. Settlement statements for certain natural gas and NGLs sales, however, may not be received for 30 to 90 days after the date production is delivered, and as a result the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. In these situations, the Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. Any identified differences between the Company's revenue estimates and actual revenue received have historically been insignificant. For the year ended December 31, 2021 and 2020, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material.

(4) Derivative Financial Instruments

The Company's revenue is derived from sale of oil and gas production. Accordingly, the Company is exposed to the risks associated with the volatility of oil and gas prices. The Company has established a hedging program to hedge its expected oil and gas revenue against price volatility.

The Company accounts for derivatives in accordance with FASB ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activity (as amended)*. Currently, the Company does not designate its derivative instruments to qualify for hedge accounting. Accordingly, the Company reflects changes in fair value of its derivative instruments in the Consolidated Statements of Operations as they occur. Commodity hedging instruments may take the form of collars, swaps, or other derivatives indexed to the New York Mercantile Exchange (NYMEX) or other commodity price indexes. Such derivative instruments will not exceed anticipated production volumes, are expected to have a reasonable correlation between price movements in the futures market and the spot markets where the Company's production is sold, and are authorized by management. Derivatives are expected to be realized as related production occurs, but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated.

The Company records its derivative activities at fair value. Gains and losses from commodity derivative contracts are included in realized and unrealized gain (loss) on commodity price hedging contracts in the Consolidated Statements of Operations. The fair values of derivative instruments reported in the Company's balance sheets are subject to netting arrangements and qualify for net presentation.

The following tables reflect the Company's open commodity derivative contracts at December 31, 2021.The associated volumes use NYMEX WTI and NYMEX Henry Hub reference pricing, except for the basis differential hedges which use the relevant basis differential. Weighted average strike prices are shown.

	Oil Hedges (WTI)	
	2022	**2023**
3-way collars:		
Hedged volume (BBL)	373,873	66,061
WA ceiling (call strike price)	$ 62.02	80.05
WA floor (long put/short put strike price)	$50/$40	$55/$45
Net premium ($/BBL)	—	—
Costless collars:		
Hedged volume (BBL)	478,906	487,622
Ceiling (call strike price)	$ 68.70	62.94
Floor (long put strike price)	55.35	52.16

	Oil Hedges (basis differential)	
	2022	**2023**
Mid/cush basis differential:		
Hedged volume	299,422	245,041
WA swap strike price	$ 0.30	0.19
WTI/WTS basis differential:		
Hedged volume	396,197	—
WA swap strike price	$ (0.80)	—

	Gas Hedges (Henry Hub)		
		2022	2023
Swaps:			
Hedged volume (MMbtu)		176,521	175,421
Swap price	$	2.51	2.40
3-way collars:			
Hedged volume (MMbtu)		1,139,122	—
Ceiling (call strike price)	$	3.25	—
Floor (long put/short put strike price)		$2.50/$2.20	—
Net premium ($/MMbtu)		(0.027)	—
Costless collars:			
Hedged volume (MMbtu)		690,747	1,164,264
WA ceiling (call strike price)	$	3.45	2.60
WA floor (long put strike price)		2.91	2.25

	Gas Hedges (basis differential)		
		2022	2023
Waha basis:			
Hedged volume (MMbtu)		2,235,995	1,339,685
WA swap strike price	$	(0.55)	(0.55)

The Company has chosen to not designate the swaps as “hedges” and therefore they do not qualify for hedge accounting treatment under ASC Topic 815. The Company has recorded the contracts at fair value with the related gains and losses recorded as “gain on oil and gas derivatives, net”.

During the period ended December 31, 2021, and 2020 respectively, the Company recognized $10.5 million and $4.3 million, of unrealized losses from derivative instruments.

Additionally, the Company recognized a current liability totaling $11.1 million in 2021 and $5.1 million as of December 31, 2020 and a noncurrent liability totaling $5 million and $575 thousand related to the estimated fair value of the derivative instruments as of December 31, 2021 and 2020 respectively. As of December 31, 2021, the fair market value of our oil and natural gas derivative contracts was a net liability of $16.2 million, including net deferred premium payables of $5 million. The deferred premium payable is a fixed amount and is not marked to fair market value.

The following table sets forth the cash settlements and noncash fair value adjustments for commodity derivative instruments for the period ended December 31, 2021 and 2020, respectively, which is presented as realized and unrealized gain (loss) on commodity price hedging contracts in the accompanying Consolidated Statements of Operations (thousands of dollars):

	2021	2020
Oil and gas derivatives:		
Cash receipts (payments), upon settlement, net	$ (20,613)	488
Fair value adjustment gain (loss)	(10,467)	(4,260)
Realized and unrealized (loss) on commodity price hedging	$ (31,080)	(3,772)

Offsetting of Derivative Assets and Liabilities

The Company has agreements in place with its counterparty that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, the Company maintains an account with its broker to facilitate financial derivative transactions in support of its risk management activities. Based on the value of the positions in these accounts and the associated margin requirements, the Company may be required to deposit cash into this broker account. The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as option premiums payable and receivable as of the reporting dates indicated (in thousands):

	Gross amount presented on balance sheet	Netting adjustments	Cash collateral posted (received)	Net exposure
December 31, 2021:				
Derivative assets with right of offset or master netting agreements	$ 4,444	(4,444)	—	—
Derivative liabilities with right of offset or master netting agreements	(20,613)	4,444	—	(16,169)

	Gross amount presented on balance sheet	Netting adjustments	Cash collateral posted (received)	Net exposure
December 31, 2020:				
Derivative assets with right of offset or master netting agreements	$ 4,033	(4,033)	—	—
Derivative liabilities with right of offset or master netting agreements	(9,734)	4,033	—	(5,701)

(5) Borrowings on Credit Agreement

On January 29, 2019, the Company entered into a Credit Agreement with Wells Fargo Bank and Royal Bank of Canada (Lenders) with an initial borrowing base of $95 million secured by oil and gas properties. All commodity hedging agreements are with certain of the lenders under the Credit Agreement, or affiliates thereof, and are secured under the provisions of the Credit Agreement. After the Company divested its Ector and Winkler County assets, the borrowing base was reduced to $67 million and remained at $67 million at December 31, 2019. The Company had another redetermination in May 2020 that reduced the borrowing base from $67 million to $52 million. In September of 2021, the borrowing base was increased to $92 million. As of December 31, 2021, the Company had $24.5 million available under the $92 million borrowing base with $67.5 million of principal outstanding and was in compliance with all financial covenants. In the event the borrowing base is redetermined to an amount less than the balance outstanding then the Company can repay the deficiency over a period of up to six months, among other options. As of December 31, 2020, the Company had $10 million available under the borrowing base with $42 million of principal outstanding and was in compliance with all financial covenants.

Interest is based on LIBOR, plus an additional margin based on the Company's borrowing base utilization rate (3.25% at December 31, 2021 and 2020). The borrowing base utilization rate and base rate are adjusted when interest payments are due under each advance determined by the origination date of the revolving loan. Interest is calculated on a daily basis on outstanding advances over a 360 day year.

The borrowing base is subject to at least semi-annual redeterminations.

(6) Property, Plant and Equipment

Property, plant and equipment includes the following (in thousands):

	2021	2020
Oil and natural gas properties:		
Subject to depletion	$ 217,038	168,112
Not subject to depletion	19,941	10,060
Oil and natural gas properties, successful efforts method	236,979	178,172
Less accumulated depletion	(51,434)	(30,748)
Total oil and gas properties, net	185,545	147,424
Other property, plant and equipment	1,749	1,598
Less accumulated depreciation	(1,317)	(879)
Other property, plant and equipment, net	432	719
Total property, plant and equipment, net	$ 185,977	148,143

Costs subject to depletion are proved costs and costs not subject to depletion are unproved costs and current drilling projects. At December 31, 2021 and 2020 respectively, the Company had excluded $19.9 million and $10.1 million of capitalized costs from depletion.

As the Company's exploration and development work progresses and the reserves on the Company's properties are proven, capitalized costs attributed to the properties and mineral interests are subject to being depleted. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the associated reservoir. Depletion expense on capitalized oil and natural gas properties was $20.1 million and $16.4 million for the years ended December 31, 2021 and 2020, respectively. The Company had no exploratory wells in progress at December 31, 2021 and 2020, respectively.

Costs not subject to depletion primarily include leasehold costs, broker and legal expenses and capitalized internal costs associated with developing oil and natural gas prospects on these properties. Leasehold costs are transferred into costs subject to depletion on an ongoing basis as these properties are evaluated and proved reserves are established.

Costs not subject to depletion also include costs associated with development wells in progress or awaiting completion at period-end. These costs are transferred into costs subject to depletion on an ongoing basis as these wells are completed and proved reserves are established or confirmed. These costs totaled $13.2 million and $2.8 million at December 31, 2021 and 2020, respectively.

(7) Asset Retirement Obligations

The Company recognizes the fair value of its asset retirement obligations related to the plugging, abandonment, and remediation of oil and gas producing properties. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the related long-lived assets. The significant unobservable inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs and well life. The inputs are calculated based on historical data as well as current estimated costs. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the passage of time.

The Company recorded activity related to the asset retirement obligations as follows (in thousands):

	2021	2020
Asset retirement obligations, beginning of year	$ 9,466	8,809
Revisions of estimates	—	—
Liabilities incurred during period	354	—
Liabilities settled through P&A	(52)	(85)
Dispositions of wells	(18)	(124)
Accretion expense	956	866
Asset retirement obligations, end of year	$ 10,706	9,466

(8) Fair Value Measurements

The Company uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a Company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further divided into the following fair value input hierarchy:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Valuation of instruments includes unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Derivative instruments – The fair market values of the derivative financial instruments reflected in the balance sheets were based on market quotes. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The fair value input hierarchy level to which an asset or liability measurement falls is determined based on the lowest-level input that is significant to the measurement in its entirety. The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2021 and 2020 for each of the fair value hierarchy levels, including deferred premiums to be settled upon expiration of the contract:

	Fair value measurements on a recurring basis as of December 31, 2021			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**2021 Total**
	(Dollars in thousands)			
Liability – current:				
Derivative option contracts	$ —	(11,122)	—	(11,122)
Total liability – current	$ —	(11,122)	—	(11,122)
Liability – noncurrent:				
Derivative option contracts	$ —	(5,047)	—	(5,047)
Total liability – noncurrent	$ —	(5,047)	—	(5,047)

	Fair value measurements on a recurring basis as of December 31, 2020			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2020 Total
	(Dollars in thousands)			
Liability – current:				
Derivative option contracts	$ —	(5,126)	—	(5,126)
Total liability – current	$ —	(5,126)	—	(5,126)
Liability – noncurrent:				
Derivative option contracts	$ —	(575)	—	(575)
Total liability – noncurrent	$ —	(575)	—	(575)

The Company's nonfinancial assets and liabilities that are initially measured at fair value are comprised primarily of assets acquired in business combinations and asset retirement costs and obligations. These assets and liabilities are recorded at fair value when acquired/incurred but not-measured at fair value in subsequent periods.

