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

FORM 10-Q

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

For the quarterly period ended: **June 30, 2022**

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

Commission File Number: **001-36057**

RING ENERGY, INC.

(Exact Name of registrant as specified in its charter)

Nevada	**90-0406406**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
1725 Hughes Landing, Suite 900 **The Woodlands, TX**	**77380**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	REI	NYSE American

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).
☐ Yes ☒ No

The registrant has one class of common stock of which 107,241,388 shares were outstanding at August 4, 2022.

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Ring Energy, Inc.
For the Quarter Ended June 30, 2022

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The statements contained in this report that are not historical facts are forward-looking statements that represent management’s beliefs and assumptions based on currently available information. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, need for financing, competitive position, and potential growth opportunities. Our forward-looking statements do not consider the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believes,” “intends,” “may,” “should,” “anticipates,” “expects,” “could,” “plans,” “estimates,” “projects,” “targets” or comparable terminology or by discussions of strategy or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such forward-looking statements.

Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this report and in our annual report on Form 10-K for the year ended December 31, 2021. While it is not possible to identify all factors, we continue to face many risks and uncertainties including, but not limited to:

- declines or volatility in the prices we receive for our oil and natural gas;
- our ability to raise additional capital to fund future capital expenditures;
- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop and produce our oil and natural gas properties;
- general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business;
- risks associated with drilling, including completion risks, cost overruns and the drilling of non-economic wells or dry holes;
- uncertainties associated with estimates of proved oil and natural gas reserves;
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- risks and liabilities associated with acquired companies and properties;
- risks related to integration of acquired companies and properties;
- potential defects in title to our properties;
- cost and availability of drilling rigs, equipment, supplies, personnel and oilfield services;
- geological concentration of our reserves;
- environmental or other governmental regulations, including legislation of hydraulic fracture stimulation;
- our ability to secure firm transportation for oil and natural gas we produce and to sell the oil and natural gas at market prices;
- exploration and development risks;
- management’s ability to execute our plans to meet our goals;
- our ability to retain key members of our management team on commercially reasonable terms;

- the occurrence of cybersecurity incidents, attacks or other breaches to our information technology systems or on systems and infrastructure used by the oil and gas industry;
- weather conditions;
- effectiveness of our internal control over financial reporting;
- actions or inactions of third-party operators of our properties;
- costs and liabilities associated with environmental, health and safety laws;
- our ability to find and retain highly skilled personnel;
- operating hazards attendant to the oil and natural gas business;
- competition in the oil and natural gas industry;
- evolving geopolitical and military hostilities in the Middle East, Russia and Ukraine, and other areas of the world;
- the ongoing COVID-19 pandemic and its mutations and variants, including reactive or proactive measures taken by businesses, governments and by other organizations related thereto, and the direct and indirect effects of COVID-19 on the market for and price of oil; and
- the other factors discussed under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Should our underlying assumptions prove incorrect or the consequences of the aforementioned risks worsen, actual results could differ materially from those expected. There may also be other risks and uncertainties that we are unable to predict at this time or that we do not now expect to have a material adverse impact on our business.

Forward-looking statements speak only as to the date hereof. All such forward-looking statements and any subsequent written or oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the statements contained herein or referred to in this section and any other cautionary statements that may accompany such forward-looking statements. Except as otherwise required by applicable law, we disclaim any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited condensed financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures required by accounting principles generally accepted in the United States and normally included in Annual Reports on Form 10-K have been omitted. Although management believes that our disclosures are adequate to make the information presented not misleading, these unaudited interim financial statements should be read in conjunction with the Company's audited financial statements and related footnotes included in its most recent Annual Report on Form 10-K.

RING ENERGY, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,223,289	$ 2,408,316
Accounts receivable	39,496,928	24,026,807
Joint interest billing receivable	1,350,134	2,433,811
Derivative assets	1,353,196	—
Prepaid expenses and other assets	3,205,746	938,029
Total Current Assets	47,629,293	29,806,963
Properties and Equipment		
Oil and natural gas properties, full cost method	945,521,085	883,844,745
Financing lease asset subject to depreciation	2,067,375	1,422,487
Fixed assets subject to depreciation	2,044,709	2,089,722
Total Properties and Equipment	949,633,169	887,356,954
Accumulated depreciation, depletion and amortization	(255,274,309)	(235,997,307)
Net Properties and Equipment	694,358,860	651,359,647
Operating lease asset	1,140,886	1,277,253
Derivative assets	785,389	—
Deferred financing costs	1,324,918	1,713,466
Total Assets	$ 745,239,346	$ 684,157,329
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 64,262,609	$ 46,233,452
Financing lease liability	407,031	316,514
Operating lease liability	301,339	290,766
Derivative liabilities	32,700,566	29,241,588
Notes payable	894,295	586,410
Total Current Liabilities	98,565,840	76,668,730
Noncurrent Liabilities		
Deferred income taxes	1,641,253	90,292
Revolving line of credit	270,000,000	290,000,000
Financing lease liability, less current portion	667,456	343,727
Operating lease liability, less current portion	983,995	1,138,319
Asset retirement obligations	15,373,543	15,292,054
Total Liabilities	387,232,087	383,533,122
Stockholders' Equity		
Preferred stock - $0.001 par value; 50,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock - $0.001 par value; 225,000,000 shares authorized; 107,236,111 shares and 100,192,562 shares issued and outstanding, respectively	107,236	100,193
Additional paid-in capital	561,791,836	553,472,292
Accumulated deficit	(203,891,813)	(252,948,278)
Total Stockholders' Equity	358,007,259	300,624,207
Total Liabilities and Stockholders' Equity	$ 745,239,346	$ 684,157,329

The accompanying notes are an integral part of these unaudited condensed financial statements.

RING ENERGY, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Oil and Natural Gas Revenues	$ 84,961,875	$ 47,760,102	$ 153,142,907	$ 87,262,634
Costs and Operating Expenses				
Lease operating expenses	8,301,443	7,424,488	17,254,608	15,651,063
Gathering, transportation and processing costs	549,389	897,166	1,846,247	1,832,185
Ad valorem taxes	949,239	703,775	1,901,193	1,441,026
Oil and natural gas production taxes	4,157,457	2,198,339	7,375,819	4,051,101
Depreciation, depletion and amortization	10,749,204	9,275,126	20,530,491	17,383,284
Asset retirement obligation accretion	186,303	184,013	374,545	377,757
Operating lease expense	83,590	84,790	167,180	356,307
General and administrative expense	5,832,302	3,757,152	11,354,579	6,670,143
Total Costs and Operating Expenses	30,808,927	24,524,849	60,804,662	47,762,866
Income from Operations	54,152,948	23,235,253	92,338,245	39,499,768
Other Income (Expense)				
Interest income	—	1	—	1
Interest (expense)	(3,279,299)	(3,654,529)	(6,677,660)	(7,396,498)
(Loss) on derivative contracts	(7,457,018)	(35,277,240)	(35,053,159)	(66,865,879)
Net Other Income (Expense)	(10,736,317)	(38,931,768)	(41,730,819)	(74,262,376)
Income (Loss) Before Provision for Income Taxes	43,416,631	(15,696,515)	50,607,426	(34,762,608)
Benefit from (Provision for) Income Taxes	(1,472,209)	(190,644)	(1,550,961)	(190,644)
Net Income (Loss)	$ 41,944,422	$ (15,887,159)	$ 49,056,465	$ (34,953,252)
Basic Earnings (Loss) per share	$ 0.39	$ (0.16)	$ 0.47	$ (0.35)
Diluted Earnings (Loss) per share	$ 0.32	$ (0.16)	$ 0.39	$ (0.35)

The accompanying notes are an integral part of these unaudited condensed financial statements.

RING ENERGY, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

For the Six Months Ended June 30, 2022	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance, December 31, 2021	100,192,562	$ 100,193	$ 553,472,292	$ (252,948,278)	$ 300,624,207
Share-based compensation	—	—	1,521,910	—	1,521,910
Net income	—	—	—	7,112,043	7,112,043
Balance, March 31, 2022	100,192,562	$ 100,193	$ 554,994,202	$ (245,836,235)	$ 309,258,160
Exercise of common warrants issued in offering	6,453,907	6,454	5,156,672	—	5,163,126
Options exercised	100,000	100	(100)	—	—
Shares elected to be withheld for options exercised	(47,506)	(48)	48	—	—
Restricted stock vested	610,195	610	(610)	—	—
Shares to cover tax withholdings for restricted stock vested	(73,047)	(73)	73	—	—
Payments to cover tax withholdings	—	—	(257,694)	—	(257,694)
Share-based compensation	—	—	1,899,245	—	1,899,245
Net income	—	—	—	41,944,422	41,944,422
Balance, June 30, 2022	107,236,111	$ 107,236	$ 561,791,836	$ (203,891,813)	$ 358,007,259
For the Six Months Ended June 30, 2021					
Balance, December 31, 2020	85,568,287	$ 85,568	$ 550,951,415	$ (256,271,170)	$ 294,765,813
Common stock and warrants issued for cash, net	—	—	(65,000)	—	(65,000)
Exercise of pre-funded warrants issued in offering	13,428,500	13,429	—	—	13,429
Exercise of common warrants issued in offering	184,800	185	147,655	—	147,840
Restricted stock vested	94,350	94	(94)	—	—
Share-based compensation	—	—	355,494	—	355,494
Net (loss)	—	—	—	(19,066,093)	(19,066,093)
Balance, March 31, 2021	99,275,937	$ 99,276	$ 551,389,471	$ (275,337,263)	$ 276,151,483
Exercise of common warrants issued in offering	100,000	100	79,900	—	80,000
Restricted stock vested	3,480	3	(3)	—	—
Shares to cover tax withholdings	(28,272)	(28)	28	—	—
Share-based compensation	—	—	351,775	—	351,775
Net (loss)	—	—	—	(15,887,159)	(15,887,159)
Balance, June 30, 2021	99,351,145	$ 99,351	$ 551,821,170	$ (291,224,422)	$ 260,696,099

The accompanying notes are an integral part of these unaudited condensed financial statements.

RING ENERGY, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30, 2022	2021
Cash Flows From Operating Activities		
Net income (loss)	$ 49,056,465	$ (34,953,252)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	20,530,490	17,383,284
Asset retirement obligation accretion	374,545	377,757
Amortization of deferred financing costs	388,548	330,251
Share-based compensation	3,421,155	707,269
Deferred income tax expense (benefit)	1,550,961	(1,744,175)
Excess tax expense (benefit) related to share-based compensation	—	1,934,819
Loss on derivative contracts	35,053,159	66,865,879
Cash (paid) for derivative settlements, net	(33,732,766)	(18,357,124)
Changes in assets and liabilities:		
Accounts receivable	(14,393,828)	(6,673,307)
Prepaid expenses and other assets	(2,267,717)	(1,181,562)
Accounts payable	6,847,979	8,659,118
Settlement of asset retirement obligation	(1,666,576)	(1,338,277)
Net Cash Provided by Operating Activities	65,162,415	32,010,680
Cash Flows From Investing Activities		
Payments to purchase oil and natural gas properties	(743,851)	(437,688)
Payments to develop oil and natural gas properties	(49,654,172)	(22,723,018)
Purchase of fixed assets subject to depreciation	(91,760)	(60,903)
Sale of fixed assets subject to depreciation	134,600	—
Proceeds from divestiture of oil and natural gas properties	25,066	2,000,000
Net Cash (Used in) Investing Activities	(50,330,117)	(21,221,609)
Cash Flows From Financing Activities		
Proceeds from revolving line of credit	50,500,000	19,900,000
Payments on revolving line of credit	(70,500,000)	(32,400,000)
Proceeds from issuance of common stock and warrants	5,163,126	241,269
Payments to cover tax withholdings	(257,694)	—
Proceeds from notes payable	928,626	909,467
Payments on notes payable	(620,741)	(151,317)
Payment of deferred financing costs	—	(76,887)
Reduction of financing lease liabilities	(230,642)	(119,995)
Net Cash (Used in) Financing Activities	(15,017,325)	(11,697,463)
Net Change in Cash	(185,027)	(908,392)
Cash at Beginning of Period	2,408,316	3,578,634
Cash at End of Period	$ 2,223,289	$ 2,670,242
Supplemental Cash Flow Information		
Cash paid for interest	$ 6,228,393	$ 7,202,818
Noncash Investing and Financing Activities		
Asset retirement obligation incurred during development	$ 122,206	$ 48,662
Asset retirement obligation acquired	—	662,705
Asset retirement obligation revisions	—	153,475
Asset retirement obligation sold	—	(2,934,126)
Capitalized expenditures attributable to drilling projects financed through current liabilities	11,181,178	4,460,973
Operating lease assets obtained in exchange for new operating lease liability	—	839,536
Operating lease asset revision	—	(621,636)

The accompanying notes are an integral part of these unaudited condensed financial statements.

