**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, 2019**

☐ 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.)* |
| **901 West Wall St. 3rd Floor**<br>**Midland, TX** | **79701** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(432) 682-7464**
*(Registrant's telephone number, including area code)*

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, or a smaller reporting 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

**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 |

The registrant has one class of common stock of which67,811,111 shares were outstanding at August 7, 2019.

# INDEX

**Ring Energy, Inc.**
For the Quarter Ended June 30, 2019

***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 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, 2018. 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;
- weather conditions;
- 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; and
- the other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Should our underlying assumptions prove incorrect or the consequences of the aforementioned risks worsen, actual results could differ materially from those expected.

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.

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.

## 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"). The Company believes that the 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, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 10,578,982 | $ 3,363,726 |
| Accounts receivable | 21,777,491 | 12,643,478 |
| Joint interest billing receivable | 1,291,817 | 578,144 |
| Operating lease asset | 294,095 | — |
| Derivative asset | 1,189,545 | — |
| Prepaid expenses and retainers | 3,479,218 | 258,909 |
| **Total Current Assets** | 38,611,148 | 16,844,257 |
| **Properties and Equipment** | | |
| Oil and natural gas properties subject to depletion and amortization | 1,037,871,094 | 641,121,398 |
| Financing lease asset | 637,757 | — |
| Fixed assets subject to depreciation | 1,465,551 | 1,465,551 |
| **Total Properties and Equipment** | 1,039,974,402 | 642,586,949 |
| Accumulated depreciation, depletion and amortization | (128,120,411) | (100,576,087) |
| **Net Properties and Equipment** | 911,853,991 | 542,010,862 |
| **Deferred Income Taxes** | 7,209,160 | 7,786,479 |
| **Deferred Financing Costs** | 3,592,575 | 424,061 |
| **Total Assets** | $ 961,266,874 | $ 567,065,659 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 67,258,467 | $ 51,910,432 |
| Financing lease liability | 204,047 | — |
| Operating lease liability | 294,095 | — |
| **Total Current Liabilities** | 67,756,609 | 51,910,432 |
| | | |
| Revolving line of credit | 360,500,000 | 39,500,000 |
| Financing lease liability | 409,634 | — |
| Asset retirement obligations | 16,536,909 | 13,055,797 |
| **Total Liabilities** | 445,203,152 | 104,466,229 |
| **Stockholders' Equity** | | |
| Preferred stock - $0.001 par value; 50,000,000 shares authorized; no shares issued or outstanding | — | — |
| Common stock - $0.001 par value; 150,000,000 shares authorized; 67,811,111 shares and 63,229,710 shares issued and outstanding, respectively | 67,811 | 63,230 |
| Additional paid-in capital | 524,887,107 | 494,892,093 |
| Accumulated deficit | (8,891,196) | (32,355,893) |
| **Total Stockholders' Equity** | 516,063,722 | 462,599,430 |
| **Total Liabilities and Stockholders' Equity** | $ 961,266,874 | $ 567,065,659 |

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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Oil and Gas Revenues** | $ 51,334,225 | $ 29,924,883 | $ 93,132,540 | $ 59,816,274 |
| **Costs and Operating Expenses** | | | | |
| Oil and gas production costs | 11,569,107 | 6,638,313 | 20,977,873 | 12,420,223 |
| Oil and gas production taxes | 2,412,895 | 1,428,995 | 4,495,770 | 2,854,877 |
| Depreciation, depletion and amortization | 14,615,270 | 9,144,115 | 27,544,324 | 17,645,494 |
| Asset retirement obligation accretion | 229,234 | 164,670 | 445,179 | 325,790 |
| Operating lease expense | 128,175 | — | 256,350 | — |
| General and administrative expense | 4,743,127 | 3,151,231 | 11,541,144 | 6,237,211 |
| **Total Costs and Operating Expenses** | 33,697,808 | 20,527,324 | 65,260,640 | 39,483,595 |
| **Income from Operations** | 17,636,417 | 9,397,559 | 27,871,900 | 20,332,679 |
| **Other Income (Expense)** | | | | |
| Interest income | 1,260 | 82,991 | 13,496 | 91,944 |
| Interest expense | (4,259,908) | — | (5,032,925) | (44,483) |
| Realized loss on derivatives | — | (2,402,426) | — | (3,877,452) |
| Unrealized gain (loss) on change in fair value of derivatives | 1,530,230 | (1,099,273) | 1,189,545 | (1,889,974) |
| **Net Other Income (Expense)** | (2,728,418) | (3,418,708) | (3,829,884) | (5,719,965) |
| **Income before Tax Provision** | 14,907,999 | 5,978,851 | 24,042,016 | 14,612,714 |
| **Provision for Income Taxes** | (2,532,743) | (1,259,045) | (577,319) | (4,227,274) |
| **Net Income** | $ 12,375,256 | $ 4,719,806 | $ 23,464,697 | $ 10,385,440 |
| **Basic Earnings per Share** | $ 0.18 | $ 0.08 | $ 0.36 | $ 0.18 |
| **Diluted Earnings per Share** | $ 0.18 | $ 0.08 | $ 0.36 | $ 0.17 |