(9) Members' Equity

Contributed Capital – Series A Units

Pursuant to the Company's Amended and Restated Limited Liability Company Agreement (the LLC Agreement), the Company is authorized to issue as many Series A Units as needed up to the committed amounts, subject to the approval of the Board of Directors and Requisite Investor Approval. The holders of Series A Units will (i) share in each item of Company income, gain, loss, deduction and credit, (ii) be entitled to participate in distributions, and (iii) be entitled to other voting and participating rights as applicable.

Series A Units issued totaled 14,339,689 as of December 31, 2021 and 2020.

Incentive Units – Series B, C, and D Units

The Company has issued management incentive units ("Series B, C, and D Units") to certain employees and other individuals. The Series B, C, and D Units have no voting rights and participate only in distributions upon requisite financial thresholds being met, after the Series A Shareholders have recovered their investment and a related percentage return on investment. Compensation expense for these awards will be recognized when all performance, market, and service conditions are probable of being satisfied (in general, upon a liquidating event). Accordingly, no value was assigned to the Series B, C, and D Units when issued.

The Agreement authorizes up to 10,000,000 nonvoting Series B, C, and D Units (10,000,000 per series) which are granted with an assigned participation level.

Granted Series B, C, and D Units generally vest 15% on the date of grant of such interests and an additional 15% on each of the first, second, third, and fourth annual grant-date anniversaries and the remaining unvested Units vest upon consummation of a Final Exit Event. However, there are provisions in the Agreement for vesting 100% upon an early liquidation and partial vesting in the event that an employee is terminated due to death or disability. All vested Series B, C, and D Units shall be forfeited for no consideration if employment is terminated for cause. All unvested Series B, C, and D Units shall be forfeited upon termination of employment for any reason.

The Company has the right, but not the obligation, to repurchase all of the vested Series B, C, and D Units of management members if employment is terminated for any reason. If employment is terminated without cause, the repurchase price of the Series B, C, and D Units is based on the fair market value of the units, as defined in the Agreement.

The following table presents the activity for Series B, C, and D Units outstanding:

	Series B	Series C	Series D
Outstanding – January 1, 2020	7,075,000	7,075,000	7,075,000
Granted	415,000	415,000	415,000
Forfeited	(267,500)	(267,500)	(267,500)
Outstanding – December 31, 2020	7,222,500	7,222,500	7,222,500
Granted	2,450,000	2,450,000	2,450,000
Forfeited	(285,500)	(285,500)	(285,500)
Outstanding – December 31, 2021	9,387,000	9,387,000	9,387,000
Vested	4,981,425	4,981,425	4,981,425

For financial reporting purposes, no related compensation expense has been recorded as of December 31, 2021 or 2020.

(10) Commitments and Contingencies

As of December 31, 2021 and 2020, the Company was not a party to any known lawsuits or claims which might be reasonably expected to result in material loss exposure to the Company. However, from time to time, the Company is involved in other legal and administrative proceedings in the ordinary course of business. Management believes that the amount of ultimate liability allocable to the Company, if any, with respect to these matters will not have a material impact on the financial position, results of operations or cash flows of the Company.

In addition, there were no known environmental or other regulatory matters related to the Company's operations that were reasonably expected to result in a material liability to the Company. Compliance with environmental laws and regulations has not had, and is not expected to have, a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

(11) Operating Leases

Rent expense for office space for the year ended December 31, 2021 and 2020 was $485 thousand and $369 thousand, respectively. The Company renewed its lease for an additional 5-year term on February 25, 2019 and amended the lease agreement December 15, 2019 to add approximately 6,268 square feet of net rentable area. Commitments for future minimum lease payments for the noncancelable lease are as follows (thousands of dollars):

2022	$	510
2023		520
2024		85
Total future minimum lease payments	$	1,115

(12) Subsequent Events

The Company has evaluated subsequent events through June 30, 2022 which is the date these consolidated financial statements were available to be issued.

Supplemental Disclosure of Oil and Natural Gas Operations (unaudited)

Reserve Quantity Information

The following information represents estimates of the Company's proved reserves. Proved oil and natural gas reserves were calculated based on the prices for oil and natural gas during the 12-month period before the reporting date, determined as the unweighted average of the first-day-of-the-month pricing. For oil and NGL volumes, the pricing that was used for estimates of the Company's proved reserves as of December 31, 2021 and 2020 was $66.85 per Bbl and $39.54 per Bbl, respectively. For gas volumes, the pricing that was used for estimates of the Company's proved reserves as of December 31, 2021 and 2020 was $3.60 per MMBtu and $1.99 per MMBtu, respectively. All prices have been adjusted for transportation, quality and basis differentials.

Subject to limited exceptions, proved undeveloped reserves may only be recognized if they relate to wells scheduled to be drilled within five years of the date of their initial recognition. This rule limited, and may continue to limit, the Company's potential to record additional proved undeveloped reserves. Moreover, the Company may be required to write down its proved undeveloped reserves if it does not drill on those reserves within the required five-year timeframe. All of the Company's recorded proved undeveloped reserves are scheduled to be drilled within five years of the date of their initial recognition.

The Company's proved oil and natural gas reserves are all located in the United States, in the Permian Basin of West Texas. All of the estimates of the proved reserves are based on reports prepared by the Company's in-house petroleum engineers. Proved reserves were estimated in accordance with the guidelines established by the SEC and the FASB.

Oil and natural gas reserve quantity estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. The accuracy of such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of subsequent drilling, testing and production may cause either upward or downward revision of previous estimates. Further, the volumes considered to be commercially recoverable fluctuate with changes in prices and operating costs. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of currently producing oil and natural gas properties. Accordingly, these estimates are expected to change as additional information becomes available in the future.

The following table provides the changes in the proved reserves for the years ended December 31, 2020 and 2021:

	Oil (MBbl)	**Gas (MMcf)**	**NGL (MBbl)**	**Total (MBoe)**
Total proved reserves at December 31, 2019	8,079	22,462	2,885	14,707
Revisions of prior estimates	243	4,228	433	1,380
Extensions and discoveries	426	1,068	128	733
Divestitures	(43)	—	—	(43)
Production	(858)	(2,770)	(352)	(1,672)
Total proved reserves at December 31, 2020	7,848	24,989	3,094	15,105
Revisions of prior estimates	2,077	7,991	1,290	4,699
Extensions and discoveries	407	435	80	559
Divestitures	—	—	—	—
Production	(1,084)	(3,426)	(479)	(2,133)
Total proved reserves at December 31, 2021	9,248	29,990	3,985	18,230
Proved Developed Reserves:				
December 31, 2019	6,836	20,266	2,632	12,845
December 31, 2020	6,602	21,848	2,758	13,000
December 31, 2021	8,074	27,122	3,658	16,252
Proved Undeveloped Reserves:				
December 31, 2019	1,242	2,196	253	1,861
December 31, 2020	1,245	3,141	336	1,862
December 31, 2021	1,173	2,867	327	1,978

The increase in total proved reserves during 2020 resulted from positive revisions to prior estimates and extensions offsetting production and divestitures. The 1.4 MMBoe positive revisions came primarily from increased production performance. The 0.7 MMBoe increase from extensions came primarily from drilling new wells in previously unproved locations. The increase in total proved reserves during 2021 came primarily from positive revisions of 4.7 MMBoe resulting primarily from higher commodity prices. Further development of previously unproved locations also contributed 0.6 MMBoe of the total proved reserves increase.

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows is computed by applying the 12- month unweighted average of the first-day-of-the-month pricing for oil and natural gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and natural gas reserves less estimated future expenditures (based on year- end costs) to be incurred in developing and producing the proved reserves, discounted using a rate of 10 percent per year to reflect the estimated timing of the future cash flows. Future income taxes are calculated by comparing undiscounted future cash flows to the tax basis of oil and natural gas properties plus any available carryforwards and credits and applying the applicable current tax rates to the difference.

Discounted future cash flow estimates like those shown below are not intended to represent estimates of the fair value of oil and natural gas properties. Estimates of fair value would also consider probable and possible reserves, anticipated future oil and natural gas prices, interest rates, changes in development and production costs and risks associated with future production. Because of these and other considerations, any estimate of fair value is necessarily subjective and imprecise.

The following table presents the standardized measure of discounted future net cash flows relating to proved reserves for the years ended December 31, 2021 and 2020 (in thousands).

	Year ended December 31, 2021	Year ended December 31, 2020
Oil and gas producing activities:		
Future cash inflows	$ 744,605	309,129
Future production costs	(249,561)	(135,154)
Future development costs	(32,106)	(37,097)
Future income tax expense	(3,909)	(1,623)
Future net cash flows	459,029	135,255
10% annual discount factor	(199,602)	(51,181)
Standardized measure of discounted future net cash flows	$ 259,427	84,074

The following table summarizes the changes in the standardized measure of discounted future net cash flows relating to proved reserves for the years ended December 31, 2021 and 2020 (in thousands).