RING ENERGY, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Condensed Financial Statements – The accompanying condensed financial statements prepared by Ring Energy, Inc. (the “Company” or “Ring”) have not been audited by an independent registered public accounting firm. In the opinion of the Company’s management, the accompanying unaudited financial statements contain all adjustments necessary for fair presentation of the results of operations for the periods presented, which adjustments were of a normal recurring nature, except as disclosed herein. The results of operations for the six months ended June 30, 2022, are not necessarily indicative of the results to be expected for the full year ending December 31, 2022, for various reasons, including the impact of fluctuations in prices received for oil and natural gas, natural production declines, the uncertainty of exploration and development drilling results, fluctuations in the fair value of derivative instruments, and other factors.

These unaudited condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) applicable to interim financial information, and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2021.

Organization and Nature of Operations – The Company is a Nevada corporation that owns interests in oil and natural gas properties in Texas and New Mexico. The Company’s oil and natural gas sales, profitability and future growth are dependent upon prevailing and future prices for oil and natural gas and the successful acquisition, exploration and development of oil and natural gas properties. Oil and natural gas prices have historically been volatile and may be subject to wide fluctuations in the future. A substantial decline in oil and natural gas prices could have a material adverse effect on the Company’s financial position, results of operations, cash flows and quantities of oil and natural gas reserves that may be economically produced.

COVID-19 – In March 2020, the World Health Organization classified the outbreak of COVID-19 as a pandemic. The nature of COVID-19 led to worldwide shutdowns, reductions in commercial and interpersonal activity and changes in consumer behavior. In attempting to control the spread of COVID-19, governments around the world imposed laws and regulations such as shelter-in-place orders, quarantines, executive orders and similar restrictions. As a result, the global economy was marked by significant slowdown and uncertainty, which in turn led to a precipitous decline in oil prices in response to decreased demand, further exacerbated by global energy storage shortages and by the price war among members of the Organization of Petroleum Exporting Countries (“OPEC”) and other non-OPEC producer nations (collectively with OPEC members, “OPEC+”) during the first quarter 2020. Prices recovered to pre-pandemic levels earlier last year and have recently increased to levels not seen since 2014, due in part to the accessibility of vaccines, reopening of states and other regions around the world after lockdowns, and optimism about the economic recovery. The continued spread of COVID-19, including vaccine-resistant strains or variants, or repeated deterioration in oil and natural gas prices could result in additional adverse impacts on the Company’s results of operations, cash flows and financial position, including asset impairments.

Liquidity and Capital Considerations – The Company strives to maintain an adequate liquidity level to address volatility and risk. Sources of liquidity include the Company’s cash flow from operations, cash on hand, available borrowing capacity under its revolving Credit Facility, and proceeds from sales of non-strategic assets.

While changes in oil and natural gas prices affect the Company’s liquidity, the Company has put in place hedges to protect, to some extent, its cash flows from such price declines; however, if oil or natural gas prices rapidly deteriorate due to unanticipated economic conditions, this could have a material adverse effect on the Company’s cash flows.

The Company expects ongoing oil price volatility over the short term. Extended depressed oil prices have historically had and could have a material adverse impact on the Company’s oil revenue, which is mitigated to some extent by the Company’s hedge contracts. The Company is always mindful of oil price volatility and its impact on the Company’s liquidity.

The Company believes that it has the ability to continue to fund its operations and service its debt by using cash on hand and cash flows from operations.

RING ENERGY, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The Company's unaudited condensed financial statements are based on a number of significant estimates, including estimates of oil and natural gas reserve quantities, which are the basis for the calculation of depletion and impairment of oil and gas properties. Reserve estimates, by their nature, are inherently imprecise. Actual results could differ from those estimates. Changes in the future estimated oil and natural gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the Company's future results of operations.

Fair Value Measurements – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Financial Accounting Standards Board ("FASB") has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs are the highest priority and consist of unadjusted quoted prices in active markets for identical assets and liabilities. Level 2 are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 are unobservable inputs for an asset or liability.

Fair Values of Financial Instruments – The carrying amounts reported for the revolving line of credit approximate their fair value because the underlying instruments are at interest rates which approximate current market rates. The carrying amounts of accounts receivables and accounts payable and other current assets and liabilities approximate fair value because of the short-term maturities and/or liquid nature of these assets and liabilities.

Derivative Instruments and Commodity Risk Activities – The Company may periodically enter into derivative contracts to manage its exposure to commodity price risk. These derivative contracts, which are generally placed with major financial institutions, may take the form of forward contracts, futures contracts, swaps or options. The oil and gas reference prices upon which the commodity derivative contracts are based reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil and gas production.

Any gains or losses resulting from changes in fair value of outstanding derivative financial instruments and from the settlement of derivative financial instruments are recognized in earnings and included as a component of Other income (expense) in the Statements of Operations.

When applicable, the Company records all derivative instruments, other than those that meet the normal purchases and sales exception, on the Balance Sheets as either an asset or liability measured at fair value. Changes in fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The change in fair value resulted in the recognition of an unrealized gain of $12,160,246 for the three months ended June 30, 2022 and an unrealized loss of $1,320,393 for the six months ended June 30, 2022. During the three and six months ended June 30, 2021, the change in fair value resulted in the recognition of an unrealized loss of $22,840,907 and an unrealized loss of $48,508,755, respectively, on derivative contracts. During the three and six months ended June 30, 2022, the Company had realized losses of $19,617,265 and $33,732,766, respectively, on derivatives. During the three and six months ended June 30, 2021, the Company had realized losses of $12,436,333 and $18,357,124, respectively, on derivatives including $581,424 in March 2021 from unwinding the Company's remaining gas swaps for 2021 and 2022.

Concentration of Credit Risk and Major Customers – The Company had $1,765,827 of cash on deposit in excess of federally insured limits at June 30, 2022 and $1,936,805 of cash in excess of federally insured limits at December 31, 2021. During the six months ended June 30, 2022, sales to three customers represented 70%, 15% and 4%, respectively, of the Company's oil and gas revenues. At June 30, 2022, these three customers made up 70%, 14% and 4%, respectively, of the Company's accounts receivable.

Approximately 97% of the Company's accounts receivables and joint interest billing receivables are from purchasers of oil and gas. Oil and gas sales are generally unsecured. The Company also has joint interest billing receivables which are collateralized by the pro rata revenue attributable to the joint interest holders and further by the interest itself. Accounts receivable from joint interest owners or purchasers outstanding longer than the contractual payment terms are considered past due.The Company has not had any significant credit losses in the past and believes its accounts and joint interest billing receivables are collectable. Accordingly, no material allowance for credit losses has been provided at June 30, 2022.

RING ENERGY, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Oil and Gas Properties – The Company uses the full cost method of accounting for oil and gas properties. Under this method, all costs associated with the acquisition, leasing, exploration and development of oil and gas reserves are capitalized. Costs capitalized include acquisition costs, estimated future costs of abandonment and site restoration, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling and equipping productive wells and drilling costs for non-productive wells. Drilling costs include directly related overhead costs. Capitalized costs are generally categorized either as being subject to amortization or not subject to amortization. All of the Company's capitalized costs are subject to amortization.

All capitalized costs of oil and gas properties, plus estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves as determined by the Company's independent petroleum engineers. The Company evaluates oil and gas properties for impairment quarterly. The Company did not incur a write down of oil and natural gas properties as a result of the ceiling test for the three and six months ended June 30, 2022 or for the three and six months ended June 30, 2021. Depreciation, depletion and amortization expense for the three and six months ended June 30, 2022 was $10,749,204 and $20,530,491, respectively, based on depletion at the rate of $12.51 and $12.28, respectively, per barrel of oil equivalent compared to $9,275,126 and $17,383,284, respectively, based on depletion at the rate of $11.58 and $11.42 per barrel of oil equivalent for the three and six months ended June 30, 2021. These amounts include $119,417 and $276,087, respectively, of depreciation and amortization for the three and six months ended June 30, 2022, compared to $94,890 and $155,860, respectively, of depreciation and amortization for the three and six months ended June 30, 2021.

Equipment, Vehicles and Leasehold Improvements – Office equipment is valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical costs include all direct costs associated with the acquisition of office equipment and placing such equipment in service. Depreciation is calculated using the straight-line method based upon an estimated useful life of 3 to 10 years.

Asset Retirement Obligation – The Company records a liability in the period in which an asset retirement obligation ("ARO") is incurred, in an amount equal to the discounted estimated fair value of the obligation that is capitalized. Thereafter, this liability is accreted up to the final estimated retirement cost. An ARO is a future expenditure related to the disposal or other retirement of certain assets. The Company's ARO relates to future plugging and abandonment expenses of its oil and natural gas properties and related facilities disposal.

Share-Based Employee Compensation – The Company has outstanding stock option grants and restricted stock awards to directors, officers and employees, which are described more fully in Note 11. The Company recognizes the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the related compensation expense over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period.

Share-Based Compensation to Non-Employees – The Company accounts for share-based compensation issued to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of (i) the date at which a commitment for performance by the recipient to earn the equity instruments is reached or (ii) the date at which the recipient's performance is complete.

Income Taxes – Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes. Deferred taxes are based on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, and tax carry forwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Since December 31, 2020, the Company has determined that a full valuation allowance is necessary due to the Company assessment that it is more likely than not that it will be unable to obtain the benefits of its deferred tax assets due to the Company's history of taxable losses. During the three months ended June 30, 2022, the Company determined that certain existing deferred tax assets will not be offset by existing deferred tax liabilities as a result of the 80% limitation on the utilization net operating losses incurred after 2017. Accordingly, for the three and six months ended June 30, 2022, the Company recorded federal income tax expense of $1,014,048. The Company recorded state deferred income tax expense of $536,913 during the six months ended June 30, 2022 and $190,644 for the six months ended June 30, 2021. The Company has immaterial operations in New Mexico which is in a net deferred tax asset position for which a full valuation allowance is still recorded.

Recently Adopted Accounting Pronouncements – In December 2019, the FASB released Accounting Standards Update (ASU) No. 2019-12 ("ASU 2019-12"), "*Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*," which removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The amended standard is effective for fiscal years beginning after December 15, 2020.The adoption of ASU 2019-12 did not have a material impact to the Company's financial statements or disclosures.