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

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

| | Common Stock | | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| **For the six Months Ended June 30, 2019** | | | | | |
| **Balance, December 31, 2018** | 63,229,710 | $ 63,230 | $ 494,892,093 | $ (32,355,893) | $ 462,599,430 |
| Common stock issued as consideration in asset acquisition | 4,581,001 | $ 4,581 | $ 28,351,815 | $ — | 28,356,396 |
| Share-based compensation | — | — | 1,643,199 | — | 1,643,199 |
| Net income | — | — | — | 23,464,697 | 23,464,697 |
| **Balance, June 30, 2019** | 67,810,711 | $ 67,811 | $ 524,887,107 | $ (8,891,196) | $ 516,063,722 |
| | | | | | |
| **For the six Months Ended June 30, 2018** | | | | | |
| **Balance, December 31, 2017** | 54,224,029 | $ 54,224 | $ 397,904,769 | $ (41,355,653) | $ 356,603,340 |
| Share-based compensation | — | — | 2,083,547 | — | 2,083,547 |
| Common stock issued for cash, net | 6,164,000 | 6,164 | 81,812,909 | — | 81,819,073 |
| Net income | — | — | — | 10,385,440 | 10,385,440 |
| **Balance, June 30, 2018** | 60,388,029 | $ 60,388 | $ 481,801,225 | $ (30,970,213) | $ 450,891,400 |

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,* | 2019 | 2018 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | $ 23,464,697 | $ 10,385,440 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation, depletion and amortization | 27,544,324 | 17,645,494 |
| Accretion expense | 445,179 | 325,790 |
| Share-based compensation | 1,643,199 | 2,083,547 |
| Deferred income tax provision | 5,049,219 | 3,068,670 |
| Excess tax deficiency related to share-based compensation | (4,471,900) | 1,158,604 |
| Change in fair value of derivative instruments | (1,189,545) | 1,889,974 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (9,847,686) | 1,211,719 |
| Prepaid expenses and retainers | (6,388,823) | (638,368) |
| Accounts payable | (451,965) | (3,587,329) |
| Settlement of asset retirement obligation | (384,956) | (265,728) |
| **Net Cash Provided by Operating Activities** | 35,411,743 | 33,277,813 |
| **Cash Flows From Investing Activities** | | |
| Payments to purchase oil and natural gas properties | (268,120,579) | (3,270,000) |
| Payments to develop oil and natural gas properties | (81,051,832) | (113,507,857) |
| Proceeds from disposal of fixed assets subject to depreciation | — | 105,536 |
| **Net Cash Used in Investing Activities** | (349,172,411) | (116,672,321) |
| **Cash Flows From Financing Activities** | | |
| Proceeds from revolving line of credit | 321,000,000 | — |
| Proceeds from issuance of common stock, net of offering costs | — | 81,819,073 |
| Reduction of financing lease liability | (24,076) | — |
| **Net Cash Provided by Financing Activities** | 320,975,924 | 81,819,073 |
| **Net Change in Cash** | 7,215,256 | (1,575,435) |
| **Cash at Beginning of Period** | 3,363,726 | 15,006,581 |
| **Cash at End of Period** | $ 10,578,982 | $ 13,431,146 |
| **Supplemental Cash Flow Information** | | |
| Cash paid for interest | $ 932,896 | $ 44,483 |
| **Noncash Investing and Financing Activities** | | |
| Asset retirement obligation incurred during development | $ 441,244 | $ 700,218 |
| Operating lease assets obtained in exchange for new operating lease liability | 539,577 | — |
| Financing lease assets obtained in exchange for new financing lease liability | 637,757 | — |
| Capitalized expenditures attributable to drilling projects financed through current liabilities | 41,800,000 | 19,000,000 |
| Acquisition of oil and gas properties | | |
| Assumption of joint interest billing receivable | 1,464,394 | — |
| Assumption of prepaid assets | 2,864,554 | — |
| Assumption of accounts and revenue payables | (1,234,862) | — |
| Asset retirement obligation incurred through acquisition | (2,979,645) | — |
| Common stock issued as partial consideration in asset acquisition | (28,356,396) | — |
| Oil and gas properties subject to amortization | 296,910,774 | — |