	Year ended December 31, 2021	Year ended December 31, 2020
Oil and gas producing activities:		
Balance, beginning of year	$ 84,074	148,110
Extensions and discoveries	13,306	4,612
Previously estimated development costs incurred	1,996	2,348
Divestitures	—	(738)
Net changes in prices and production costs	173,412	(77,603)
Oil and natural gas sales, net of production costs	(68,586)	(21,817)
Changes in future development costs	(1,814)	2,102
Revisions of previous estimates	67,333	10,889
Accretion of discount	8,495	14,950
Net change to income taxes	(1,130)	517
Changes in timing and other	(17,659)	704
Standardized measure of discounted future net cash flows	$ 259,427	84,074

Exhibit 99.2

STRONGHOLD ENERGY II HOLDINGS, LLC

Consolidated Financial Statements Unaudited

June 30, 2022 and 2021

STRONGHOLD ENERGY II HOLDINGS, LLC

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STRONGHOLD ENERGY II HOLDINGS, LLC

Consolidated Balance Sheets - Unaudited

June 30, 2022 and December 31, 2021

(In thousands)

		6/30/2022	12/31/2021
Assets			
Current assets:			
Cash and cash equivalents	$	10,435	5,794
Accounts receivable, net of allowance for doubtful accounts:			
Joint interest owners and other		113	111
Oil, natural gas and NGLs		21,457	14,548
Other current assets		4,109	5,559
Total current assets		36,114	26,012
Property, plant and equipment:			
Oil and natural gas properties, successful efforts method		278,191	236,979
Accumulated depreciation, depletion, amortization and impairment		(66,199)	(51,434)
Total oil and natural gas properties, net		211,992	185,545
Other property, plant and equipment net		381	432
Total property, plant and equipment, net		212,373	185,977
Noncurrent assets:			
Debt costs – net of amortization		486	642
Total noncurrent assets		486	642
Total assets	$	248,973	212,631
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable and accrued expenses	$	12,651	17,179
Revenue and severance taxes payable		6,614	2,900
Short-term derivative instruments		19,948	11,122
Total current liabilities		39,213	31,201
Noncurrent liabilities:			
Borrowings under credit agreement		73,000	67,500
Asset retirement obligation		11,413	10,706
Long-term derivative instruments		10,688	5,047
Total noncurrent liabilities		95,101	83,253
Commitments and contingencies (note 10)			
Members' equity		114,659	98,177
Total liabilities and equity	$	248,973	212,631

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Operations - Unaudited
Three and Six months ended June 30, 2022 and 2021
(In thousands)

	Three Months Ended		Six Months Ended	
	6/30/2022	**6/30/2021**	**6/30/2022**	**6/30/2021**
Revenues:				
Oil sales	$ 43,666	16,758	74,293	28,543
Natural gas sales	6,524	1,782	10,434	3,938
Natural gas liquids sales	6,424	2,196	11,600	4,021
Total revenues	56,614	20,736	96,327	36,502
Operating expenses:				
Lease operating expenses	9,334	4,442	16,408	8,905
Transportation and processing costs	1,995	1,216	3,741	2,523
Production taxes	2,769	931	4,631	1,631
Depreciation, depletion and amortization	8,273	5,092	14,845	9,190
General and administrative expenses	1,869	1,519	3,828	3,137
Exploration and abandonment costs	25	197	57	202
Accretion of asset retirement obligations	272	217	543	432
Total operating expenses	24,537	13,614	44,053	26,020
Operating income (loss)	32,077	7,122	52,274	10,482
Other income (expense):				
Loss on derivatives	(7,535)	(12,847)	(34,126)	(22,161)
Interest expense	(959)	(457)	(1,721)	(889)
Other income	61	34	66	85
Total other expense	(8,433)	(13,270)	(35,781)	(22,965)
Income tax provision:	—	2	12	2
Net income (loss)	$ 23,644	(6,150)	16,481	(12,485)

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Changes in Members' Equity - Unaudited
Three and Six months ended June 30, 2022 and 2021
(In thousands)

	2022	2021
Beginning Balance January 1, 2021	$ 98,178	95,208
Net loss	(7,163)	(6,335)
Balance at March 31,	$ 91,015	88,873
Net income (loss)	23,644	(6,150)
Balance at June 30,	$ 114,659	82,723

See accompanying notes to consolidated financial statements.

STRONGHOLD ENERGY II HOLDINGS, LLC
Consolidated Statements of Cash Flows - Unaudited
Six months ended June 30, 2022 and 2021
(In thousands)

	Six Months Ended	
	6/30/2022	**6/30/2021**
Cash flows from operating activities:		
Net income (loss)	$ 16,481	(12,485)
Adjustments to reconcile net income (loss) to net cash provided in operating activities:		
Depreciation, depletion and amortization	14,845	9,190
Amortization of debt issuance costs	156	115
Exploration and abandonment costs	—	(34)
Accretion of asset retirement obligations	543	432
Unrealized loss on derivatives	14,467	14,467
Loss on divestitures		
Changes in operating assets and liabilities:		
Accounts receivable	(6,911)	(2,956)
Other current assets	781	(139)
Accounts payable and accrued expenses	4,395	3,221
Revenue and severance taxes payable	3,715	1,034
Net cash provided by operating activities	48,472	12,845
Cash flows from investing activities:		
Development of oil and natural gas properties	(49,301)	(16,926)
Purchase of other property and equipment	(30)	(84)
Net cash (used in) investing activities	(49,331)	(17,010)
Cash flows from financing activities:		
Borrowings under Credit Agreement	12,500	7,000
Debt costs	—	(100)
Repayments of borrowings under Credit Agreement	(7,000)	—
Net cash provided by (used in) financing activities	5,500	6,900
Net increase (decrease) in cash and cash equivalents	4,641	2,735
Cash and cash equivalents, beginning of period	5,794	1,602
Cash and cash equivalents, end of period	$ 10,435	4,337
Supplemental disclosure of noncash activities:		
Asset retirement obligations, including changes in estimate	$ 164	—
Additions to oil and natural gas properties – change in capital accruals	(8,254)	4,238

See accompanying notes to consolidated financial statements.

(1) Formation and Operations of the Company

Stronghold Energy II Holdings, LLC (Stronghold Energy II) is a Delaware limited liability company formed on December 4, 2017 (Inception) for the purpose of engaging in the acquisition, development, and operation of oil and gas properties in the United States of America. Stronghold Energy II is capitalized by an equity commitment of approximately $150 million from funds affiliated with Warburg Pincus, LLC and the Stronghold Energy II management team, and others (collectively, the Members) through Series A Units contributed as needed to fund oil and natural gas property acquisitions and other working capital needs.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Stronghold Energy II Holdings, LLC and its wholly owned subsidiaries, Stronghold Energy II Operating, LLC, Stronghold Energy II Management, LLC, Stronghold Energy II Management Holdings, LLC, Stronghold Energy II Royalties, LP, and Stronghold Energy II Intermediate, LLC (collectively, the Company). All significant intercompany transactions and balances have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include, among other things, determining oil and gas reserve estimates recoverable in the future, future plugging and abandonment costs and fair values of assets acquired and liabilities assumed. While management believes current estimates are reasonable and appropriate, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains cash balances at financial institutions in the United States of America, which from time to time, may exceed federally insured amounts. The Company has not experienced any losses in such accounts.

(d) Accounts Receivable

Accounts receivable consist of receivables from joint interest owners on properties the Company operates and crude oil, natural gas and natural gas liquids (“NGLs”) production delivered to purchasers. The purchasers remit payment for production directly to the Company. Most payments are received within three months after the production date. For receivables from joint interest owners, the Company typically has the ability to withhold future revenue disbursements to recover any non-payment of joint interest billings. Accounts receivable outstanding longer than the contractual payment terms are considered past due.

(e) Oil and Gas Properties

The Company accounts for its investment in oil and gas producing activities using the successful efforts method of accounting. Under this method, costs of productive wells, development dry holes, oil and gas leasehold costs and productive leases are capitalized into appropriate groups of properties based on geographical and geological similarities and amortized on a unit-of-production basis over the life of the remaining related oil and gas reserves. Cost centers for amortization purposes are determined on a field area basis. Proceeds from sales of properties are credited to property costs, and a gain or loss is recognized when a significant portion of an amortization base is sold or abandoned.

Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves. The determination of an exploratory well's ability to produce must be made within one period from the completion of drilling activities. The acquisition costs of unproved acreage are initially capitalized and are carried at cost, net of accumulated impairment provisions, until such leases are transferred to proved properties or charged to exploration expense as impairments of unproved properties.

(f) Oil and Gas Reserves

The estimates of proved oil and natural gas reserves utilized in the preparation of the consolidated financial statements are estimated in accordance with the guidelines established by the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB), which require that reserve estimates be prepared under existing economic and operating conditions using a 12-month historical average first of month price with no provision for price and cost escalations in future periods except by contractual arrangements. Reserves for proved developed producing wells were estimated using the evaluation of performance history method. Certain new producing properties with little production history were forecasted using a combination of the evaluation of performance history method and analogy method. Proved undeveloped reserves are identified using the deterministic method and forecasted using the analogy method. The reserve estimates were updated internally at March 31, 2022 to adjust for ownership changes due to acquisitions and divested assets and increased operated production due to well optimization, recompletes and new drills.

Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of a reserve estimate depends on the quality of available geological and engineering data, the precision of and the interpretation of that data, and judgment based on experience and training.

(g) Depreciation, Depletion & Amortization (DD&A)

The Company computes depletion expense on a unit-of-production method. Capitalized drilling and development costs of producing oil and natural gas properties are depleted over proved developed reserves and leasehold costs are depleted over total proved reserves.

Reserve estimates have a significant impact on the depletion rate. It is possible that, because of changes in market conditions or the inherent imprecision of reserve estimates, that the estimates of future cash inflows, future gross revenues, the amount of oil and natural gas reserves, the remaining estimated lives of oil and natural gas properties, or any combination of the above may be increased or decreased.

Increases in recoverable economic volumes generally reduce per unit depletion rates while decreases in recoverable economic volumes generally increase per unit depletion rates.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

(h) Impairment

Oil and gas properties subject to depletion are assessed for impairment when events or changes in circumstances dictate that the carrying value of those assets may not be recoverable. The Company assesses the impairment of its capitalized costs of oil and gas properties on a field by field basis. The estimated future cash flows expected in connection with the property are compared to the carrying value of the property to determine if the carrying amount is recoverable. If the carrying value of the property exceeds its estimated undiscounted future cash flows, the carrying amount of the property is reduced to its estimated fair value. To the extent that the carrying cost for the affected property exceeds its estimated fair value, the Company makes a provision for impairment of proved properties. If the fair value is revised upward in a future period, the Company does not reverse the prior provision, and continues to carry the property at a net cost that is lower than its estimated fair value. If the fair value is revised downward in a future period, an additional provision for impairment is made in that period. The impairment assessment for unproved properties is affected by factors such as the results of exploration and development activities, commodity price projections, remaining lease terms, and potential shifts in the Company's business strategy. No impairments of proved properties were recorded for the quarter ended June 30, 2022 and 2021.