In October 2020, the FASB issued ASU No. 2020-10, "*Codification Improvements*" ("ASU 2020-10"), which clarifies or improves disclosure requirements for various topics to align with SEC regulations. This update was effective for the Company beginning in the first quarter of 2021 and was applied retrospectively. The adoption and implementation of this ASU did not have a material impact on the Company's financial statements.

In August 2020, the FASB issued ASU No. 2020-06, "*Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)"* ("ASU 2020-06"). ASU 2020-06 was issued to reduce the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. The guidance may be applied using either a modified retrospective or a fully retrospective method. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company adopted ASU 2020-06 effective January 1, 2022. The adoption and implementation of this ASU did not have a material impact on the Company's financial statements.

Recent Accounting Pronouncements - In March 2020, the FASB issued ASU No. 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"* ("ASU 2020-04"), which provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. ASU 2020-04 will be in effect through December 31, 2022. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope* ("ASU 2021-01"), to provide clarifying guidance regarding the scope of Topic 848. ASU 2020-04 was issued to provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The Company is currently assessing the impact of adopting this new guidance.

In October 2021, the FASB issued ASU No. 2021-08, *"Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"* ("ASU 2021-08"). This update requires the acquirer in a business combination to record contract asset and liabilities following Topic 606 - "Revenue from Contracts with Customers" at acquisition as if it had originated the contract, rather than at fair value. This update is effective for public business entities beginning after December 15, 2022, with early adoption permitted. The Company continues to evaluate the provisions of this update, but it does not believe the adoption will have a material impact on its financial position, results of operations, or liquidity.

Basic and Diluted Earnings per Share – Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if all contracts to issue common stock were converted into common stock, except for those that are anti-dilutive. The dilutive effect of stock options and other share-based compensation is calculated using the treasury method.

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NOTE 2 – REVENUE RECOGNITION

The Company predominantly derives its revenue from the sale of produced crude oil and natural gas. The contractual performance obligation is satisfied when the product is delivered to the customer. Revenue is recorded in the month the product is delivered to the purchaser. The Company receives payment from one to three months after delivery. The Company has utilized the practical expedient in ASC ("Accounting Standards Codification") 606-10-50-14, which states an entity 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 the Company's sales contracts, each unit of production delivered to a customer represents a separate performance obligation, therefore, future volumes to be delivered are wholly unsatisfied and disclosure of transaction price allocated to remaining performance obligation is not required. The transaction price includes variable consideration as product pricing is based on published market prices and reduced for contract specified differentials such as quality, energy content and transportation. The guidance does not require that the transaction price be fixed or stated in the contract. Estimating the variable consideration does not require significant judgment and the Company engages third party sources to validate the estimates. Revenue is recognized net of royalties due to third parties in an amount that reflects the consideration the Company expects to receive in exchange for those products.

Oil sales

Under the Company's oil sales contracts, the Company sells oil production at the point of delivery and collects an agreed upon index price, net of pricing differentials. The Company recognizes revenue at the net price received when control transfers to the purchaser at the point of delivery and it is probable the Company will collect the consideration it is entitled to receive.

Natural gas sales

Under the Company's natural gas sales processing contracts for its Central Basin Platform properties, Delaware Basin properties and part of its Northwest Shelf assets, the Company delivers unprocessed natural gas to a midstream processing entity at the wellhead. The midstream processing entity obtains control of the natural gas at the wellhead. The midstream processing entity gathers and processes the natural gas and remits proceeds to the Company for the resulting sale of natural gas. Under these processing agreements, the Company recognizes revenue when control transfers to the purchaser at the point of delivery and it is probable the Company will collect the consideration it is entitled to receive. As such, the Company accounts for any fees and deductions as a reduction of the transaction price.

Until April 30, 2022, under the Company's natural gas sales processing contracts for the bulk of its Northwest Shelf assets, the Company delivered unprocessed natural gas to a midstream processing entity at the wellhead. However, the Company maintained ownership of the gas through processing and received proceeds from marketing the resulting products. Under this processing agreement, the Company recognized fees associated with the processing as an expense rather than netting these costs against Oil and Natural Gas Revenues in the Statements of Operations. Beginning May 1, 2022, these contracts were combined into one contract, and it was modified so that the Company no longer maintained ownership of the gas through processing. Accordingly, the Company, from that point on, accounts for any such fees and deductions as a reduction of the transaction price.

Disaggregation of revenue. The following table presents revenues disaggregated by product for the three and six months ended June 30, 2022 and 2021:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2022	2021	2022	2021
Operating Revenues				
Oil	$ 79,688,536	$ 45,653,189	$ 143,119,163	$ 81,037,770
Natural gas	5,273,339	2,106,913	10,023,744	6,224,864
Total operating revenues	$ 84,961,875	$ 47,760,102	$ 153,142,907	$ 87,262,634

All revenues are from production from the Permian Basin in Texas and New Mexico.

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NOTE 3 – LEASES

The Company has operating leases for its offices in The Woodlands, Texas and Midland, Texas. The Midland office is under a five-year lease which began January 1, 2021. Also beginning January 15, 2021, the Company entered into a five-and-a-half-year sub-lease for office space in The Woodlands, Texas. The future payments associated with these operating leases are reflected below.

The Company also has month to month leases for office equipment and compressors used in its operations on which the Company has elected to apply ASU 2016-02(i.e. not capitalize). The office equipment and compressors are not subject to ASU 2016-02 based on the agreement and nature of use. These leases are for terms that are less than 12 months and the Company does not intend to continue to lease this equipment for more than 12 months. The lease costs associated with these leases is reflected in the short-term lease costs within Lease operating expenses, shown below.

The Company has financing leases for vehicles. These leases have a term of 36 months at the end of which the Company owns the vehicles. These vehicles are generally sold at the end of their term and the proceeds applied to new vehicles.

Future lease payments (undiscounted future cash flows) associated with these operating and financing leases as of June 30, 2022 are as follows:

	2022	2023	2024	2025	2026
Operating lease payments(1)	$ 174,563	$ 356,991	$ 376,855	$ 384,719	$ 110,096
Financing lease payments(2)	223,365	438,328	372,056	99,796	—

(1) The weighted average discount rate as of June 30, 2022 for operating leases was 4.50%. Based on this rate, the future lease payments above include imputed interest of $117,889. The weighted average remaining term of operating leases was 3.80 years.
(2) The weighted average discount rate as of June 30, 2022 for financing leases was 4.00%. Based on this rate, the future lease payments above include imputed interest of $59,058. The weighted average remaining term of financing leases was 2.66 years.

The following table represents a reconciliation between the undiscounted future cash flows in the table above and the operating and financing lease liabilities disclosed in the Balance Sheets:

	As of	
	June 30, 2022	December 31, 2021
Operating lease liability, current portion	$ 301,339	$ 290,766
Operating lease liability, non-current portion	983,995	1,138,319
Operating lease liability, total	**$ 1,285,334**	**$ 1,429,085**
Total undiscounted future cash flows	1,403,223	1,577,786
Imputed interest	117,889	148,701
Undiscounted future cash flows less imputed interest	**$ 1,285,334**	**$ 1,429,085**
Financing lease liability, current portion	$ 407,031	$ 316,514
Financing lease liability, non-current portion	667,456	343,727
Financing lease liability, total	**$ 1,074,487**	**$ 660,241**
Total undiscounted future cash flows	1,133,545	692,091
Imputed interest	59,058	31,850
Undiscounted future cash flows less imputed interest	**$ 1,074,487**	**$ 660,241**

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The following table provides supplemental information regarding cash flows from operations for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Operating lease costs	$ 83,590	$ 84,790	$ 167,180	$ 356,307
Short term lease costs (1)	581,799	1,046,025	1,297,602	1,938,514
Financing lease costs:				
Amortization of financing lease assets (2)	110,850	68,625	227,465	104,464
Interest on lease liabilities (3)	7,280	4,078	13,793	9,006

(1) Amount included in Lease operating expenses
(2) Amount included in Depreciation, depletion and amortization
(3) Amount included in Interest expense

NOTE 4 – EARNINGS (LOSS) PER SHARE INFORMATION

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Net Income (Loss)	$ 41,944,422	$ (15,887,159)	$ 49,056,465	$ (34,953,252)
Basic Weighted-Average Shares Outstanding	106,390,776	99,300,458	103,291,669	99,197,160
Effect of dilutive securities:				
Stock options	114,985	—	115,069	—
Restricted stock units	2,614,251	—	2,274,467	—
Performance stock units	393,023	—	243,475	—
Common warrants	21,084,554	—	20,327,025	—
Diluted Weighted-Average Shares Outstanding	130,597,589	99,300,458	126,251,705	99,197,160
Basic Earnings (Loss) per Share	$ 0.39	$ (0.16)	$ 0.47	$ (0.35)
Diluted Earnings (Loss) per Share	$ 0.32	$ (0.16)	$ 0.39	$ (0.35)

Stock options to purchase 70,500 and 70,500 shares of common stock, 6,681 and 6,269 shares of unvested restricted stock units, and zero and 767,537 shares of unvested performance stock units, respectively, were excluded from the computation of diluted earnings per share during the three and six months ended June 30, 2022, as their effect would have been anti-dilutive. Stock options to purchase 465,500 shares of common stock, 3,230,569 shares of unvested restricted stock and unexercised common warrants of 29,519,500 were excluded from the computation of diluted earnings per share during the three and six months ended June 30, 2021, as their effect would have been anti-dilutive.

NOTE 5 – ACQUISITIONS & DIVESTITURES

The Company entered into a Purchase, Sale and Exchange Agreement dated February 1, 2021, effective January 1, 2021, with an unrelated party, covering the sale and exchange of certain oil and gas interests in Andrews County, Texas. Upon the sale and transfer of wells and leases between the two parties, the Company received a net value consideration in cash of $2,000,000 and reduced the Company's asset retirement obligations by $2,934,126 for the properties sold and added $662,705 of asset retirement obligations for the wells acquired.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to fluctuations in crude oil and natural gas prices on its production. It utilizes derivative strategies that consist of either a single derivative instrument or a combination of instruments to manage the variability in cash flows associated with the forecasted sale of its future domestic oil and natural gas production. While the use of derivative instruments may limit or partially reduce

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the downside risk of adverse commodity price movements, the use also may limit future income from favorable commodity price movements.

The Company's derivative financial instruments are recorded at fair value and included as either assets or liabilities in the accompanying Balance Sheets. The Company has not designated its derivative financial instruments as hedges for accounting purposes, and, as a result, any gains or losses resulting from changes in fair value of outstanding derivative financial instruments and from the settlement of derivative financial instruments are recognized in earnings and included as a component of "Other income (expense)" under the heading "(Loss) on derivative contracts" in the accompanying Statements of Operations.

The use of derivative transactions involves the risk that the counterparties, which generally are financial institutions, will be unable to meet the financial terms of such transactions. At June 30, 2022, 100% of the Company's volumes subject to derivative instruments are with lenders under its Credit Facility (as defined in Note 8). Non-performance risk is incorporated by utilizing discount rates adjusted for the credit risk of the Company's counterparties. The Company is not subject to master netting agreements and classifies the fair value of its derivative positions on a gross basis in its corresponding Balance Sheets. The following presents the impact of the Company's contracts on its Balance Sheets for the periods indicated.