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 three and six months ended June 30, 2019, are not necessarily indicative of the results to be expected for the full year ending December 31, 2019.

Certain notes and other disclosures have been omitted from these interim financial statements. Therefore, these financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2018.

***Organization and Nature of Operations*** – The Company is a Nevada corporation that owns interests in oil and natural gas properties located 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.

***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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. 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 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 approximates 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 Hedging Activities*** – The Company may periodically enter into derivative contracts to manage its exposure to commodity 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.

When applicable, the Company records all derivative instruments, other than those that meet the normal purchases and sales exception, on the balance sheet 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. During the three and six months ended June 30, 2019, the change in fair value resulted in the recognition of unrealized gains of $1,530,230 and $1,189,545, respectively, on derivative contracts. During the three and six months ended June 30, 2018, the change in fair value resulted in the recognition of unrealized losses of $1,099,273 and $1,889,974, respectively, on derivative contracts.

During the three and six months ended June 30, 2019, the Company had no realized gain or losses on derivatives. During the three and six months ended June 30, 2018, the Company had realized losses on derivatives of $2,402,426 and $3,877,452, respectively.

***Concentration of Credit Risk and Major Customer*** – The Company had cash in excess of federally insured limits at June 30, 2019. During the six months ended June 30, 2019, sales to two customers represented 45% and 35%, respectively, of the Company's oil and gas revenues. At June 30, 2019, these two customers made up 44% and 30%, respectively, of the Company's accounts receivable.

Approximately 94% of the Company's accounts and joint interest billing receivables are from purchasers of oil and gas. Oil and gas sales are generally unsecured. The Company has not had any significant credit losses in the past and believes its accounts and joint interest billing receivables are fully collectable. Accordingly, no allowance for doubtful accounts has been provided at June 30, 2019. The Company also has a joint interest billing receivable. Joint interest billing receivables are collateralized by the pro rata revenue attributable to the joint interest holders and further by the interest itself.

***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 and 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 our 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 independent petroleum engineers. The Company evaluates oil and gas properties for impairment at least annually. Depreciation, depletion and amortization expense for the three and six months ended June 30, 2019, was $14,615,270 and $27,544,324, respectively, based on depletion at the rate of $14.70 and $14.72 per barrel of oil equivalent compared to $9,144,115 and $17,645,494, respectively, based on depletion at the rate of $16.36 and $17.40 per barrel of oil equivalent for the three and six months ended June 30, 2018. These amounts include $66,277 and $107,431, respectively, of depreciation for the three and six months ended June 30, 2019, compared to $48,740 and $129,186, respectively, of depreciation for the three and six months ended June 30, 2018.

***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 5 to 7 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.

***Revenue Recognition*** – In January 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 *Revenues from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The timing of recognizing revenue from the sale of produced crude oil and natural gas was not changed as a result of adopting ASU 2014-09. 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 and the Company receives payment from one to three months after delivery. The transaction price includes variable consideration as product pricing is based on published market prices and reduced for contract specified differentials. The new guidance regarding ASU 2014-09 does not require that the transaction price be fixed or stated in the contract. Estimating the variable consideration does not require significant judgment and Ring 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. See Note 2 for additional information.

***Share-Based Employee Compensation*** – The Company has outstanding stock option grants 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 provided 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.