Unproved oil and natural gas properties are not subject to depletion, depreciation, or impairment until a determination is made as to the existence of proved reserves. Impairment of individually significant unproved properties is assessed on a property-by-property basis, and impairment of other unproved properties is assessed on an aggregate basis. As exploration work progresses, if reserves on these properties are proved, capitalized costs attributable to the properties will be subject to depreciation and depletion. If the exploration work is unsuccessful or management's plans change with respect to these properties as a result of economic, operating, or contractual conditions, the capitalized costs of the related properties is expensed in the period in which the determination is made. The timing of any write-downs of these unproved properties, if warranted, depends upon management's plans, the nature, timing, and extent of planned exploration and development activities and their results. To the extent that the carrying cost of a property exceeds its estimated fair value, the Company makes a provision for impairment of unproved properties and records the provision as abandonments and impairments within exploration costs on its Consolidated Statements of Operations. If the value is revised upward in a future period, the Company does not reverse the prior provision and continues to carry the properties at a net cost that is lower than its estimated value. If the value is revised downward in a future period, an additional provision for impairment is made in that period. For the six months ended June 30, 2022 and 2021 and three months ended June 30, 2022, and 2021 the Company recorded no abandonment costs related to dry hole costs or associated impairment to unproved properties.

(i) Other Property, Plant and Equipment

Other property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful life of the asset type. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which generally range between 3 to 15 years. Expenditures for the maintenance and repair of the assets are expensed as incurred and expenditures that significantly improve or extend the useful life of the assets are capitalized and depreciated.

(j) Environmental Remediation

Various federal, state, and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the Company's operations and the costs of its crude oil and gas exploration, development, and production operations. The Company does not anticipate that it will be required in the near future to expend significant amounts due to environmental laws and regulations, and accordingly no reserves have been recorded.

(k) Asset Retirement Obligations

The Company estimates the present value of the amount it will incur to plug, abandon and remediate its producing properties at the end of their productive lives in accordance with Accounting Standards Codification (ASC) 410, *Asset Retirement and Environmental Obligations*. The Company computes its liability for asset retirement obligations by calculating the present value of estimated future cash flows related to each property. This requires the Company to use significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive lives of wells and its risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligations.

Under ASC 410, an asset retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to producing properties in the accompanying balance sheets which is allocated to expense over the useful life of the asset. Periodic accretion of the discount on asset retirement obligations is recorded as an expense in the accompanying Consolidated Statements of Operations.

(l) Revenue Recognition

The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and natural gas liquids (NGLs) are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured.

(m) Gathering and transportation

We generally sell oil and natural gas under two types of agreements which are common in our industry. Both types of agreements include a transportation charge. One is a net-back arrangement, under which the Company sells oil or natural gas from the Company's production facilities and collects a price, net of the transportation incurred by the purchaser. In this case, we record sales at the price received from the purchaser, net of the transportation costs. Under the other arrangement, we sell oil or natural gas at a specific delivery point, pay transportation to a third party and receive proceeds from the purchaser with no transportation deduction. In this case, we record the transportation cost as gathering and transportation expense. As such, our computed realized prices, before the impact of derivative financial instruments, include revenues which are reported under two separate bases. Gathering and transportation expenses totaled $3.7 million and $2.5 million for six months ended June 30, 2022 and 2021, respectively and $2.0 million and $1.2 million for three months ended June 30, 2022 and 2021, respectively.

(n) Overhead reimbursement fees

We have classified fees from overhead charges billed to working interest owners of $406 thousand and $367 thousand for six months ended June 30, 2022 and 2021, respectively and $204 thousand and $182 thousand for the three months ended June 30, 2022 and 2021, respectively, as a reduction of general and administrative expenses and lease operating expenses in the accompanying Consolidated Statement of Operations. We classified our share of these charges as lease operating expense in the amount of $365 thousand and $328 thousand for six months ended June 30, 2022 and 2021, respectively and $183 thousand and $163 thousand for the three months ended June 30, 2022 and 2021, respectively.

(o) Lease Operating Expenses (LOE)

Lease operating expenses represent field employees' salaries, salt water disposal, repairs and maintenance, expensed work overs, and other operating expenses. Lease operating expenses are expensed as incurred.

(p) Sales-Based Taxes

The Company incurs severance tax on the sale of its production. These taxes are reported on a gross basis and are included in production taxes within the accompanying Consolidated Statements of Operations.

(q) Ad Valorem Taxes

The Company incurs ad valorem tax on the value of its properties. These taxes are included in LOE within the accompanying Consolidated Statements of Operations.

(r) Income Taxes

Organized as a Limited Liability Company, the Company is considered a flow through entity as U.S. federal income taxes are the responsibility of the members. Accordingly, the Company is generally not subject to the provision for U.S. federal income taxes on its operations as its income and expenses flow through directly to its members and no provision for U.S. federal income taxes has been reflected in these consolidated financial statements. Management believes the Company has no uncertain tax positions as of June 30, 2022 and 2021. However, the Company may be subject to certain state taxes in Texas or other states. As of June 30, 2022 and December 31, 2021, the Company had an immaterial liability in the state of Texas for Texas Margin Tax and no liabilities in any other states.

(s) Concentrations of Credit Risk

The Company's oil and gas operations have a concentration of purchasers in the energy industry. This customer concentration may impact the Company's overall exposure to credit risk, either positively or negatively, in that the purchasers may be similarly affected by changes in economic or other conditions. As of June 30, 2022 and December 31 2021, the Company did not experience any material credit losses or write-offs of receivables and an allowance for doubtful accounts was not deemed necessary.

For six months ended June 30, 2022 and 2021, the Company had two customers that accounted for 76.49% and 76.12% of its revenue. During the six months ended June 30, 2022, the two customers that accounted for 76.49% of revenue are as follows, 39.92% and 36.58%. During the six months ended June 30, 2021, the two customers that accounted for 76.12% of revenue are as follows, 42.29% and 33.83%. Accounts receivable from these two customers totaled $16.3 million at June 30, 2022 and $6.2 million at June 30, 2021.

During the three months ended June 30, 2022, the Company had two customers that accounted for 76.46% of its revenue and two customers in the three months ended June 30, 2021 that accounted for 79.01%. During three months ended June 30, 2022, the two customers that accounted for 76.46% of revenue are as follows, 38.27% and 38.20%. During the three months ended June 30, 2021, the two customers that accounted for 79.01% of revenue are as follows, 40.40% and 38.61%. Accounts receivable from these two customers totaled $16.3 million at June 30, 2022 and $6.2 million at June, 2021.

(t) Fair Value of Financial instruments

In accordance with the reporting requirements of ASC 825, *Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The guidance states that the fair value of financial instruments is determined at discrete points in time based on relevant market information. Such estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash and cash equivalents, accounts receivable and accounts payable approximate the carrying amounts due to the relatively short maturity of these instruments. None of these instruments are held for trading purposes.

(3) Revenue from Contracts with Customers

Revenue is measured based on considerations specified in contracts with customers, excluding any sales incentives or amounts collected on behalf of third parties. The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and natural gas liquids (NGLs) are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured. Generally, the pricing provisions in the Company's contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas, and prevailing supply and demand conditions. As a result, the prices of the Company's oil, natural gas and NGLs fluctuate to remain competitive with other available oil, natural gas and NGLs supplies. Certain of the Company's contracts for the sale of commodities contain embedded derivatives. The Company has elected to utilize the normal purchases and normal sales scope exception as provided by ASC Topic 815, *Derivatives and Hedging*. The Company reports revenues disaggregated by product on its Consolidated Statements of Operations.

(a) Oil Sales

Oil production is sold at the production facilities and the Company collects an agreed-upon index price, net of pricing differentials. In this scenario, revenue is recognized when control transfers to the purchaser at the wellhead at the net price received by the Company.

(b) Natural Gas and NGLs Sales

Under the Company's natural gas processing contracts, it delivers natural gas to a midstream processing company at the meter or the inlet of the midstream processing company's system. The midstream processing company gathers and processes the natural gas and remits proceeds to the Company for the resulting natural gas and NGLs sales. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction, which includes considerations of product redelivery, take-in-kind rights and risk of loss. For those contracts where the Company has concluded that control of the product transfers at the tailgate of the plant, meaning that the Company is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation and processing fees presented as Transportation and processing costs on the Company's consolidated statements of operations. Alternatively, for those contracts where the Company has concluded control of the product transfers at the inlet of the plant, meaning that the Company is the agent and the midstream processing company is the Company's customer, the Company recognizes natural gas and NGLs sales based on the net amount of proceeds received from the midstream processing company. The Company also determined that losses associated with shrinkage and line loss ("FL&U") occur prior to the change in control. As a result, natural gas and NGLs sales are presented net of FL&U costs.

(c) Transaction Price Allocated to Remaining Performance Obligations

A significant number of the Company's product sales are short-term in nature, with a contract term of one year or less. For these contracts, the Company has utilized the practical expedient in ASC 606-10-50-14, which exempts the Company from the requirements to disclose the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

(d) Contract Balances

Under the Company's product sales contracts, the Company invoices customers once performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

(e) Prior-Period Performance Obligations

The Company records revenue in the month production is delivered to the purchaser. Settlement statements for certain natural gas and NGLs sales, however, may not be received for 30 to 90 days after the date production is delivered, and as a result the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. In these situations, the Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. Any identified differences between the Company's revenue estimates and actual revenue received have historically been insignificant. For the six months ended June 30, 2022 and 2021 and three months ended June 30, 2022 and 2021, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material.

(4) Derivative Financial Instruments

The Company's revenue is derived from sale of oil and gas production. Accordingly, the Company is exposed to the risks associated with the volatility of oil and gas prices. The Company has established a hedging program to hedge its expected oil and gas revenue against price volatility.

The Company accounts for derivatives in accordance with FASB ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activity (as amended)*. Currently, the Company does not designate its derivative instruments to qualify for hedge accounting. Accordingly, the Company reflects changes in fair value of its derivative instruments in the Consolidated Statements of Operations as they occur. Commodity hedging instruments may take the form of collars, swaps, or other derivatives indexed to the New York Mercantile Exchange (NYMEX) or other commodity price indexes. Such derivative instruments will not exceed anticipated production volumes, are expected to have a reasonable correlation between price movements in the futures market and the spot markets where the Company's production is sold, and are authorized by management. Derivatives are expected to be realized as related production occurs, but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated.

The Company records its derivative activities at fair value. Gains and losses from commodity derivative contracts are included in realized and unrealized gain (loss) on commodity price hedging contracts in the Consolidated Statements of Operations. The fair values of derivative instruments reported in the Company's balance sheets are subject to netting arrangements and qualify for net presentation.