	As of	
	June 30, 2022	December 31, 2021
Commodity derivative instruments	$ 1,353,196	$ —
Derivative assets, current	**$ 1,353,196**	**$ —**
Commodity derivative instruments	$ 785,389	$ —
Derivative assets, noncurrent	**$ 785,389**	**$ —**
Commodity derivative instruments	$ 32,700,566	$ 29,241,588
Derivative liabilities, current	**$ 32,700,566**	**$ 29,241,588**

The components of "(Loss) on derivative contracts" are as follows for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Loss) on oil derivative	$ (7,457,018)	$ (35,277,240)	$ (35,053,159)	$ (66,667,190)
(Loss) on natural gas derivatives	—	—	—	(198,689)
(Loss) on derivative contracts	**$ (7,457,018)**	**$ (35,277,240)**	**$ (35,053,159)**	**$ (66,865,879)**

The components of "Cash (paid) for derivative settlements" are as follows for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cash flows from operating activites:				
Cash (paid) on oil derivatives	$ (19,617,265)	$ (12,436,333)	$ (33,732,766)	$ (19,100,302)
Cash received on natural gas derivatives	—	—	—	743,178
Cash (paid) for derivative settlements, net	**$ (19,617,265)**	**$ (12,436,333)**	**$ (33,732,766)**	**$ (18,357,124)**

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During 2020, 2021, and early 2022, the Company entered into additional derivative contracts in the form of swaps for the 2022 calendar period for oil. Additionally, on June 28 and 29, 2022, the Company entered into twelve new derivative contracts in the form of put options. The following tables reflect the details of current contracts as of June 30, 2022:

Date entered into	Period covered	Type of Contract	Barrels per day	Index	Swap price	Strike price	Deferred premium
Oil derivative contracts:							
12/04/2020	Calendar year 2022	Swap	500	WTI	$ 44.22		
12/07/2020	Calendar year 2022	Swap	500	WTI	44.75		
12/10/2020	Calendar year 2022	Swap	500	WTI	44.97		
12/17/2020	Calendar year 2022	Swap	250	WTI	45.98		
01/04/2021	Calendar year 2022	Swap	250	WTI	47.00		
02/04/2021	Calendar year 2022	Swap	250	WTI	50.05		
05/11/2021	Calendar year 2022	Swap	879 (1)	WTI	49.03		
02/01/2022	02/01/2022 - 12/31/2022	Swap	1,000	WTI	82.01		
06/28/2022	07/01/2022 - 09/30/2022	Put	1,000	WTI		$ 107.90	$ 6.95
06/28/2022	10/01/2022 - 12/31/2022	Put	1,000	WTI		100.60	11.71
06/28/2022	01/01/2023 - 03/31/2023	Put	1,000	WTI		95.75	13.96
06/28/2022	04/01/2023 - 06/30/2023	Put	1,000	WTI		92.70	15.20
06/28/2022	07/01/2023 - 09/30/2023	Put	1,000	WTI		90.00	16.00
06/28/2022	10/01/2023 - 12/31/2023	Put	1,000	WTI		87.70	16.53
06/29/2022	01/01/2023 - 03/31/2023	Put	500	WTI		95.25	14.25
06/29/2022	04/01/2023 - 06/30/2023	Put	500	WTI		91.85	15.58
06/29/2022	07/01/2023 - 09/30/2023	Put	500	WTI		89.10	16.45
06/29/2022	10/01/2023 - 12/31/2023	Put	500	WTI		86.90	16.93
06/29/2022	01/01/2024 - 03/31/2024	Put	500	WTI		84.70	17.15
06/29/2022	04/01/2024 - 06/30/2024	Put	500	WTI		82.80	17.49

(1) The notional quantity per the swap contract entered into on May 11, 2021 is for 26,750 barrels of oil per month. The 879 represents the daily amount on an annual basis.

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NOTE 7 – FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The authoritative guidance requires disclosure of the framework for measuring fair value and requires that fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company considers active markets as those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that the Company values using observable market data. Substantially all inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity).

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. The Company continues to evaluate its inputs to ensure the fair value level classification is appropriate. When transfers between levels occur, it is the Company's policy to assume that the transfer occurred at the date of the event or change in circumstances that caused the transfer.

The fair values of the Company's derivatives are not actively quoted in the open market. The Company uses a market approach to estimate the fair values of its derivative instruments on a recurring basis, utilizing commodity futures pricing for the underlying commodities provided by a reputable third party, a Level 2 fair value measurement.

Other financial instruments include cash, accounts receivable and accounts payable. The carrying amount of these instruments approximates fair value because of their short-term nature. The Company's long-term debt obligation bears interest at floating market rates, therefore the carrying amounts and fair value are approximately equal.

The Company applies the provisions of the fair value measurement standard on a non-recurring basis to its non-financial assets and liabilities. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments if events or changes in certain circumstances indicate that adjustments may be necessary.

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The following table summarizes the valuation of the Company's assets and liabilities that are measured at fair value on a recurring basis(further detail in Note 6).

	Fair Value Measurement Classification			
	Quoted prices in Active Markets for Identical Assets or (Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2021				
Commodity Derivatives - Liabilities	$ —	$ (29,241,588)	$ —	$ (29,241,588)
Total	$ —	$ (29,241,588)	$ —	$ (29,241,588)

	Fair Value Measurement Classification			
	Quoted prices in Active Markets for Identical Assets or (Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2022				
Commodity Derivatives - Assets	$ —	$ 2,138,585	$ —	$ 2,138,585
Commodity Derivatives - Liabilities	—	(32,700,566)	—	(32,700,566)
Total	$ —	$ (30,561,981)	$ —	$ (30,561,981)

NOTE 8 – REVOLVING LINE OF CREDIT

In April 2019, the Company amended and restated its Credit Agreement with the Administrative Agent (as amended and restated, the "Credit Facility"). The amendment and restatement of the Credit Facility, among other things, increased the maximum borrowing amount to $1 billion, extended the maturity date through April 2024 and made other modifications to the terms of the Credit Facility. The fourth amendment on June 10, 2021, among other things, reaffirmed the borrowing base at $350 million and modified the definition for "Fall 2020 Borrowing Base Hedges," from 4,000 barrels of oil per day to 3,100 barrels of oil per day for calendar year 2022. The fifth amendment on June 25, 2021 incorporated contractual fallback language for US dollar LIBOR denominated syndicated loans, which language provides for the transition away from LIBOR to an alternative reference rate, and incorporates certain provisions that clarify the rights of agents to recover from lenders erroneous payments made to such lenders. The Credit Facility is secured by a first lien on substantially all of the Company's assets. The borrowing base is subject to periodic redeterminations, mandatory reductions, and further adjustments from time to time. The borrowing base is redetermined semi-annually in May and November and was most recently affirmed at $350 million in December 2021. The May 2022 redetermination has been postponed due to the events highlighted in Note 13.

The Credit Facility allows for Eurodollar Loans and Base Rate Loans (as respectively defined in the Credit Facility). The interest rate on each Eurodollar Loan will be the adjusted LIBOR for the applicable interest period plus a margin between 2.5% and 3.5% (depending on the then-current level of borrowing base usage). The annual interest rate on each Base Rate Loan is (a) the greatest of (i) the Administrative Agent's prime lending rate, (ii) the Federal Funds Rate (as defined in the Credit Facility) plus 0.5% per annum, (iii) the adjusted LIBOR determined on a daily basis for an interest period of one-month, plus 1.00% per annum and (iv) 0.00% per annum, plus (b) a margin between 1.5% and 2.5% (depending on the then-current level of borrowing base usage).

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The Credit Facility contains certain covenants, which, among other things, require the maintenance of (i) a total Leverage Ratio (outstanding debt to adjusted earnings before interest, taxes, depreciation and amortization) of not more than 4.0 to 1.0 and (ii) a minimum ratio of Current Assets to Current Liabilities (as such terms are defined in the Credit Facility) of 1.0 to 1.0. The Credit Facility also contains other customary affirmative and negative covenants and events of default. As of June 30, 2022, $270,000,000 was outstanding on the Credit Facility. The Company is in compliance with all covenants contained in the Credit Facility as of June 30, 2022.

NOTE 9 – ASSET RETIREMENT OBLIGATION

The Company records the obligation to plug and abandon oil and gas wells at the dates properties are either acquired or the wells are drilled. The asset retirement obligation is adjusted each quarter for any liabilities incurred or settled during the period, accretion expense and any revisions made to the costs or timing estimates. The asset retirement obligation is incurred using an annual credit-adjusted risk-free discount rate at the applicable dates. Changes in the asset retirement obligation were as follows:

Balance, December 31, 2021	**$ 15,292,054**
Liabilities incurred	122,206
Liabilities acquired	—
Liabilities sold	—
Revision of previous estimates	—
Liabilities settled	(415,262)
Accretion expense	374,545
Balance, June 30, 2022	**$ 15,373,543**

NOTE 10 – STOCKHOLDERS' EQUITY

During the year ended December 31, 2021, the remaining 13,428,500 pre-funded warrants and 442,600 of common warrants were exercised. Gross proceeds from these transactions were $367,509. On April 5, April 6, and April 7, 2022, a total of 6,453,907 of common warrants were exercised at a price of $0.80 per share. At June 30, 2022, there remained 22,907,793 unexercised common warrants, with an exercise price of $0.80 per share.

NOTE 11 – EMPLOYEE STOCK OPTIONS AND RESTRICTED STOCK AWARD PLAN

Compensation expense charged against income for share-based awards during the three and six months ended June 30, 2022 was $1,899,245 and $3,421,155, respectively, compared to $351,775 and $707,269 for the three and six months ended June 30, 2021. These amounts are included in General and administrative expense in the accompanying financial statements.

In 2011, the Company's board of directors and stockholders approved and adopted a long-term incentive plan which allowed for the issuance of up to 2,500,000 shares of common stock through the grant of qualified stock options, non-qualified stock options and restricted stock. In 2013, the Company's board of directors and stockholders approved an amendment to the long-term incentive plan, increasing the number of shares eligible under the plan to 5,000,000 shares. There were 341,155 shares remaining eligible for grant, either as stock options or as restricted stock, as of June 30, 2022.

In May 2021, the Company's board of directors and stockholders approved and adopted a long-term incentive plan (the "2021 Plan") which allowed for the issuance of up to 9,900,000 shares, including 341,155 shares that were reserved but unissued under the prior plan, of common stock subject to the grant of qualified stock options, non-qualified stock options, restricted stock units and restricted stock. There were 5,704,413 shares eligible for grant under the 2021 Plan as of June 30, 2022.

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Stock Options

A summary of the stock option activity as of June 30, 2022 and 2021, respectively, and changes during the three and six months then ended is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2020	465,500	$ 3.26		
Granted	—	—		
Forfeited or rescinded	—	—		
Exercised	—	—		
Outstanding, March 31, 2021	465,500	$ 3.26	3.00 Years	$ 134,850
Granted	—	—		
Forfeited or rescinded	—	—		
Exercised	—	—		
Outstanding, June 30, 2021	465,500	3.26	2.75 Years	$ 426,300
Exercisable, June 30, 2021	460,700	$ 3.11	2.70 Years	
Outstanding, December 31, 2021	365,500	$ 3.61		
Granted	—	—		
Forfeited or rescinded	—	—		
Exercised	—	—		
Outstanding, March 31, 2022	365,500	$ 3.61	2.21 Years	$ 536,900
Granted	—	—		
Forfeited or rescinded	—	—		
Exercised	(100,000)	2.00		
Outstanding, June 30, 2022	265,500	4.21	2.14 Years	$ 128,700
Exercisable, June 30, 2022	265,500	$ 4.21	2.14 Years	

The intrinsic values were calculated using the closing price on June 30, 2022 of $2.66 and the closing price on June 30, 2021 of $2.98. As of June 30, 2022, there was $0 of unrecognized compensation cost related to stock options.