In January 2017, the Company adopted ASU 2016-09, *Compensation – Stock Compensation (Topic 718.)* The Company used the modified retrospective method to account for unrecognized excess tax benefits from prior periods. For the three and six months ended June 30, 2019, we recorded a decrease of $598,332 and $4,471,900, respectively, to our income tax provision. For the three months ended June 30, 2018, the Company recorded no change in the income tax provision. For the six months ended June 30, 2018, we recorded an increase of $1,158,604 to our income tax provision.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The SEC subsequently issued a Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act", which provides guidance on accounting for the tax effects of the Tax Act. Among other changes, the Tax Act lowered the corporate tax rate to 21%.

***Recently Adopted Accounting Pronouncements*** – In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842) ("ASU 2016-02"). For lessees, the amendments in this update require that for all leases not considered to be short term, a company recognize both a lease liability and right-of-use asset on its balance sheet, representing the obligation to make payments and the right to use or control the use of a specified asset for the lease term. The amendments in this update are effective for annual periods beginning after December 15, 2018. The Company adopted ASU 2016-02 effective January 1, 2019 using the modified retrospective method and chose the option to not restate prior periods and to record any cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company's adoption of ASU 2016-02 did not require a cumulative-effect adjustment to retained earnings. The Company opted to not apply ASU 2016-02 to its leases with terms of 12 months or less. See Note 3 – Leases for new disclosures required as a result of our adoption of ASU 2016-02.

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

In August 2017, the FASB issued ASU 2017-12*, Derivatives and Hedging (Topic 815),* which makes significant changes to the current hedge accounting guidance. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The new standard also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The Company adopted this guidance in January 2019. The adoption of this guidance did not have a material impact on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The new standard allows for stranded tax effects resulting from tax reform legislation known as the Tax Act previously recognized in accumulated other comprehensive income to be reclassified to retained earnings. The Company adopted this guidance in January 2019. The adoption of this guidance did not have a material impact on the Company's financial statements.

***Recent Accounting Pronouncements*** – In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13")*. ASU 2018-13 will eliminate, add and modify certain disclosure requirements for fair value measurement. ASU 2018-13 is effective for annual and interim periods beginning January 1, 2020, with early adoption permitted for either the entire standard or only the provisions that eliminate or modify requirements. ASU 2018-13 requires the additional disclosure requirements be adopted using a retrospective approach. The Company is currently evaluating the provisions of ASU 2018-13 and assessing the impact it may have on its disclosures in the notes to the financial statements.

***Basic and Diluted Earnings (Loss) per Share*** – Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) 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.

**NOTE 2 – REVENUE RECOGNITION**

*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 when control transfers to the purchaser at the point of delivery at the net price received.

*Natural gas sales*

Under the Company's natural gas sales contracts, 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 agreements, the Company recognizes revenue when control transfers to the purchaser at the point of delivery.

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

*Disaggregation of Revenue.* The following table presents revenues disaggregated by product for the three and six months ended June 30, 2019 and 2018:

| | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Operating revenues | | | | |
| Oil | $ 50,793,472 | $ 28,962,880 | $ 91,671,455 | $ 58,103,045 |
| Natural gas | 540,753 | 962,003 | 1,461,085 | 1,713,229 |
| Total operating revenues | $ 51,334,225 | $ 29,924,883 | $ 93,132,540 | $ 59,816,274 |

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

**NOTE 3 – LEASES**

Effective January 1, 2019, the Company adopted ASU 2016-02, *Leases* (Topic 842). This guidance attempts to increase transparency and comparability among organizations by recognizing certain lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP methodology and the method proposed by this new guidance is the recognition on the balance sheet of certain lease assets and lease liabilities by lessees for those leases that were classified as operating leases under previous GAAP.

The Company made accounting policy elections to not capitalize leases with a lease term of twelve months or less and to not separate lease and non-lease components for all asset classes. The Company has also elected to adopt the package of practical expedients within ASU 2016-02 that allows an entity to not reassess prior to the effective date (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, or (iii) initial direct costs for any existing leases and the practical expedient regarding land easements that exist prior to the adoption of ASU 2016-02. The Company did not elect the practical expedient of hindsight when determining the lease term of existing contracts at the effective date.