The following tables reflect the Company's open commodity derivative contracts at June 30, 2022.The associated volumes use NYMEX WTI and NYMEX Henry Hub reference pricing, except for the basis differential hedges which use the relevant basis differential. Weighted average strike prices are shown.

	Oil Hedges (WTI)		
	2022	**2023**	**2024**
3-way collars:			
Hedged volume (BBL)	182,699	66,061	—
WA ceiling (call strike price)	$ 62.02	80.05	—
WA floor (long put/short put strike price)	$50/$40	$55/$45	—
Net premium ($/BBL)	—	—	—
Costless collars:			
Hedged volume (BBL)	206,749	487,622	201,350
Ceiling (call strike price)	$ 67.96	62.94	83.03
Floor (long put strike price)	54.05	52.16	65.00

	Oil Hedges (basis differential)	
	2022	**2023**
Mid/cush basis differential:		
Hedged volume	148,439	245,041
WA swap strike price	$ 0.34	0.19
WTI/WTS basis differential:		
Hedged volume	170,929	—
WA swap strike price	$ (0.81)	—

	Gas Hedges (Henry Hub)	
	2022	2023
Swaps:		
Hedged volume (MMbtu)	77,895	175,421
Swap price	$ 2.51	2.40
3-way collars:		
Hedged volume (MMbtu)	509,934	—
Ceiling (call strike price)	$ 3.25	—
Floor (long put/short put strike price)	$2.50/$2.20	—
Net premium ($/MMbtu)	(0.026)	—
Costless collars:		
Hedged volume (MMbtu)	264,999	1,164,264
WA ceiling (call strike price)	$ 3.36	2.60
WA floor (long put strike price)	2.87	2.25

	Gas Hedges (basis differential)	
	2022	2023
Waha basis:		
Hedged volume (MMbtu)	1,033,984	1,339,685
WA swap strike price	$ (0.57)	(0.55)

The Company has chosen to not designate the swaps as "hedges" and therefore they do not qualify for hedge accounting treatment under ASC Topic 815. The Company has recorded the contracts at fair value with the related gains and losses recorded as "gain on oil and gas derivatives, net".

During the six months end June 30, 2022, and 2021 respectively, the Company recognized $14.5 million and $14.5 million of unrealized losses from derivative instruments and for the three months ended June 30, 2022, and 2021 respectively, the Company recognized $4.1 million of unrealized gain and $8.3 million, of unrealized losses from derivative instruments.

Additionally, the Company recognized a current liability totaling $19.9 million in June 30, 2022 and $11.1 million as of December 31, 2021 and a noncurrent liability totaling $10.7 million and $5 million related to the estimated fair value of the derivative instruments as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, the fair market value of our oil and natural gas derivative contracts was a net liability of $30.6 million, including net deferred premium payables of $13.3 thousand. The deferred premium payable is a fixed amount and is not marked to fair market value.

The following table sets forth the cash settlements and noncash fair value adjustments for commodity derivative instruments for the six months ended June 30, 2022 and 2021 and three months ended June 30, 2022 and 2021, respectively, which is presented as realized and unrealized gain (loss) on commodity price hedging contracts in the accompanying Consolidated Statements of Operations (in thousands):

	Six Months Ended June 30,	
	2022	**2021**
Oil and gas derivatives:		
Cash receipts (payments), upon settlement, net	$ (19,659)	(7,694)
Fair value adjustment gain (loss)	(14,467)	(14,467)
Realized and unrealized (loss) on commodity price hedging	$ (34,126)	(22,161)

	Three Months Ended June 30,	
	2022	**2021**
Oil and gas derivatives:		
Cash receipts (payments), upon settlement, net	$ (11,592)	(4,533)
Fair value adjustment gain (loss)	4,057	(8,314)
Realized and unrealized (loss) on commodity price hedging	$ (7,535)	(12,847)

Offsetting of Derivative Assets and Liabilities

The Company has agreements in place with its counterparty that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, the Company maintains an account with its broker to facilitate financial derivative transactions in support of its risk management activities. Based on the value of the positions in these accounts and the associated margin requirements, the Company may be required to deposit cash into this broker account. The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as option premiums payable and receivable as of the reporting dates indicated (in thousands):

	Gross amount presented on balance sheet	**Netting adjustments**	**Cash collateral posted (received)**	**Net exposure**
June 30, 2022:				
Derivative assets with right of offset or master netting agreements	$ 5,338	(5,338)	—	—
Derivative liabilities with right of offset or master netting agreements	(35,974)	5,338	—	(30,636)

	Gross amount presented on balance sheet	Netting adjustments	Cash collateral posted (received)	Net exposure
December 31, 2021:				
Derivative assets with right of offset or master netting agreements	$ 4,444	(4,444)	—	—
Derivative liabilities with right of offset or master netting agreements	(20,613)	4,444	—	(16,169)

(5) Borrowings on Credit Agreement

On January 29, 2019, the Company entered into a Credit Agreement with Wells Fargo Bank and Royal Bank of Canada (Lenders) with an initial borrowing base of $95 million secured by oil and gas properties. All commodity hedging agreements are with certain of the lenders under the Credit Agreement, or affiliates thereof, and are secured under the provisions of the Credit Agreement. After the Company divested its Ector and Winkler County assets, the borrowing base was reduced to $67 million and remained at $67 million at December 31, 2019. The Company had another redetermination in May 2020 that reduced the borrowing base from $67 million to $52 million. In September of 2021, the borrowing base was increased to $92 million. As of December 31, 2021, the Company had $24.5 million available under the $92 million borrowing base with $67.5 million of principal outstanding and was in compliance with all financial covenants. As of March 31, 2022, the Company had $12 million available under the $92 million borrowing base with $80 million of principal outstanding and was in compliance with all financial covenants. At the end of June 30, 2022, the Company had $19 million available under the $92 million borrowing base with $73 million of principal outstanding and was in compliance with all financial covenants. In the event the borrowing base is redetermined to an amount less than the balance outstanding then the Company can repay the deficiency over a period of up to six months, among other options.

Interest is based on LIBOR, plus an additional margin based on the Company's borrowing base utilization rate (3.25%at June 30, 2022 and 2021, respectively). The borrowing base utilization rate and base rate are adjusted when interest payments are due under each advance determined by the origination date of the revolving loan. Interest is calculated on a daily basis on outstanding advances over a 360 day year.

The borrowing base is subject to at least semi-annual redeterminations.

(6) Property, Plant and Equipment

Property, plant and equipment includes the following (in thousands):

		June 30, 2022	December 31, 2021
Oil and natural gas properties:			
Subject to depletion	$	265,885	217,038
Not subject to depletion		12,306	19,941
Oil and natural gas properties, successful efforts method		278,191	236,979
Less accumulated depletion		(66,199)	(51,434)
Total oil and gas properties, net		211,992	185,545
Other property, plant and equipment		1,779	1,749
Less accumulated depreciation		(1,398)	(1,317)
Other property, plant and equipment, net		381	432
Total property, plant and equipment, net	$	212,373	185,977

Costs subject to depletion are proved costs and costs not subject to depletion are unproved costs and current drilling projects. At June 30, 2022 and December 31, 2021 respectively, the Company had excluded $12.3 million and $19.9 million of capitalized costs from depletion.

As the Company's exploration and development work progresses and the reserves on the Company's properties are proven, capitalized costs attributed to the properties and mineral interests are subject to being depleted. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the associated reservoir. Depletion expense on capitalized oil and natural gas properties was $14.8 million and $8.9 million for six months ended June 30, 2022 and 2021, respectively. Depletion expense on capitalized oil and natural gas properties was $8.2 million and $5.0 million for three months ended June 30, 2022 and 2021, respectively. The Company had no exploratory wells in progress at June 30, 2022 or December 31, 2021, respectively.

Costs not subject to depletion primarily include leasehold costs, broker and legal expenses and capitalized internal costs associated with developing oil and natural gas prospects on these properties. Leasehold costs are transferred into costs subject to depletion on an ongoing basis as these properties are evaluated and proved reserves are established.

Costs not subject to depletion also include costs associated with development wells in progress or awaiting completion at period-end. These costs are transferred into costs subject to depletion on an ongoing basis as these wells are completed and proved reserves are established or confirmed. These costs totaled $6.2 million and $13.2 million at June 30, 2022 and December 31, 2021, respectively.

(7) Asset Retirement Obligations

The Company recognizes the fair value of its asset retirement obligations related to the plugging, abandonment, and remediation of oil and gas producing properties. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the related long-lived assets. The significant unobservable inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs and well life. The inputs are calculated based on historical data as well as current estimated costs. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the passage of time.

The following table summarizes the changes in the Company's asset retirement obligations for the six months ended June 30, 2022 (in thousands).

		2022
Asset retirement obligations, beginning of year	$	10,706
Revisions of estimates		—
Liabilities incurred during period		164
Liabilities settled through P&A		—
Dispositions of wells		—
Accretion expense		543
Asset retirement obligations, end of year	$	11,413

(8) Fair Value Measurements

The Company uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a Company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further divided into the following fair value input hierarchy:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Valuation of instruments includes unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Derivative instruments – The fair market values of the derivative financial instruments reflected in the balance sheets were based on market quotes. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The fair value input hierarchy level to which an asset or liability measurement falls is determined based on the lowest-level input that is significant to the measurement in its entirety. The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2022 and December 31, 2021 for each of the fair value hierarchy levels, including deferred premiums to be settled upon expiration of the contract (in thousands):

	Fair value measurements as of June 30, 2022			
	(Level 1)	**(Level 2)**	**(Level 3)**	**2022 Total**
Liability – current:				
Derivative option contracts	$ —	(19,948)	—	(19,948)
Total liability – current	$ —	(19,948)	—	(19,948)
Liability – noncurrent:				
Derivative option contracts	$ —	(10,688)	—	(10,688)
Total liability – noncurrent	$ —	(10,688)	—	(10,688)

	Fair value measurements as of December 31, 2021			
	(Level 1)	**(Level 2)**	**(Level 3)**	**2021 Total**
Liability – current:				
Derivative option contracts	$ —	(11,122)	—	(11,122)
Total liability – current	$ —	(11,122)	—	(11,122)
Liability – noncurrent:				
Derivative option contracts	$ —	(5,047)	—	(5,047)
Total liability – noncurrent	$ —	(5,047)	—	(5,047)

The Company's nonfinancial assets and liabilities that are initially measured at fair value are comprised primarily of assets acquired in business combinations and asset retirement costs and obligations. These assets and liabilities are recorded at fair value when acquired/incurred but not-measured at fair value in subsequent periods.