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Restricted Stock

A summary of the restricted stock activity as of June 30, 2022 and 2021, and changes during the three and six months then ended is as follows:

	Restricted stock	Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2020	2,132,297	$ 1.03
Granted	—	—
Forfeited or rescinded	—	—
Vested	(94,350)	4.95
Outstanding, March 31, 2021	2,037,947	$ 0.85
Granted	1,196,102	2.77
Forfeited or rescinded	—	—
Vested	(3,480)	5.96
Outstanding, June 30, 2021	3,230,569	$ 1.55
Outstanding, December 31, 2021	2,572,596	$ 1.75
Granted	1,247,061	2.79
Forfeited or rescinded	—	—
Vested	—	—
Outstanding, March 31, 2022	3,819,657	$ 2.09
Granted	19,642	4.27
Forfeited or rescinded	(17,204)	2.79
Vested	(610,195)	2.80
Outstanding, June 30, 2022	3,211,900	$ 1.97

As of June 30, 2022 there was $3,994,302 of unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted average period of 2.06 years.

Grant activity for the six months ended June 30, 2022 was primarily restricted shares for the annual long-term incentive plan awards for employees.

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Performance Stock Units

A summary of the performance stock unit activity as of June 30, 2022 and 2021, and changes during the three and six months then ended is as follows:

	Performance Stock Units	Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2020	—	$ —
Granted	—	—
Forfeited or rescinded	—	—
Vested	—	—
Outstanding, March 31, 2021	—	$ —
Granted	—	—
Forfeited or rescinded	—	—
Vested	—	—
Outstanding, June 30, 2021	—	$ —
Outstanding, December 31, 2021	860,216	$ 3.87
Granted	860,216	3.65
Forfeited or rescinded	—	—
Vested	—	—
Outstanding, March 31, 2022	1,720,432	$ 3.76
Granted	—	—
Forfeited or rescinded	—	—
Vested	—	—
Outstanding, June 30, 2022	1,720,432	$ 3.76

As of June 30, 2022, there was $5,326,433 of unrecognized compensation cost related to performance stock units that will be recognized over a weighted average period of 2.02 years.

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Standby Letters of Credit – A commercial bank issued standby letters of credit on behalf of the Company to a state agency for $250,000 on June 26, 2015, a federal agency for $10,000 on April 9, 2019, and to an insurance company on May 19, 2020 for $500,438. The standby letters of credit are valid until cancelled or matured and are collateralized by the Credit Facility. The terms of the letters of credit to the state and federal agencies are extended for a term of one year at a time. The Company intends to renew the standby letters of credit to the state and federal agencies for as long as the Company does business in the States of Texas and New Mexico. The letter of credit to the insurance company relates to the surety bonds noted below. No amounts have been drawn under the standby letters of credit.

Surety Bonds - An insurance company issued surety bonds on behalf of the Company totaling $500,438 to various State of New Mexico agencies in order for the Company to do business in the State of New Mexico. The surety bonds are valid until canceled or matured. The terms of the surety bonds are extended for a term of one year at a time. The Company intends to renew the surety bonds on $400,000 as long as the Company does business in the State of New Mexico. The remaining $100,438 is related to inactive wells and will remain in place until the Company returns those wells to activity or plugs them.

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NOTE 13 – SUBSEQUENT EVENTS

On July 1, 2022, 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”). The Purchase Agreement provides that the Company will acquire (the “Stronghold Acquisition”) interests in oil and gas leases and related property of Stronghold 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, par value $0.001 per share of the Company (“Common stock”) and (ii) 153,176 shares of newly created Series A Convertible Preferred Stock, par value $0.001 (“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. On July 5, 2022, in connection with the Purchase Agreement, the Company deposited $46.5 million in cash into a third-party escrow account as a deposit pursuant to the Purchase Agreement, which will be credited against the Purchase Price upon the closing of the Stronghold Acquisition.

In accordance with ASC Topic 855, Subsequent Events, the Company has evaluated all events subsequent to the balance sheet date of June 30, 2022, through the date of this report. The Company has reported on all material subsequent events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of our Balance Sheets and Statements of Operations. This section should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2021 and our interim unaudited financial statements and accompanying notes to these financial statements.

Overview

Ring Energy, Inc. ("Ring," the "Company," "our," "we," "us," or similar terms) is a growth oriented independent exploration and production company and is engaged in oil and natural gas development, production, acquisition, and exploration activities currently focused in Texas and New Mexico. Our primary drilling operations target the oil and liquids rich producing formations in the Northwest Shelf, the Central Basin Platform, and the Delaware Basin, all of which are part of the Permian Basin. Our corporate headquarters are in The Woodlands, Texas.

Recent Developments

Stronghold Purchase Agreement

On July 1, 2022, 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"). The Purchase Agreement provides that the Company will acquire (the "Stronghold Acquisition") interests in oil and gas leases and related property of Stronghold 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, par value $0.001 per share of the Company ("Common stock") and (ii) 153,176 shares of newly created Series A Convertible Preferred Stock, par value $0.001 ("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. On July 5, 2022, in connection with the Purchase Agreement, the Company deposited $46.5 million in cash into a third-party escrow account as a deposit pursuant to the Purchase Agreement, which will be credited against the Purchase Price upon the closing of the Stronghold Acquisition. The Company expects the Stronghold Acquisition to close in the third quarter of 2022.

Business Description and Plan of Operation

We are focused on delivering competitive and sustainable returns to our stockholders by developing, acquiring, exploring for, and commercializing oil and natural gas resources vital to the world's health and welfare. Successfully achieving Ring's mission requires a firm commitment to operating safely in a socially responsible and environmentally friendly manner, while ensuring the Company conducts its business with honesty and integrity. Specifically, our business strategy is to increase our stockholders' value through the following:

- *Growing production and reserves by developing our oil-rich resource base through conventional and horizontal drilling.* In an effort to maximize its value and resource potential, Ring intends to drill and develop its acreage base in both the Northwest Shelf and Central Basin Platform assets, allowing Ring to execute on its plan of operating within its generated cash flow on an annual basis.

  In the first quarter of 2022, Ring contracted a rig on January 31, 2022, and drilled and completed three 1-mile horizontal Central Basin Platform wells and one 1.5-mile horizontal Central Basin Platform well and drilled two 1-mile horizontal wells in the Northwest Shelf. The Company has a working interest of 100% in all wells drilled in the first quarter 2022. The newly completed wells resulted in minimal contribution to first quarter production but were situated to provide a strong contribution to the next quarter. In addition to the six drilled wells and four new wells placed into production, during the first quarter, the Company continued its program of conversions from electrical submersible pumps to rod pumps "CTRs", with four conversions in the Northwest Shelf.

During the second quarter of 2022, Ring drilled a total of nine wells, completed seven wells, and began the completion process on four wells, all in the Northwest Shelf. Two of the wells completed were 1-mile horizontal wells that were drilled in the first quarter with both wells at a working interest of 100%. In addition, there were three 1-mile horizontal wells with a working interest of 100% and two 1.5-mile horizontal wells with a working interest of approximately 98.7% that were drilled and completed in the second quarter. Ring also drilled and began the completion process on an additional four 1-mile horizontal wells. Two of the wells have a working interest of 100%, one has a working interest of 87.5%, and the fourth has a working interest of 75%. In addition to the nine drilled wells and seven new wells placed into production, during the second quarter, the Company continued its program of conversions from electrical submersible pumps to rod pumps ("CTRs"), with three conversions in the Northwest Shelf and one conversion in the Central Basin Platform. During 2022, the Company expects to drill 25 to 33 and complete 25 to 30 horizontal wells in the Northwest Shelf and Central Basin Platform assets.

- *Reduction of long-term debt and de-leveraging of asset.* Ring intends to reduce its long-term debt primarily through the use of free cash flow from operations and potentially through the sale of non-core assets. The Company believes that with its attractive field level margins, it is well positioned to maximize the value of its assets and de-lever its balance sheet. The Company also believes through potential accretive acquisitions and strategic asset dispositions, it can accelerate the strengthening of its balance sheet. During the six months ended June 30, 2022, the Company used free cash flow from operations to pay down $20,000,000 on its outstanding long-term debt bringing the principal balance down to $270,000,000.

- *Employ industry leading drilling and completion techniques.* Ring's executive team intends to utilize new and innovative technological advancements for completion optimization, comprehensive geological evaluation, and reservoir engineering analysis to generate value and to build future development opportunities. These technological advancements have led to a low-cost structure that helps maximize the returns generated by our drilling programs. Given the current commodity environment, labor market and inflationary pressures, Ring also expects improved execution efficiencies by implementing a continuous drilling program throughout 2022.

- *Pursue strategic acquisitions with exceptional upside potential.* Ring has a history of acquiring leasehold positions that it believes to have additional resource potential that meet its targeted returns on invested capital and comparable to its existing inventory of drilling locations. The Company pursues an acquisition strategy designed to increase reserves at attractive finding costs and complement existing core properties. Management intends to continue to pursue strategic acquisitions and structure the potential transactions financially, so they improve balance sheet metrics and are accretive to shareholders. The executive team, with its extensive experience in the Permian Basin, has many relationships with operators and service providers in the region. Ring believes that leveraging its management's relationships will be a competitive advantage in identifying potential acquisition targets.

Executive Summary - 2022 Developments and Highlights

COVID-19 and Geopolitical Impact

In December of 2020, the Food and Drug Administration authorized the use of the COVID-19 vaccination in the United States. The shots were first administered to front line workers and the elderly but were soon made available to all adults. The daily new infections peaked in the first quarter of 2021 and have seen an overall steady decline, giving states the ability to reopen to certain extents. In March 2021, the Federal Government passed a $1.9 trillion coronavirus relief package which included direct payments to qualifying individuals, extended unemployment benefits, and provided state and local assistance. During 2021, the demand for oil and natural gas increased as the economy recovered from the effects of the COVID-19 pandemic which strengthened energy prices. Although both oil and natural gas prices have exceeded pre-pandemic levels, volatility due to new and emerging variants of the COVID-19 virus, OPEC actions, the Russian-Ukrainian war, and other factors affecting the global supply and demand of oil and natural gas have continued into 2022. It is not clear whether these issues will continue to cause volatile energy prices and further challenges to our business.

Oil and Natural Gas Revenues

Our oil and natural gas producing properties are located in the Permian Basin. Oil sales represented approximately 94% and 96% of our total revenue for the three months ended June 30, 2022 and 2021, respectively. Gas was a higher percentage of revenue in the three months ended June 30, 2022 due to the significant increase in gas sales volumes as well as increased product prices. Oil had an average realized price of $109.24 per barrel, compared to $65.00 per barrel for the same period in 2021. Gas prices had an average realized price of $7.29 per Mcf for the quarter, compared to $3.90 per Mcf for the same period in 2021.

Commodity Risk Management

Effective February 1, 2022 we entered into swaps for 1,000 barrels of oil per day for the remainder of calendar year 2022 at a weighted average price of $84.61 per barrel. Additionally, we entered into deferred premium commodity put options on June 28 and 29, 2022. In total, we had swaps for 3,129 barrels of oil per day for the month of January 2022, we had swaps for 4,129 barrels of oil per day for February through June 2022, and we have swaps and put options for a total of 5,129 barrels of oil per day for July through December 2022, with a weighted average price of $59.08 per barrel for the next two quarters in 2022. We have put options in place for 1,500 barrels per day from January through December 2023 with a weighted average price of $75.70 per barrel, and we have put options in place for 500 barrels per day from January through June 2024 with a weighted average price of $66.43 per barrel. Our 2022 derivative financial instruments resulted in a total non-cash fair value gain of approximately $12.2 million during the three months ended June 30, 2022 and cash paid for derivative settlements of approximately $19.6 million, for a total loss on derivative contracts of approximately $7.4 million.