The Company has operating leases for our offices in Midland, Texas and Tulsa, Oklahoma with terms through January 31, 2020. The office space being leased in Tulsa is owned by Arenaco, LLC, a company that is owned by Mr. Rochford, Chairman of the Board of the Company, and Mr. McCabe, a Director of the Company. The Company has financing leases for vehicles. Future lease payments associated with these operating leases as of June 30, 2019 are as follows:

| | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|
| Operating lease payments (1) | $ 256,350 | $ 42,725 | $ — | $ — |
| Financing lease payments (2) | 115,783 | 231,565 | 231,565 | 88,478 |

(1) The weighted average discount rate as of June 30, 2019 for operating leases was5.01%. Based on this rate, the future lease payments above include imputed interest of $4,980.

(2) The weighted average discount rate as of June 30, 2019 for financing leases was5.28%. Based on this rate, the future lease payments above included imputed interest of $53,710.

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

The following table provides supplemental information regarding cash flows from operations:

| | 2019 |
|---|---|
| Operating lease costs | $ 256,350 |
| Short term lease costs (1) | 307,518 |
| Financing lease costs: | |
| Amortization of financing lease assets (2) | 25,956 |
| Interest on lease liabilities (3) | 4,029 |

(1) Amount included in Oil and gas production costs
(2) Amount included in Depreciation, depletion and amortization
(3) Amount included in Interest expense

**NOTE 4 – EARNINGS PER SHARE INFORMATION**

| | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net Income | $ 12,375,256 | $ 4,719,806 | $ 23,464,697 | $ 10,385,440 |
| Basic Weighted-Average Shares Outstanding | 67,357,645 | 60,388,029 | 65,305,081 | 58,412,825 |
| Effect of dilutive securities: | | | | |
| Stock options | 217,472 | 1,499,886 | 418,397 | 1,495,482 |
| Restricted stock | 95,142 | 76,095 | 128,870 | 59,002 |
| Diluted Weighted-Average Shares Outstanding | 67,670,259 | 61,964,010 | 65,852,348 | 59,967,309 |
| Basic Earnings per Share | $ 0.18 | $ 0.08 | $ 0.36 | $ 0.18 |
| Diluted Earnings per Share | $ 0.18 | $ 0.08 | $ 0.36 | $ 0.17 |

Stock options to purchase 1,013,500 shares of common stock and276,860 shares of unvested restricted stock were excluded from the computation of diluted earnings per share during the three months ended June 30, 2019, as their effect would have been anti-dilutive. Stock options to purchase 2,353,500 shares of common stock and276,860 shares of unvested restricted stock were excluded from the computation of diluted earnings per share during the six months ended June 30, 2019, as their effect would have been anti-dilutive. Stock options to purchase 583,500 shares of common stock were excluded from the computation of diluted earnings per share during both the three and six months ended June 30, 2018, as their effect would have been anti-dilutive.

**NOTE 5 – ACQUISITIONS**

On April 9, 2019, the Company completed the acquisition of oil and gas properties from Wishbone Energy Partners, LLC, Wishbone Texas Operating Company LLC and WB WaterWorks LLC on the Northwest Shelf in Gaines, Yoakum, Runnels and Coke Counties, Texas and Lea County, New Mexico (the "Acquisition"). The acquired properties consist of 49,754 gross (38,230 net) acres and include a 77% average working interest and a 58% average net revenue interest. The Company incurred approximately $4.1 million in acquisition related costs, which were recognized in general and administrative expense during the six months ended June 30, 2019. Total consideration after purchase price adjustments included a cash payment of approximately $264.1 million and the issuance of 4,581,001 shares of common stock, of which 2,538,071 shares are being held in escrow to satisfy potential indemnification claims. The full amount of the shares placed into escrow remain in escrow as of June 30, 2019. The escrow shares will be released pursuant to the terms of the Purchase and Sale Agreement. The shares were valued at the price on the date of the signing of the Purchase and Sale Agreement, February 25, 2019, of $6.19 per share.