(9) Members' Equity

Contributed Capital – Series A Units

Pursuant to the Company's Amended and Restated Limited Liability Company Agreement (the LLC Agreement), the Company is authorized to issue as many Series A Units as needed up to the committed amounts, subject to the approval of the Board of Directors and Requisite Investor Approval. The holders of Series A Units will (i) share in each item of Company income, gain, loss, deduction and credit, (ii) be entitled to participate in distributions, and (iii) be entitled to other voting and participating rights as applicable.

Series A Units issued totaled 14,339,689 as of June 30, 2022 and December 31, 2021.

Incentive Units – Series B, C, and D Units

The Company has issued management incentive units ("Series B, C, and D Units") to certain employees and other individuals. The Series B, C, and D Units have no voting rights and participate only in distributions upon requisite financial thresholds being met, after the Series A Shareholders have recovered their investment and a related percentage return on investment. Compensation expense for these awards will be recognized when all performance, market, and service conditions are probable of being satisfied (in general, upon a liquidating event). Accordingly, no value was assigned to the Series B, C, and D Units when issued.

The Agreement authorizes up to 10,000,000 nonvoting Series B, C, and D Units (10,000,000 per series) which are granted with an assigned participation level.

Granted Series B, C, and D Units generally vest 15% on the date of grant of such interests and an additional 15% on each of the first, second, third, and fourth annual grant-date anniversaries and the remaining unvested Units vest upon consummation of a Final Exit Event. However, there are provisions in the Agreement for vesting 100% upon an early liquidation and partial vesting in the event that an employee is terminated due to death or disability. All vested Series B, C, and D Units shall be forfeited for no consideration if employment is terminated for cause. All unvested Series B, C, and D Units shall be forfeited upon termination of employment for any reason.

The Company has the right, but ncment is terminated for any reason. If employment is terminated without cause, the repurchase price of the Series B, C, and D Units is based on the fair market value of the units, as defined in the Agreement.

The following table presents the activity for Series B, C, and D Units outstanding:

	Series B	**Series C**	**Series D**
Outstanding – December 31, 2020	7,222,500	7,222,500	7,222,500
Granted	2,450,000	2,450,000	2,450,000
Forfeited	(285,500)	(285,500)	(285,500)
Outstanding – December 31, 2021	9,387,000	9,387,000	9,387,000
Granted	—	—	—
Forfeited	—	—	—
Outstanding – June 30, 2022	9,387,000	9,387,000	9,387,000
Vested	5,393,175	5,393,175	5,393,175

For financial reporting purposes, no related compensation expense has been recorded for the periods ended June 30, 2022 or 2021.

(10) Commitments and Contingencies

As of June 30, 2022 and 2021, the Company was not a party to any known lawsuits or claims which might be reasonably expected to result in material loss exposure to the Company. However, from time to time, the Company is involved in other legal and administrative proceedings in the ordinary course of business. Management believes that the amount of ultimate liability allocable to the Company, if any, with respect to these matters will not have a material impact on the financial position, results of operations or cash flows of the Company.

In addition, there were no known environmental or other regulatory matters related to the Company's operations that were reasonably expected to result in a material liability to the Company. Compliance with environmental laws and regulations has not had, and is not expected to have, a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

(11) Subsequent Events

The Company has evaluated subsequent events through August 29, 2022 which is the date these consolidated financial statements were available to be issued. On July 1, 2022, the Company, entered into a purchase and sale agreement (the "Purchase Agreement") with Ring Energy, Inc. (NYSE American: REI). The Purchase Agreement provides that Ring Energy, Inc. will acquire the Company's interests in oil and gas leases and related property located in the Central Basin Platform of Texas for a purchase price (the "Purchase Price") of approximately $465 million, of which $215 million will be in cash, $20 million in assumed derivative liabilities, and the remainder will be in the form of stock consideration which is expected to consist of (i) 21,339,986 shares of common stock and (ii) 153,176 shares of newly created Series A Convertible Preferred Stock. Each share of Preferred Stock is automatically convertible into 277.7778 shares of common stock upon stockholder approval of the conversion. The Purchase Price is subject to customary purchase price adjustments with an effective date of June 1, 2022.

Exhibit 99.3

Ring Energy, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

On July 1, 2022, Ring Energy, Inc. (“Ring” or the “Company”), as buyer, and Stronghold Energy II Operating, LLC, a Delaware limited liability company (“Stronghold OpCo”) and Stronghold Energy II Royalties, LP, a Delaware limited partnership (“Stronghold RoyaltyCo”, together with Stronghold OpCo, collectively, “Stronghold”), as seller, entered into a purchase and sale agreement (the “Purchase Agreement”). Pursuant to the Purchase Agreement, Ring acquired (the “Stronghold Acquisition”) interests in oil and gas leases and related property of Stronghold consisting of approximately 37,000 net acres located in the Central Basin Platform of the Permian Basin of Texas. On August 31, 2022, Ring completed the Stronghold Acquisition pursuant to the Purchase Agreement.

Based on estimates as of August 31, 2022, the fair value of consideration to be paid to the seller is approximately $389.4 million, of which $167.9 million, subject to post-closing adjustments, was paid in cash at closing, $15.0 million will be payable in cash after the six-month anniversary of the closing date of the Stronghold Acquisition, and the remainder was in the form of stock consideration consisting of 21,339,986 shares of Ring common stock and 153,176 shares of newly created Series A Convertible Preferred Stock, par value $0.001 per share (“Preferred Stock”). In addition, Ring assumed derivative liabilities valued at $26.4 million as of August 31, 2022, and $1.7 million of suspense in the Stronghold Acquisition.

The cash portion of the purchase price was funded by amending the Company’s existing credit facility to increase the total borrowing capacity under the credit facility to $1,000,000,000 with an initial borrowing base of approximately $600,000,000 (up from its existing $350,000,000 borrowing base).

When and if declared, the Preferred Stock will be entitled to preferred distributions at a rate of 8.0% per annum of the Liquidation Preference per share, which is initially $1,000 per share plus any accrued and unpaid distributions through the date of conversion, payable each calendar quarter. To the extent distributions are not declared and paid, then on each distribution date the unpaid distribution per share is added to the per share Liquidation Preference. Notwithstanding the foregoing, no distribution will be paid on the Preferred Stock if it converts into Ring common stock on or before January 31, 2023.

The Preferred Stock may not be converted into Ring common stock until such time as stockholder approval is received, which is defined as the date requisite approval from holders of capital stock of the Company is received as required at law or under the applicable securities exchange rules (currently the NYSE American stock exchange). Upon receiving stockholder approval, each share of issued Preferred Stock will be automatically converted into such number of shares of Ring common stock determined by dividing (i) the Liquidation Preference as of the conversion date by (ii) the conversion price, which is initially $3.60 per share based on a 20-day volume weighted average price of Ring common stock as of June 30, 2022 (subject to adjustment for stock splits and distributions, recapitalizations, exchanges and similar actions) (such calculation, as so adjusted from time to time, the “Conversion Rate”). The initial Conversion Rate is 277.7778 shares of Ring common stock for each share of Preferred Stock.

The Stronghold Acquisition will be accounted for as an asset acquisition in accordance with Accounting Standards Codification Topic 805, Business Combinations (“ASC 805”). The fair value of the consideration paid by Ring and the allocation of that amount to the underlying assets acquired is recorded on a relative fair value basis. Additionally, costs directly related to the Stronghold Acquisition are capitalized as a component of the purchase price. The unaudited pro forma condensed combined financial statements presented herein have been prepared to reflect the transaction accounting adjustments to Ring’s historical condensed consolidated financial information in order to account for the Stronghold Acquisition and include the assumption of liabilities as set forth in the Purchase Agreement.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2022 gives effect to the Stronghold Acquisition as if it had been completed on June 30, 2022. The Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended June 30, 2022 and the year ended December 31, 2021 give effect to the Stronghold Acquisition as if it had been completed on January 1, 2021. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Ring would have been had the Stronghold Acquisition and related financing occurred on the dates noted above, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. Future results may vary significantly from the results reflected because of various factors. In Ring's opinion, all adjustments that are necessary to present fairly the unaudited pro forma condensed combined financial information have been made.

The unaudited pro forma condensed combined financial information does not reflect the benefits of potential cost savings or the costs that may be necessary to achieve such savings, opportunities to increase revenue generation or other factors that may result from the Stronghold Acquisition and, accordingly, does not attempt to predict or suggest future results.

The unaudited pro forma financial statements have been developed from and should be read in conjunction with:

- The audited financial statements and accompanying notes of Ring contained in Ring's Annual Report on Form 10-K for the year ended December 31, 2021;
- The unaudited condensed financial statements and accompanying notes contained in Ring's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022;
- The audited consolidated financial statements and related notes of Stronghold for the years ended December 31, 2021 and 2020, which are included elsewhere in this filing; and
- The unaudited consolidated financial statements and related notes of Stronghold for the six month period ended June 30, 2022, which are included elsewhere in this filing.