Borrowing Base

The Company's borrowing base remained at $350 million during the second quarter of 2022, with the minimum hedged barrels of oil per day at 3,100. We paid down $10 million of debt in each of the first and second quarters of 2022 and had $270 million of principal outstanding on our Credit Facility as of June 30, 2022. As our borrowing base is subject to a semi-annual redetermination, our available borrowings and liquidity could be impacted by a redetermination later in 2022.

Results of Operations – For the Three Months Ended June 30, 2022 and 2021

Oil and natural gas sales. For the three months ended June 30, 2022, oil and natural gas sales revenue increased $37,201,773 to $84,961,875, compared to $47,760,102 for the same period during 2021, primarily as a result of higher oil and natural gas prices, as well as increased production. Of this, oil sales increased $34,035,347 and natural gas sales increased $3,166,426. For the three months ended June 30, 2022, oil sales volume increased 27,076 barrels to 729,484 barrels, compared to 702,408 barrels for the same period in 2021. The average realized per barrel of oil price increased 68% from $65.00 for the three months ended June 30, 2021, to $109.24 for the three months ended June 30, 2022. For the three months ended June 30, 2022, gas sales volume increased 182,339 thousand cubic feet (Mcf) to 723,196 Mcf, compared to 540,857 Mcf for the same period in 2021 due to workovers completed as well as new wells placed into production. The average realized natural gas price per Mcf increased 87% from $3.90 to $7.29.

The following table presents our sales revenues for the periods indicated:

	For The Three Months Ended June 30,	
	2022	2021
Operating Revenues		
Oil	$ 79,688,536	$ 45,653,189
Natural gas	5,273,339	2,106,913
Total operating revenues	$ 84,961,875	$ 47,760,102

Lease operating expenses. Total lease operating expenses increased approximately 12% from $7,424,488 for the three months ended June 30, 2021, to $8,301,443 for the three months ended June 30, 2022 primarily due to a significant increase to labor costs and industry wide inflationary pressures. Total lease operating expenses ("LOE") expressed on a per barrel of oil equivalent ("Boe") basis increased approximately 4% from $9.37 per Boe for the three months ended June 30, 2021, to $9.77 per Boe for the three months ended June 30, 2022 primarily due to the same causes during the three months ended June 30, 2022.

Gathering, transportation and processing costs. Our total gathering, transportation and processing costs decreased approximately 39% from $897,166 for the three months ended June 30, 2021 to $549,389 for the three months ended June 30, 2022, due primarily to a change in cost recognition due to a modification of the contract agreement. Specifically, beginning May 1, 2022, the Company and its processing entity modified the contract so that the Company no longer maintained ownership of the gas through processing. Accordingly, the Company from that point on accounts for any such fees and deductions as a direct reduction of the sales transaction price. Total gathering, transportation and processing costs expressed on a per Boe basis decreased approximately 43% from $1.13 per Boe for the three months ended June 30, 2021 to $0.65 per Boe for the three months ended June 30, 2022 primarily due to the aforementioned change in cost recognition.

Ad valorem taxes. Our ad valorem taxes increased approximately 35% from $703,775 for the three months ended June 30, 2021 to $949,239 for the three months ended June 30, 2022 primarily due to the increase in taxation commodity price from the prior year. Expressed on a per Boe basis, these costs increased approximately 26% from $0.89 per Boe for the three months ended June 30, 2021 to $1.12 for the three months ended June 30, 2022.

Oil and natural gas production taxes. Production taxes as a percentage of oil and natural gas sales increased slightly to 4.9% for the three months ended June 30, 2022 compared to 4.6% for the second quarter of 2021. We expect these rates to stay relatively steady.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $1,474,078 to $10,749,204 for the three months ended June 30, 2022, compared to $9,275,126 during the same period in 2021 due to higher 2022 production volumes. Average depreciation, depletion and amortization was $12.65 per Boe for the three months ended June 30, 2022 and $11.70 per Boe for the three months ended June 30, 2021.

Asset retirement obligation accretion. Accretion of asset retirement obligations ("AROs") increased by $2,290 to $186,303 for the three months ended June 30, 2022, compared to $184,013 for the three months ended June 30, 2021 because of more wells added.

General and administrative expense. General and administrative expense increased to $5,832,302 for the three months ended June 30, 2022 compared to $3,757,152 for the three months ended June 30, 2021. Within this change, we isolate share-based compensation, which increased to $1,899,245 for the three months ended June 30, 2022 compared to $351,775 for the three months ended June 30, 2021, primarily as the result of grants of equity awards in 2021 and 2022 pursuant to the Ring Energy, Inc. 2021 Omnibus Incentive Plan (the "2021 Plan") and subsequent grants in 2021 and 2022. For the three months ended June 30, 2022, general and administrative expenses excluding share-based compensation were higher due to increased salaries and wages, insurance costs, and rental costs. Hiring of 12 additional full-time employees in addition to awards under the Annual Incentive Plan ("AIP") resulted in an increase of $291,652 in salaries and wages. Review of insurance coverages led to adjusting the coverage (i.e., cyber insurance, director & officer insurance) with a cost increase in total of $137,089. Other cost increases included $94,737 in additional rent expense due to the rent abatement for The Woodlands office for the first nine months of 2021.

	For The Three Months Ended June 30,	
	2022	2021
General and administrative expense (excluding Share-based compensation)	$ 3,933,057	$ 3,405,377
Share-based compensation	1,899,245	351,775
General and administrative expense	$ 5,832,302	$ 3,757,152

Interest expense. Interest expense decreased $375,230 to $3,279,299 for the three months ended June 30, 2022, compared to $3,654,529 for the three months ended June 30, 2021 due to a $36.7 million lower average daily loan balance.

(Loss) on derivative contracts. In the Statements of Operations, the total loss on derivative contracts decreased by approximately 79%, from $35,277,240 for the three months ended June 30, 2021 to $7,457,018 for the three months ended June 30, 2022. Underlying this overall change in loss were changes within the realized and unrealized portions of the derivative instruments. We experienced an increase of $7,180,932 in realized losses from $12,436,333 during the three months ended June 30, 2021 to $19,617,265 during the three months ended June 30, 2022 due to an increase in oil prices. The Company records all derivative instruments on the Balance Sheets as either an asset or liability measured at fair value. Changes in fair value are recognized currently in earnings unless certain specific hedge accounting criteria are met. The unrealized (mark to market) loss decreased from $22,840,907 during the three months ended June 30, 2021 to an unrealized gain of $12,160,246 during the three months ended June 30, 2022 due to fewer barrels of oil being hedged as well as newly entered into put contracts with an asset position, net of deferred premiums.

Net income (loss). For the three months ended June 30, 2022, the Company achieved net income of $41,944,422, compared to a net loss of $15,887,159 for the three months ended June 30, 2021. The primary difference was the higher sales volumes and revenue in 2022 compared to 2021 resulting from increased workovers and drilling activities, and the significantly higher oil prices in 2022, as well as a lower loss on derivative contracts in the second quarter 2022 due to fewer barrels of oil being hedged.

Sales volumes and commodity prices received

The following table presents our sales volumes and received pricing information for the periods indicated:

	For the Three Months Ended June 30,	
	2022	2021
Oil volume (Bbls)	729,484	702,408
Natural gas volume (Mcf)	723,196	540,857
Total Production (Boe)[1]	850,017	792,551
Average Sales Price		
Oil price (per Bbl)	$ 109.24	$ 65.00
Gas price (per Mcf)	$ 7.29	$ 3.90
Total per Boe	$ 99.95	$ 60.26

[1] Boe is calculated using six Mcf of natural gas as the equivalent of one barrel of oil.

Results of Operations – For the Six Months Ended June 30, 2022 and 2021

Oil and natural gas sales. For the six months ended June 30, 2022, oil and natural gas sales revenue increased $65,880,273 to $153,142,907, compared to $87,262,634 for the same period during 2021, primarily as a result of higher oil and natural gas prices, as well as increased production. Of this, oil sales increased $62,081,393 and natural gas sales increased $3,798,880. For the six months ended June 30, 2022, oil sales volume increased 93,549 barrels to 1,405,699 barrels, compared to 1,312,150 barrels for the same period in 2021. The average realized per barrel of oil price increased 65% from $61.74 for the six months ended June 30, 2021, to $101.81 for the six months ended June 30, 2022. For the six months ended June 30, 2022, gas sales volume increased 276,813 thousand cubic feet (Mcf) to 1,455,479 Mcf, compared to 1,178,666 Mcf for the same period in 2021. The average realized natural gas price per Mcf increased 30% from $5.28 to $6.89.

The following table presents our sales revenues for the periods indicated:

	For The Six Months Ended June 30,	
	2022	2021
Operating Revenues		
Oil	$ 143,119,163	$ 81,037,770
Natural gas	10,023,744	6,224,864
Total operating revenues	$ 153,142,907	$ 87,262,634

Lease operating expenses. Total lease operating expenses increased approximately 10% from $15,651,063 for the six months ended June 30, 2021, to $17,254,608 for the six months ended June 30, 2022 primarily due to a significant increase to labor costs and industry wide inflationary pressures. Total LOE expressed on a per Boe basis increased approximately 1% from $10.37 per Boe for the six months ended June 30, 2021, to $10.47 per Boe for the six months ended June 30, 2022 primarily due to the same causes during the six months ended June 30, 2022.

Gathering, transportation and processing costs. Our total gathering, transportation and processing costs slightly increased by approximately 1% from $1,832,185 for the six months ended June 30, 2021 to $1,846,247 for the six months ended June 30, 2022, due to increased produced volumes in 2022, offset by May and June costs being mapped as a reduction to oil and natural gas sales revenues, due to the processing entity beginning to take control of transportation at the wellhead beginning May 1, 2022. Total gathering, transportation and processing costs expressed on a per Boe basis decreased approximately 8% from $1.21 per Boe for the six months ended June 30, 2021 to $1.12 per Boe for the six months ended June 30, 2022 due to increased Boe as well as the change in recognition effective May 1, 2022.

Ad valorem taxes. Our ad valorem taxes increased approximately 32% from $1,441,026 for the six months ended June 30, 2021 to $1,901,193 for the six months ended June 30, 2022 primarily due to the increase in taxation commodity price from the prior year. Expressed on a per Boe basis, these costs increased approximately 22% from $0.95 per Boe for the six months ended June 30, 2021 to $1.15 for the six months ended June 30, 2022.

Oil and natural gas production taxes. Production taxes as a percentage of oil and natural gas sales increased slightly to 4.8% for the six months ended June 30, 2022 compared to 4.6% for the same period in 2021. We expect these rates to stay relatively steady.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $3,147,207 to $20,530,491 for the six months ended June 30, 2022, compared to $17,383,284 during the same period in 2021 due to higher 2022 production volumes. Average depreciation, depletion and amortization was $12.46 per Boe for the six months ended June 30, 2022 and $11.52 per Boe for the six months ended June 30, 2021.

Asset retirement obligation accretion. Accretion of AROs decreased $3,212 to $374,545 for the six months ended June 30, 2022, compared to $377,757 for the six months ended June 30, 2021 because of fewer wells added compared to those plugged and abandoned.