Ring Energy, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2022
(in thousands)

	Historical		Transaction Accounting Adjustments		
			Conforming and Reclassifications	Stronghold Acquisition	Pro Forma Combined
	Ring	Stronghold			
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 2,223	$ 10,435	$ (10,435)(a)	$ 197,072(d)	$ 2,223
				(167,944)(j)	
				(29,128)(h)	
Accounts receivable	39,497	21,457	(21,457)(a)	—	39,497
Joint interest billing receivable	1,350	113	(113)(a)	—	1,350
Derivative assets	1,353	—	—	—	1,353
Prepaid expenses and other	3,206	—	—	—	3,206
Other current assets	—	4,109	(4,109)(a)	—	—
Total Current Assets	47,629	36,114	(36,114)	—	47,629
Properties and Equipment:					
Oil and natural gas properties, full cost method	945,521	—	—	435,790(c)	1,391,626
				10,315(h)	
Oil and natural gas properties, successful efforts method	—	278,191	(278,191)(b)	—	—
Financing lease asset subject to depreciation	2,067	—	—	—	2,067
Fixed assets subject to depreciation	2,045	—	—	—	2,045
Other property, plant and equipment, net	—	381	(381)(a)	—	—
Total Properties and Equipment	949,633	278,572	(278,572)	446,105	1,395,738
Accumulated depreciation, depletion, amortization	(255,274)	(66,199)	66,199(b)	—	(255,274)
Net Properties and Equipment	694,359	212,373	(212,373)	446,105	1,140,464
Operating lease asset	1,141	—	—	—	1,141
Derivative assets	785	—	—	—	785
Deferred financing costs	1,325	486	(486)(a)	18,813(h)	20,138
Total Assets	$ 745,239	$ 248,973	$ (248,973)	$ 464,918	$ 1,210,157
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable	$ 64,263	$ —	$ —	$ 14,417(g)	$ 80,332
				1,652(i)	
Accounts payable and accrued expenses	—	12,651	(12,651)(a)	—	—
Income tax liability	—	—	—	—	—
Financing lease liability	407	—	—	—	407
Operating lease liability	301	—	—	—	301
Derivative liabilities	32,701	19,948	(19,948)(a)	21,008(e)	53,709
Notes payable	894	—	—	—	894
Revenue and severance taxes payable	—	6,614	(6,614)(a)	—	—
Total Current Liabilities	98,566	39,213	(39,213)	37,077	135,643
Noncurrent Liabilities:					
Deferred income taxes	1,641	—	—	8,637(l)	10,278
Revolving line of credit	270,000	73,000	(73,000)(a)	197,072(d)	467,072
Financing lease liability, less current portion	667	—	—	—	667
Operating lease liability, less current portion	984	—	—	—	984
Derivative liabilities	—	10,688	(10,688)(a)	5,401(e)	5,401
Asset retirement obligations	15,374	11,413	(11,413)(a)	9,731(k)	25,105
Total Noncurrent Liabilities	288,666	95,101	(95,101)	220,841	509,507
Total Liabilities	387,232	134,314	(134,314)	257,918	645,150
Convertible preferred stock -$0.001 par value; 153,176 shares outstanding	—	—	—	137,858(m)	137,858
Stockholders' Equity					
Preferred stock - $0.001 par value; 50,000,000 shares authorized	—	—	—	137,858(m)	—
				(137,858)(m)	
Common stock - $0.001 par value; 225,000,000 shares authorized	107	—	—	21(f)	128
Additional paid-in capital	561,792	—	—	69,121(f)	630,913
Accumulated deficit	(203,892)	—	—	—	(203,892)
Members' Equity	—	114,659	(114,659)(a)	—	—
Total Stockholders' Equity	358,007	114,659	(114,659)	69,142	427,149
Total Liabilities and Stockholders' Equity	$ 745,239	$ 248,973	$ (248,973)	$ 464,918	$ 1,210,157

Ring Energy, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended June 30, 2022
(in thousands)

	Historical		Transaction Accounting Adjustments		
			Conforming and	Stronghold	Pro Forma
	Ring	Stronghold	Reclassifications	Acquisition	Combined
Operating Revenue:					
Oil and natural gas revenue	$ 153,143	$ —	$ 96,327(a)	$ —	$ 249,470
Oil sales	—	74,293	(74,293)(a)	—	—
Natural gas sales	—	10,434	(10,434)(a)	—	—
Natural gas liquids sales	—	11,600	(11,600)(a)	—	—
Total Operating Revenue	153,143	96,327	—	—	249,470
Costs and Operating Expenses:					
Lease operating expenses	17,255	16,408	(1,402)(b)	—	31,903
			(358)(b)		
Gathering, transportation and processing costs	1,846	3,741	—	—	5,587
Ad valorem taxes	1,901	—	1,402(b)	—	3,303
Oil and natural gas production taxes	7,376	4,631	—	—	12,007
Depreciation, depletion and amortization	20,530	14,845	—	(2,428)(h)	32,947
Asset retirement obligation accretion	375	543	—	(150)(h)	768
Operating lease expense	167	—	614(b)	—	781
General and administrative expense	11,355	3,828	(256)(b)	—	14,927
Exploration and abandonment costs	—	57	(57)(d)	—	—
Total Costs and Operating Expenses	60,805	44,053	(57)	(2,578)	102,223
Income from Operations	92,338	52,274	57	2,578	147,247
Other Income (Expense):					
Other income (expense)	—	66	(66)(c)	—	—
Interest expense	(6,678)	(1,721)	1,721(c)	(2,116)(e)	(9,970)
				(1,176)(f)	
Loss on derivative contracts	(35,053)	(34,126)	—	—	(69,179)
Net Other Income (Expense)	(41,731)	(35,781)	1,655	(3,292)	(79,149)
Income (Loss) Before Income Tax	50,607	16,493	1,712	(714)	68,098
Provision for income taxes	(1,551)	(12)	—	—	(1,563)
Net Income (Loss)	$ 49,056	$ 16,481	$ 1,712	$ (714)	$ 66,535
Weighted-Average Common Shares Outstanding:					
Basic	103,291,669	—	—	21,339,986(i)	124,631,655
Diluted	126,251,705	—	—	63,888,889(i)	190,140,594
Net Income per Common Share:					
Basic	$ 0.47				$ 0.53
Diluted	$ 0.39				$ 0.35

Ring Energy, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2021
(in thousands)

			Transaction Accounting Adjustments		
	Historical		Conforming and	Stronghold	Pro Forma
	Ring	Stronghold	Reclassifications	Acquisition	Combined
Operating Revenue:					
Oil and natural gas revenue	$ 196,306	$ —	$ 98,629(a)	$ —	$ 294,935
Oil sales	—	73,985	(73,985)(a)	—	—
Natural gas sales	—	11,707	(11,707)(a)	—	—
Natural gas liquids sales	—	12,937	(12,937)(a)	—	—
Total Operating Revenue	196,306	98,629	—	—	294,935
Costs and Operating Expenses:					
Lease operating expenses	30,312	19,899	(649)(b)	—	48,988
			(574)(b)		
Gathering, transportation and processing costs	4,333	5,703	—	—	10,036
Ad valorem taxes	2,277	—	649(b)	—	2,926
Oil and natural gas production taxes	9,124	4,441	—	—	13,565
Depreciation, depletion and amortization	37,168	21,124	—	(1,474)(h)	56,818
Asset retirement obligation accretion	744	956	—	(472)(h)	1,228
Operating lease expense	523	—	1,059(b)	—	1,582
General and administrative expense	16,068	8,114	(485)(b)	—	23,697
Exploration and abandonment costs	—	2,136	(2,136)(d)	—	—
Total Costs and Operating Expenses	100,549	62,373	(2,136)	(1,946)	158,840
Income from Operations	95,757	36,256	2,136	1,946	136,095
Other Income (Expense):					
Other income (expense)	—	(33)	33(c)	—	—
Interest expense	(14,490)	(2,073)	2,073(c)	(8,463)(e)	(28,239)
				(583)(g)	
				(4,703)(f)	
Loss on derivative contracts	(77,854)	(31,080)	—	—	(108,934)
Net Other Income (Expense)	(92,344)	(33,186)	2,106	(13,749)	(137,173)
Income (Loss) Before Income Tax	3,413	3,070	4,242	(11,803)	(1,078)
Provision for income taxes	(90)	—	—	—	(90)
Net Income (Loss)	$ 3,323	$ 3,070	$ 4,242	$ (11,803)	$ (1,168)
Weighted-Average Common Shares Outstanding:					
Basic	99,387,028	—	—	21,339,986(i)	120,727,014
Diluted	121,193,175	—	—	(466,161)(i)	120,727,014
Net Income (Loss) per Common Share:					
Basic	$ 0.03				$ (0.01)
Diluted	$ 0.03				$ (0.01)

Ring Energy, Inc.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial information was prepared based on the historical financial statements of Ring and the historical consolidated financial statements of Stronghold. The Stronghold Acquisition has been accounted for as an asset acquisition in accordance with ASC 805. The fair value of the consideration paid by Ring and allocation of that amount to the underlying assets acquired, on a relative fair value basis, will be recorded on Ring's books as of the date of the closing of the Stronghold Acquisition. Additionally, costs directly related to the Stronghold Acquisition are capitalized as a component of the purchase price.

The Unaudited Pro Forma Condensed Combined Statements of Operations for the Six Months Ended June 30, 2022 and the Year Ended December 31, 2021 were prepared assuming the Stronghold Acquisition occurred on January 1, 2021. The Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2022 was prepared as if the Stronghold Acquisition had occurred on June 30, 2022.

The unaudited pro forma condensed combined financial information and related notes are presented for illustrative purposes only. If the Stronghold Acquisition and other transactions contemplated herein had occurred in the past, the Company's operating results might have been materially different from those presented in the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information should not be relied upon as an indication of operating results that the Company would have achieved if the Stronghold Acquisition and other transactions contemplated herein had taken place on the specified date. In addition, future results may vary significantly from the results reflected in the unaudited pro forma condensed combined financial statement of operations and should not be relied upon as an indication of the future results the Company will have after the contemplation of the Stronghold Acquisition and the other transactions contemplated by these unaudited pro forma condensed combined financial information. In Ring's opinion, all adjustments that are necessary to present fairly the unaudited pro forma condensed combined financial information have been made.

2. Consideration and Purchase Price Allocation

The preliminary allocation of the total purchase price in the Stronghold Acquisition is based upon management's estimates of and assumptions related to the fair value of assets to be acquired and liabilities to be assumed as of the closing date of the transaction using currently available information and market data as of August 31, 2022. Because the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on financial position and results of operations may differ significantly from the pro forma amounts included herein.

The preliminary purchase price allocation is subject to change due to several factors, including but not limited to changes in the estimated fair value of assets acquired and liabilities assumed as of the closing date of the transaction, which could result from changes in future oil and natural gas commodity prices, reserve estimates, interest rates, as well as other factors.

The consideration transferred and the fair value of assets acquired and liabilities assumed by Ring are as follows (in thousands, except share amounts and stock price):

Consideration:		
Shares of Ring Common Stock issued		21,339,986
Ring Common Stock price as of August 31, 2022	$	3.24
Common Stock Consideration	$	69,142
Shares of Ring Preferred Stock issued		153,176
Aggregate Liquidation Preference	$	153,176
Conversion Price	$	3.60
As-Converted Shares of Ring Common Stock		42,548,903
Ring Common Stock Price as of August 31, 2022	$	3.24
Preferred Stock Consideration	$	137,858
Cash consideration		167,944
Fair value of deferred payment liability		14,417
Fair value of consideration to be paid to seller		389,361
Direct transaction costs		10,315
Total consideration	$	399,676
Fair value of assets acquired:		
Oil and natural gas properties		446,105
Amount attributable to assets acquired	$	446,105
Fair value of liabilities assumed:		
Suspense liability		1,652
Derivative liabilities		26,409
Asset retirement obligations		9,731
Deferred income taxes		8,637
Amount attributable to liabilities assumed	$	46,429

The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair value of oil and gas properties and asset retirement obligations were measured using the discounted cash flow technique of valuation.

Significant unobservable inputs included future commodity prices adjusted for differentials, projections of estimated quantities of recoverable reserves, forecasted production based on decline curve analysis, estimated timing and amount of future operating and development costs, and a weighted average cost of capital.

3. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet and Unaudited Pro Forma Condensed Combined Statements of Operations

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by Ring. Actual results may differ materially from the assumptions and estimates contained herein.

The pro forma adjustments are based on currently available information and certain estimates and assumptions that Ring believes provide a reasonable basis for presenting the significant effects of the Stronghold Acquisition. General descriptions of the pro forma adjustments are provided below.

Unaudited Pro Forma Condensed Combined Balance Sheet

The following adjustments were made in the preparation of the Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2022:

(a) Adjustment to remove assets and liabilities not acquired as part of the Stronghold Acquisition.

(b) Adjustment to eliminate the historical book value and accumulated depreciation, depletion and amortization of Stronghold's oil and gas properties as of June 30, 2022.

(c) Adjustment to reflect the assets acquired of Stronghold, on a relative fair value basis.

(d) Adjustment to record new borrowings related to the cash consideration used in the Stronghold Acquisition.

(e) Adjustment to reflect the fair value of Stronghold’s derivative liabilities assumed as of August 31, 2022.

(f) Adjustment to reflect the issuance of 21,339,986 shares of Ring common stock pursuant to the Purchase Agreement.

(g) Adjustment to reflect the fair value of the $15.0 million deferred payment to be made in connection with the Stronghold Acquisition.

(h) Adjustment for the payment of deferred financing costs and transaction expenses incurred for the Stronghold Acquisition.

(i) Adjustment to reflect the fair value of Stronghold’s suspense liabilities assumed as of August 31, 2022.

(j) Adjustment to reflect the cash consideration paid for the Stronghold Acquisition.

(k) Adjustment to reflect asset retirement obligations associated with the Stronghold Acquisition properties.

(l) Adjustment to reflect deferred income taxes associated with the Stronghold Acquisition.

(m) Adjustment for the issuance of Preferred Stock issued pursuant to the Purchase Agreement. From the 50,000,000 shares of preferred stock authorized pursuant to the Articles of Incorporation of Ring, the Board authorized 153,176 shares of Preferred Stock to be issued as part of the Stronghold Acquisition. The Preferred Stock is required to be presented outside of permanent equity as it is redeemable for cash upon the occurrence of certain events that are not solely within the control of Ring. The adjustment is to show the movement of the Ring's existing authorized preferred stock out of permanent equity. The amount is based on the estimated issuance date fair value, which was determined based on 42,548,903 as-converted shares of Ring common stock multiplied by the August 31, 2022 Ring stock price of $3.24 per common share.

Unaudited Pro Forma Condensed Combined Statements of Operations

The following adjustments were made in the preparation of the Unaudited Pro Forma Condensed Combined Statements of Operations for the Six Months Ended June 30, 2022 and the Year Ended December 31, 2021:

(a) Adjustments to conform Stronghold's revenue presentation to the presentation of revenues for Ring.

(b) Adjustment to align the presentation of ad valorem and operating lease expense for Stronghold to the presentation by Ring.

(c) Adjustment to remove Stronghold's historical other income and expense prior to the Stronghold Acquisition.

(d) Adjustment to remove exploration and abandonment cost to align the presentation of such expenses by Stronghold with the full cost method of accounting utilized by Ring.

(e) Adjustment to reflect the estimated interest expense in the periods presented with respect to the incremental borrowings necessary to finance the Stronghold Acquisition. The interest rate utilized as of June 30, 2022 was 4.294% for incremental borrowings. A one-eighth point change in interest rates as of June 30, 2022 would change interest expense by $0.1 million for the six months ended June 30, 2022 and by $0.3 million for the year ended December 31, 2021.

(f) Adjustment to reflect the amortization of deferred financing costs of $18.8 million related to the financing of the Stronghold Acquisition. Deferred financing costs are amortized straight-line over approximately 48 months, which corresponds to the maturity date of Ring's amended credit facility.

(g) Adjustment to reflect the amortization of the discount resulting from the difference between the principal amount of the deferred payment and the original fair value recognized. The deferred payment of $15.0 million is originally recognized at its fair value of $14.4 million as part of the consideration paid in connection with the Stronghold Acquisition.

(h) Represents depreciation, depletion, and amortization expense resulting from the change in basis of property and equipment acquired and accretion expense from new asset retirement obligations recognized as a result of the Stronghold Acquisition. The depletion adjustment was calculated using the unit-of-production method under the full cost method of accounting using estimated proved reserves and production volumes attributable to the acquired assets.

(i) Adjustment to reflect the issuance of 21,339,986 shares of Ring common stock pursuant to the Purchase Agreement in basic earnings per share and the issuance of 42,548,903 common shares under the if-converted method for Preferred Stock in diluted earnings per share for the six months ended June 30, 2022. The following table reconciles historical and pro forma basic and diluted earnings per share for the period indicated (in thousands, except share and per share amounts):

	For the Six Months Ended June 30, 2022	
	Historical	**Pro-Forma**
Net Income	$ 49,056	$ 66,535
Basic Weighted-Average Shares Outstanding	103,291,669	124,631,655
Effect of dilutive securities:		
Stock options	115,069	115,069
Restricted stock units	2,274,467	2,274,467
Performance stock units	243,475	243,475
Common warrants	20,327,025	20,327,025
Convertible Preferred Stock	—	42,548,903
Diluted Weighted-Average Shares Outstanding	126,251,705	190,140,594
Basic Earnings per Share	$ 0.47	$ 0.53
Diluted Earnings per Share	$ 0.39	$ 0.35

4. **Supplemental Unaudited Pro Forma Combined Oil and Natural Gas Reserves and Standardized Measure Information**

The following tables set forth information with respect to the historical and pro forma combined estimated oil and natural gas reserves as of December 31, 2021 for Ring and Stronghold. The reserve information of Ring has been prepared by Cawley, Gillespie & Associates, Inc., independent petroleum engineers. Stronghold reserve information has been prepared by Stronghold's in-house petroleum engineers. The following unaudited pro forma combined proved reserve information is not necessarily indicative of the results that might have occurred had the Stronghold Acquisition taken place on January 1, 2021, nor is it intended to be a projection of future results. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Periodic revisions or removals of estimated reserves and future cash flows may be necessary as a result of a number of factors, including reservoir performance, new drilling, crude oil and natural gas prices, changes in costs, technological advances, new geological or geophysical data, changes in business strategies, or other economic factors. Accordingly, proved reserve estimates may differ significantly from the quantities of crude oil and natural gas ultimately recovered. For both Ring and Stronghold the reserve estimates shown below were determined using the average first day of the month price for each of the preceding 12 months for oil and natural gas for the year ended December 31, 2021.

Estimated Oil and Natural Gas Reserves

	As of December 31, 2021		
	Ring[1]	**Stronghold**	**Pro Forma Combined**
Estimated Proved Developed Reserves:			
Oil (MBbl)	36,821	8,074	44,895
Natural Gas (MMcf)	39,749	27,122	66,871
Natural Gas Liquids (MBbl)	—	3,658	3,658
Total (Mboe)[2]	43,446	16,252	59,698
Estimated Proved Undeveloped Reserves:			
Oil (MBbl)	29,018	1,173	30,191
Natural Gas (MMcf)	32,025	2,867	34,892
Natural Gas Liquids (MBbl)	—	327	327
Total (Mboe)[2]	34,355	1,978	36,333
Estimated Proved Reserves:			
Oil (MBbl)	65,839	9,248	75,086
Natural Gas (MMcf)	71,774	29,990	101,763
Natural Gas Liquids (MBbl)	—	3,985	3,985
Total (Mboe)[2]	77,801	18,230	96,031

(1) Ring has not historically separately reported reserve quantities for Natural Gas Liquids

(2) Assumes a ratio of 6 Mcf of natural gas per Boe

The following table presents the Standardized Measure of Discounted Future Net Cash Flows relating to the proved crude oil and natural gas reserves of Ring and of the properties acquired in the Stronghold Acquisition on a pro forma combined basis as of December 31, 2021. The Pro Forma Combined Standardized Measure shown below represents estimates only and should not be construed as the market value of either Stronghold's crude oil and natural gas reserves or the acquired crude oil and natural gas reserves attributable to the Stronghold Acquisition.

Standardized Measure of Discounted Future Cash Flows
(in thousands)

	As of December 31, 2021		
	Ring	**Stronghold**	**Pro Forma Combined**
Oil and Gas Producing Activities:			
Future cash inflows	$ 4,853,709	$ 744,605	$ 5,598,314
Future production costs	(1,395,437)	(249,561)	(1,644,998)
Future development costs	(347,757)	(32,106)	(379,863)
Future income tax expense	(501,587)	(3,909)	(505,496)
Future net cash flows	2,608,928	459,029	3,067,957
10% annual discount factor	(1,471,563)	(199,602)	(1,671,165)
Standardized measure of discounted future net cash flows	$ 1,137,365	$ 259,427	$ 1,396,792

The following table sets forth the changes in the Standardized Measure of discounted future net cash flows attributable to estimated net proved crude oil and natural gas reserves of Ring and Stronghold on a pro forma combined basis for the year ending December 31, 2021:

Changes in Standardized Measure of Discounted Future Net Cash Flows
(in thousands)

	For the Year Ended December 31, 2021		
	Ring	Stronghold	Pro Forma Combined
Oil and Gas Producing Activities:			
Beginning of the year	$ 555,871	$ 84,074	$ 639,945
Purchase of minerals in place	33,689	—	33,689
Extensions, discoveries and improved recovery	79,004	13,306	92,310
Development costs incurred during the year	17,513	1,996	19,509
Sales of oil and gas produced, net of production costs	(154,616)	(68,586)	(223,202)
Sales of minerals in place	(2,524)	—	(2,524)
Accretion of discount	63,811	8,495	72,306
Net changes in price and production costs	636,885	173,412	810,297
Net changes in estimated future development costs	(44,358)	(1,814)	(46,172)
Revisions of previous quantity estimates	(22,260)	67,333	45,073
Changes in estimated timing of cash flows	86,845	(17,659)	69,186
Net change in income taxes	(112,495)	(1,130)	(113,625)
End of year	$ 1,137,365	$ 259,427	$ 1,396,792