Operating lease expense. Operating lease expense decreased $189,127 to $167,180 for the six months ended June 30, 2022, compared to $356,307 for the six months ended June 30, 2021 due to the change in treatment of the compressor leases beginning April 1, 2021.

General and administrative expense. General and administrative expense increased to $11,354,579 for the six months ended June 30, 2022 compared to $6,670,143 for the six months ended June 30, 2021. Within this change, we isolate share-based compensation, which increased to $3,421,155 for the six months ended June 30, 2022 compared to $707,269 for the six months ended June 30, 2021, primarily as the result of grants of equity awards in 2021 and 2022 pursuant to the 2021 Plan. For the six months ended June 30, 2022, general and administrative expenses excluding share-based compensation were higher due to increased salaries and wages, insurance costs, and software costs. Hiring of 12 additional full-time employees in addition to awards under the AIP resulted in an increase of $1,187,507 in salaries and wages. Review of insurance coverages led to adjusting the coverage (i.e., cyber insurance, director & officer insurance) with a cost increase in total of $323,443. Other cost increases were $199,552 in acquisition-related costs, $177,533 in rent expenses due to the rent abatement for The Woodlands office for the first nine months of 2021, as well as various others.

	For The Six Months Ended June 30,	
	2022	**2021**
General and administrative expense (excluding Share-based compensation)	$ 7,933,424	$ 5,962,874
Share-based compensation	3,421,155	707,269
General and administrative expense	$ 11,354,579	$ 6,670,143

Interest expense. Interest expense decreased $718,838 to $6,677,660 for the six months ended June 30, 2022, compared to $7,396,498 for the six months ended June 30, 2021 due to a $29.2 million lower average daily loan balance.

(Loss) on derivative contracts. In the Statements of Operations, the total loss on derivative contracts decreased by approximately 48%, from $66,865,879 for the six months ended June 30, 2021 to $35,053,159 for the six months ended June 30, 2022. Underlying this overall change in loss were changes within the realized and unrealized portions of the derivative instruments. We experienced an increase of $15,375,642 in realized losses from $18,357,124 during the six months ended June 30, 2021 to $33,732,766 during the six months ended June 30, 2022 due to an increase in oil prices. The Company records all derivative instruments on the Balance Sheets as either an asset or liability measured at fair value. Changes in fair value are recognized currently in earnings unless certain specific hedge accounting criteria are met. The unrealized (mark to market) loss decreased from $48,508,755 during the six months ended June 30, 2021 to $1,320,393 during the six months ended June 30, 2022 due to fewer barrels of oil being hedged, as well as newly entered into put contracts with an asset position, net of deferred premiums.

Net income (loss). For the six months ended June 30, 2022, the Company achieved net income of $49,056,465, compared to a net loss of $34,953,252 for the six months ended June 30, 2021. The primary difference was the higher sales volumes and revenue in 2022 compared to 2021 resulting from increased workovers and drilling activities, and the significantly higher oil prices in 2022, as well as a lower loss on derivative contracts due to fewer barrels of oil being hedged.

Sales volumes and commodity prices received

The following table presents our sales volumes and received pricing information for the periods indicated:

	For the Six Months Ended June 30, 2022	2021
Oil volume (Bbls)	1,405,699	1,312,150
Natural gas volume (Mcf)	1,455,479	1,178,666
Total Production (Boe)[1]	1,648,279	1,508,594
Average Sales Price		
Oil price (per Bbl)	$ 101.81	$ 61.74
Gas price (per Mcf)	$ 6.89	$ 5.28
Total per Boe	$ 92.91	$ 57.83

[1] Boe is calculated using six Mcf of natural gas as the equivalent of one barrel of oil.

Capital Resources and Liquidity

As of June 30, 2022, the Company had cash on hand of $2,223,289, compared to $2,408,316 as of December 31, 2021. The Company had net cash provided by operating activities for the six months ended June 30, 2022 of $65,162,415, compared to $32,010,680 for the same period in 2021 due to higher year to date revenues, which resulted in more cash received from customers. The Company used net cash in investing activities of $50,330,117 for the six months ended June 30, 2022, compared to $21,221,609 for the same period in 2021, driven by an increase in capital expenditures to develop oil and natural gas properties. Net cash used in financing activities was $15,017,325 for the six months ended June 30, 2022 during which time $20,000,000 was the net pay down of principal on our Credit Facility.

We will continue to focus on maximizing free cash flow in 2022 through a combination of cost control measures and prudent capital allocation, which includes prioritizing our capital to projects we believe will provide high rates of return in the current commodity price environment. In response to higher commodity prices, we began implementing a continuous drilling program and as such, expect planned capital expenditures for 2022 to be significantly higher than 2021 levels. With the increased level of capital expenditures, we expect that oil and natural gas production will increase throughout 2022. We will continue our pursuit of acquisitions and business combinations, seeking opportunities that we believe will provide high margin properties with attractive returns at current commodity prices.

During 2022, we will remain focused on maximizing free cash flow, reducing our debt level, and maximizing our liquidity which we believe will result in greater stockholder value.

Availability of Capital Resources under Credit Facility

In April 2019, the Company amended and restated its Credit Agreement with SunTrust Bank (now Truist), as lender, issuing bank and administrative agent for several banks and other financial institutions and lenders (the "Administrative Agent"), (as amended and restated, the "Credit Facility"). The amendment and restatement of the Credit Agreement, among other things, increased the maximum borrowing amount to $1 billion, extended the maturity date through April 2024 and made other modifications to the terms of the Credit Facility. This Credit Facility was amended on June 25, 2021, June 10, 2021, December 23, 2020 and June 17, 2020. The June 10, 2021 amendment, among other things, modified the definition for "Fall 2020 Borrowing Base Hedges," from 4,000 barrels of oil per day to 3,100 barrels of oil per day for calendar year 2022, and reaffirmed the borrowing base at $350 million. The amendment on June 25, 2021 incorporated contractual fallback language for US dollar LIBOR denominated syndicated loans, which language provides for the transition away from LIBOR to an alternative reference rate. The Credit Facility is secured by a first lien on substantially all of the Company's assets.

The borrowing base is subject to periodic redeterminations, mandatory reductions, and further adjustments from time to time. The borrowing base is redetermined semi-annually each May and November and will be reduced in certain circumstances such as the sale or disposition of certain oil and gas properties of the Company and the cancellation of certain hedging positions.

The Credit Facility allows for Eurodollar Loans and Base Rate Loans (as respectively defined in the Credit Facility). The interest rate on each Eurodollar Loan will be the adjusted LIBOR for the applicable interest period plus a margin between 2.5% and 3.5% per annum (depending on the then-current level of borrowing base usage). The annual interest rate on each Base Rate Loan is (a) the greatest of (i) the Administrative Agent's prime lending rate, (ii) the Federal Funds Rate (as defined in the Credit Facility) plus 0.5% per annum, (iii) the adjusted LIBOR determined on a daily basis for an interest period of one month, plus 1.00% per annum and (iv) 0.00% per annum, plus (b) a margin between 1.5% and 2.5% (depending on the then-current level of borrowing base usage).

The Credit Facility contains certain covenants, which, among other things, require the maintenance of (i) a total Leverage Ratio (outstanding debt to adjusted earnings before interest, taxes, depreciation and amortization) of not more than 4.0 to 1.0 and (ii) a minimum ratio of Current Assets to Current Liabilities (as such terms are defined in the Credit Facility) of 1.0 to 1.0. The Credit Facility also contains other customary affirmative and negative covenants and events of default. As of June 30, 2022, $270,000,000 was outstanding on the Credit Facility and we were in compliance with all of our covenants.

Derivative Financial Instruments

During February and March of 2020, the Company entered into derivative contracts in the form of costless collars of WTI Crude Oil prices in order to protect the Company's cash flow from price fluctuation and maintain its capital programs. "Costless collars" are the combination of two options, a put option (floor) and a call option (ceiling) with the options structured so that the premium paid for the put option will be offset by the premium received from selling the call option. The trades were for a total 4,500 barrels of oil per day for the period of January 2021 through December 2021.

In November and December of 2020, the Company entered into swap contracts with a weighted average of $45.42 for 4,500 barrels per day for 2021 and 1,750 barrels per day for 2022 with a weighted average of $44.84. In January and February of 2021, we entered into swap contracts for 500 barrels per day for 2022 for a weighted average price of $48.53. Similar to costless collars, there is no cost to enter into the swap contracts. On swap contracts, there is no spread and payments will be made or received based on the difference between WTI and the swap contract price.

In November of 2020, we entered into natural gas swap contracts for 6,000 MMBtu per day at $2.991 and 5,000 MMBtu per day at $2.726 for 2021 and 2022, respectively. On March 30, 2021, we unwound all remaining gas swaps for 2021 and 2022 for a realized value of $581,424.

In May of 2021, we bought back a 1,500 barrels of oil per day call option for June 1 through December 31, 2021 and entered into an approximate 879 Bbls/d calendar 2022 swap contract for no net cost. This allowed us to unlock additional upside to increase our cash flow for the remainder of 2021, while retaining the put to protect our downside.

Effective February 1, 2022, the Company entered into a derivative contract with a Credit Facility lender for 1,000 barrels of oil per day for the remainder of 2022 (total notional quantity of 334,000 barrels). Fixed swap prices vary by month, ranging from $90.78 per barrel in February to $80.01 per barrel by the end of the year, with a weighted average swap price of $84.61 per barrel.

Near the end of the second quarter 2022, on June 28 and 29, the Company entered into twelve derivative contracts with a Credit Facility lender. Details are shown in the table below.

The following table reflects the prices of contracts outstanding as of June 30, 2022:

Date entered into	Period covered	Type of Contract	Barrels per day		Index	Swap price	Strike price	Deferred premium
Oil derivative contracts:								
12/04/2020	Calendar year 2022	Swap	500		WTI	$ 44.22		
12/07/2020	Calendar year 2022	Swap	500		WTI	44.75		
12/10/2020	Calendar year 2022	Swap	500		WTI	44.97		
12/17/2020	Calendar year 2022	Swap	250		WTI	45.98		
01/04/2021	Calendar year 2022	Swap	250		WTI	47.00		
02/04/2021	Calendar year 2022	Swap	250		WTI	50.05		
05/11/2021	Calendar year 2022	Swap	879	(1)	WTI	49.03		
02/01/2022	02/01/2022 - 12/31/2022	Swap	1,000		WTI	82.01		
06/28/2022	07/01/2022 - 09/30/2022	Put	1,000		WTI		$ 107.90	$ 6.95
06/28/2022	10/01/2022 - 12/31/2022	Put	1,000		WTI		100.60	11.71
06/28/2022	01/01/2023 - 03/31/2023	Put	1,000		WTI		95.75	13.96
06/28/2022	04/01/2023 - 06/30/2023	Put	1,000		WTI		92.70	15.20
06/28/2022	07/01/2023 - 09/30/2023	Put	1,000		WTI		90.00	16.00
06/28/2022	10/01/2023 - 12/31/2023	Put	1,000		WTI		87.70	16.53
06/29/2022	01/01/2023 - 03/31/2023	Put	500		WTI		95.25	14.25
06/29/2022	04/01/2023 - 06/30/2023	Put	500		WTI		91.85	15.58
06/29/2022	07/01/2023 - 09/30/2023	Put	500		WTI		89.10	16.45
06/29/2022	10/01/2023 - 12/31/2023	Put	500		WTI		86.90	16.93
06/29/2022	01/01/2024 - 03/31/2024	Put	500		WTI		84.70	17.15
06/29/2022	04/01/2024 - 06/30/2024	Put	500		WTI		82.80	17.49

(1) The notional quantity per the swap contract entered into on May 11, 2021 is for 26,750 barrels of oil per month. The 879 represents the daily amount on an annual basis.

Derivative financial instruments are recorded at fair value and included as either assets or liabilities in the accompanying Balance Sheets. Any gains or losses resulting from changes in fair value of outstanding derivative financial instruments and from the settlement of derivative financial instruments are recognized in earnings and included as a component of other income (expense) in the accompanying Statements of Operations.

The use of derivative transactions involves the risk that the counterparties, which generally are financial institutions, will be unable to meet the financial terms of such transactions. At June 30, 2022, 100% of our volumes subject to derivative instruments are with lenders under our Credit Facility.

Capital Resources for Future Acquisition and Development Opportunities

We continuously evaluate potential acquisitions and development opportunities. To the extent possible, we intend to acquire producing properties with lower risk undeveloped drilled properties rather than properties with higher-risk exploratory opportunities. We do not intend to limit our evaluation to any one state, but we presently have no intention to acquire offshore properties or properties located outside of the United States.

The pursuit of and the acquisition of accretive oil and gas properties may require substantially greater capital than we currently have available and obtaining additional capital may require that we obtain either short-term or long-term debt or sell our equity or both. Furthermore, it may be necessary for us to retain outside consultants and others in our endeavors to locate desirable oil and gas properties.

The process of acquiring one or more additional oil and gas properties would impact our financial position and reduce our cash position. The types of costs that we may incur include the costs to retain consultants specializing in the purchase of oil and gas properties, obtaining petroleum engineering reports relative to the oil and gas properties that we are investigating, legal fees associated with any such acquisitions including title reports, SEC reporting expenses, and negotiating definitive agreements. Additionally, accounting fees may be incurred relative to obtaining and evaluating historical and pro forma information regarding such oil and gas properties. Even though we may incur such costs, there is no assurance that we will ultimately be able to consummate a transaction resulting in our acquisition of oil and gas producing properties.

Effects of Inflation and Pricing

The oil and natural gas industry is very cyclical and the demand for goods and services of oil field companies, suppliers and others associated with the industry puts pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and natural gas increase, so do all associated costs. Material changes in prices (inflation) will impact our revenue stream, estimates of future reserves, borrowing base calculations of bank loans and the value of properties in purchase and sale transactions. Material changes in prices can also impact the value of oil and natural gas companies and their ability to raise capital, borrow money and retain personnel. We anticipate business costs will vary in accordance with commodity prices for oil and natural gas, and the associated increase or decrease in demand for services related to production and exploration.We further expect that prices to explore, develop and produce oil and gas may increase depending in large part on government spending and regulations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements, and it is not anticipated that the Company will enter into any off-balance sheet arrangements.

Disclosures About Market Risks

Like other natural resource producers, the Company faces market risks associated with the exploration and production of oil and natural gas. The most salient risk factors are the volatile prices of oil and gas, transportation of oil and natural gas, competition in the oil and natural gas industry, retention of key personnel, and environmental and regulatory concerns and obligations.

Oil and Gas Prices

The price we receive for our oil and natural gas will heavily influence our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. The prices we receive for our production depend on numerous factors beyond our control. These factors include, without limitation, the following: worldwide and regional economic conditions impacting the global supply and demand for oil and natural gas; the price and quantity of imports of foreign oil and natural gas; the level of global oil and natural gas inventories; localized supply and demand fundamentals; the availability of refining capacity; price and availability of transportation and pipeline systems with adequate capacity; weather conditions, natural disasters and public health threats; governmental regulations; speculation as to the future price of oil and the speculative trading of oil and natural gas futures contracts; price and availability of competitors' supplies of oil and natural gas; energy conservation and environmental measures; technological advances affecting energy consumption; the price and availability of alternative fuels and energy sources; and domestic and international drilling activity.

A substantial or extended decline in oil or natural gas prices may result in impairments of our proved oil and gas properties and may materially and adversely affect our future business, financial condition, cash flows, and results of operations.

Transportation of Oil and Natural Gas

Ring is presently committed to using the services of the existing gatherers in its present areas of production. This gives such gatherers certain short-term relative monopolistic powers to set gathering and transportation costs. Obtaining the services of an alternative gathering company would require substantial additional costs since an alternative gatherer would be required to lay new pipeline and/or obtain new rights-of-way.

Competition in the Oil and Natural Gas Industry

We operate in a highly competitive environment for developing and acquiring properties, marketing oil and natural gas and securing equipment and trained personnel. As a relatively small oil and natural gas company, many large producers possess and employ financial, technical and personnel resources substantially greater than ours. Those companies may be able to develop and acquire more prospects and productive properties than our financial or personnel resources permit. It is also significant that more favorable prices can usually be negotiated for larger quantities of oil and/or gas product, such that Ring views itself as having a price disadvantage compared to larger producers.

Retention of Key Personnel

We depend to a large extent on the services of our officers. These individuals have extensive experience in the energy industry, as well as expertise in evaluating and analyzing producing oil and natural gas properties and drilling prospects, maximizing production from oil and natural gas properties, and developing and executing financing strategies. The loss of any of these individuals could have a material adverse effect on our operations and business prospects. Our success may be dependent on our ability to continue to hire, retain and utilize skilled executive and technical personnel.

Environmental and Regulatory Risks

Our business and operations are subject to and impacted by a wide array of federal, state, and local laws and regulations governing the exploration for and development, production, and marketing of oil and natural gas, the operation of oil and natural gas wells, taxation, and environmental and safety matters. Many laws and regulations require drilling permits and govern the spacing of wells, rates of production, water and waste use and disposal, prevention of waste, hydraulic fracturing, and other matters. From time to time, regulatory agencies have imposed price controls and limitations on production in order to conserve supplies of oil and natural gas. In addition, the production, handling, storage, transportation and disposal of oil and natural gas, byproducts thereof and other substances and materials produced or used in connection with oil and natural gas operations are subject to regulation under federal, state and local laws and regulations. Compliance with these regulations may constitute a significant cost and effort for Ring. In the event of a violation of environmental regulations, these environmental regulatory agencies have a broad range of alternative or cumulative remedies, including ordering a cleanup of any spills or waste material and restoration of the soil or water to conditions existing prior to the environmental violation; fines; or enjoining further drilling, completion, or production activities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company is subject to market risk exposure related to changes in interest rates on its indebtedness under its Credit Facility, which bears variable interest based upon a prime rate and is therefore susceptible to interest rate fluctuations. Changes in interest rates affect the interest earned on the Company's cash and cash equivalents and the interest rate paid on borrowings under the Credit Facility. As of June 30, 2022, the Company had $270,000,000 outstanding borrowings under the Credit Facility. Our weighted average annual interest rate on borrowings under the Credit Facility was 4.3% for the six months ended June 30, 2022. An increase or decrease of 1% in the interest rate would have a corresponding decrease or increase in our annualized interest expense of $2.7 million based on the aggregate of $270,000,000 outstanding under the Credit Facility as of June 30, 2022.

Currently, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

Commodity Price Risk

Our major market risk exposure is in the pricing applicable to our oil and natural gas production. Market risk refers to the risk of loss from adverse changes in oil and natural gas prices. Realized pricing is primarily driven by the prevailing domestic price for crude oil and spot prices applicable to the region in which we produce oil and natural gas. Historically, prices received for oil and natural gas production have been volatile and unpredictable. We expect pricing volatility to continue.

The prices we receive depend on many factors outside of our control. A significant decline in the prices of oil or natural gas would likely have a material adverse effect on our financial condition and results of operations. In order to reduce commodity price uncertainty and increase cash flow predictability relating to the marketing of our crude oil and natural gas, we enter into crude oil and natural gas price hedging arrangements with respect to a portion of our expected production.

The Company's revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas. Prices also affect the amount of cash flow available for capital expenditures and Ring's ability to borrow and raise additional capital. The Company's borrowing base under its Credit Facility is subject to periodic redetermination based in part on changing expectations of future prices. Lower prices may also reduce the amount of oil and natural gas that the Company can economically produce. Ring currently sells all its oil and natural gas production under price sensitive or market price contracts.

Customer Credit Risk

Our principal exposures to credit risk are through receivables from the sale of our oil and natural gas production (approximately $39.5 million at June 30, 2022) and through receivables from our joint interest partners (approximately $1.4 million at June 30, 2022). We are subject to credit risk due to the concentration of our oil and natural gas receivables with our most significant customers. We do not require our customers to post collateral, and the inability of our significant customers to meet their obligations to us or their insolvency or liquidation may adversely affect our financial results. For the six months ended June 30, 2022, sales to three customers, Phillips 66, NGL Crude and BP represented 70%, 15% and 4% of oil and gas revenues, respectively. As of June 30, 2022, Phillips 66, NGL Crude and BP represented 70%, 14% and 4% of our accounts receivable, respectively. Due to availability of other purchasers, we do not believe the loss of any single oil or natural gas customer would have a material adverse effect on our results of operations.

Currency Exchange Rate Risk

Foreign sales accounted for none of the Company's sales; further, the Company accepts payment for its commodity sales only in U.S. dollars. Ring is therefore not exposed to foreign currency exchange rate risk on these sales.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of Paul D. McKinney, our principal executive officer, and Travis T. Thomas, our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, Messrs. McKinney and Thomas concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Changes in internal control over financial reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We may be the subject of threatened or pending legal actions and contingencies in the normal course of conducting our business. We provide for costs related to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on our future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount or timing of the resolution of such matters. For certain types of claims, we maintain insurance coverage for personal injury and property damage, product liability and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us. Reference is made to Item 3. Legal Proceedings, in our Annual Report on Form 10-K for the Year Ended December 31, 2021 as filed with the SEC on March 16, 2022. The information in such Item is incorporated herein by reference.

Item 1A. Risk Factors

We are subject to certain risks and hazards due to the nature of the business activities we conduct. For a discussion of these risks, see "Item 1A. Risk Factors" in our 2021 Form 10-K. There have been no material changes to the risks described in the 2021 Form 10-K. We may experience additional risks and uncertainties not currently known to us. Further, as a result of developments occurring in the future, conditions that we currently deem to be immaterial may also materially and adversely affect us. Any such risks may materially and adversely affect our business, financial condition, cash flows, and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Here-with
31.1	Rule 13a-14(a) Certification by Principal Executive Officer					X
31.2	Rule 13a-14(a) Certification by Principal Financial Officer					X
32.1	Section 1350 Certification by Chief Executive Officer					X
32.2	Section 1350 Certification by Chief Financial Officer					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					

SIGNATURES

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 thereunto duly authorized.

	Ring Energy, Inc.
Date: August 4, 2022	By: /s/ Paul D. McKinney Paul D. McKinney Chief Executive Officer and Director (Principal Executive Officer)
Date: August 4, 2022	By: /s/ Travis T. Thomas Travis T. Thomas Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Paul D. McKinney, certify that:

1. I have reviewed this Form 10-Q of Ring Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ Paul D. McKinney
Paul D. McKinney, CEO
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Travis T. Thomas, certify that:

1. I have reviewed this Form 10-Q of Ring Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ Travis T. Thomas
Travis T. Thomas, CFO
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Ring Energy, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), the undersigned chief executive officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2022

/s/ Paul D. McKinney
Paul D. McKinney
(Chief Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Ring Energy, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), the undersigned chief financial officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2022

/s/ Travis T. Thomas
Travis T. Thomas
(Chief Financial Officer)