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

The Acquisition was recognized as a business combination whereby Ring recorded the assets acquired and the liabilities assumed at their fair values as of February 1, 2019, which is the date the Company obtained control of the properties and was the acquisition date for financial reporting purposes. Revenues and related expenses for the Acquisition are included in our condensed statement of operations beginning February 1, 2019. The estimated fair value of the acquired properties approximated the consideration paid, which the Company concluded approximated the fair value that would be paid by a typical market participant. The following table summarizes the fair values of the assets acquired and the liabilities assumed:

| | |
|---|---|
| **Assets acquired:** | |
| Proved oil and gas properties | $ 296,910,774 |
| Joint interest billing receivable | 1,464,394 |
| Prepaid assets | 2,864,554 |
| **Liabilities assumed** | |
| Accounts and revenues payable | (1,234,862) |
| Asset retirement obligations | (2,979,645) |
| **Total Identifiable Net Assets** | $ 297,025,215 |

The Company will continue to evaluate the fair value of the assets and liabilities reflected above and will record any adjustments, if needed, in future periods.

The following unaudited pro forma information for the three and six months ended June 30, 2019 and 2018, respectively, is presented to reflect the operations of the Company as if the acquisition of assets had been completed on January 1, 2019 and 2018, respectively:

| | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Oil and Gas Revenues | $ 57,999,639 | $ 48,490,870 | $ 99,797,954 | $ 91,250,272 |
| Net Income | $ 12,435,698 | $ 12,990,504 | $ 23,525,139 | $ 24,721,646 |
| | | | | |
| Basic Earnings per Share | $ 0.18 | $ 0.21 | $ 0.35 | $ 0.41 |
| Diluted Earnings per Share | $ 0.18 | $ 0.21 | $ 0.34 | $ 0.40 |

**NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS**

The Company is exposed to fluctuations in crude oil and natural gas prices on its production. It can utilize 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 the downside risk of adverse commodity price movements, the use also may limit future income from favorable commodity price movements.

During March and April 2019, the Company entered into new 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 of 5,500 barrels of oil per day for the period of April 2019 through December 2019 and 2,000 barrels of oil per day for the period of January 2020 through December 2020. The following table reflects the put and call prices of those contracts:

| Date entered into | Barrels per day | Put price | Call price |
|---|---|---|---|
| **2019 contracts** | | | |
| 03/12/19 | 1,500 | $ 50.00 | $ 66.00 |
| 03/13/19 | 500 | 50.00 | 67.40 |
| 03/20/19 | 500 | 50.00 | 67.90 |
| 03/20/19 | 1,000 | 50.00 | 68.71 |
| 04/01/19 | 1,000 | 50.00 | 69.50 |
| 04/03/19 | 1,000 | 50.00 | 70.20 |
| | | | |
| **2020 contracts** | | | |
| 04/01/19 | 1,000 | 50.00 | 65.83 |
| 04/01/19 | 1,000 | 50.00 | 65.40 |

On September 25, 2017, the Company entered into derivative contracts in the form of costless collars for the period of January 2018 through December 2018 for 1,000 barrels per day with a put price of $49.00 and a call price of $54.60.

On October 27, 2017, the Company entered into costless collars of WTI Crude Oil for the period of January 2018 through December 2018 for an additional 1,000 barrels of oil per day with a put price of $51.00 and a call price of $54.80.

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, 2019, 100% of our volumes subject to derivative instruments are with lenders under our Credit Facility (as defined in Note 8).

**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. We consider 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 we value using observable market data. Substantially all of these 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).

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

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our 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. We continue to evaluate our inputs to ensure the fair value level classification is appropriate. When transfers between levels occur, it is our 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.

The following table summarizes the valuation of our assets and liabilities that are measured at fair value on a recurring basis.

| | Fair Value Measurement Classification | | | |
|---|---|---|---|---|
| | Quoted prices in Actives Markets for Identical Assets or (Liabilities) (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **As of June 30, 2019** | | | | |
| Oil and gas derivative contracts | $ — | $ 1,189,545 | $ — | $ 1,189,545 |
| Total | $ — | $ 1,189,545 | $ — | $ 1,189,545 |

**NOTE 8 – REVOLVING LINE OF CREDIT**

On July 1, 2014, the Company entered into a Credit Agreement with SunTrust Bank, as lender, issuing bank and administrative agent for several banks and other financial institutions and lenders (the "Administrative Agent"), which was amended on June 14, 2018, May 18, 2016, July 24, 2015, and June 26, 2015. 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, increases the maximum borrowing amount to $1 billion, increases the borrowing base (the "Borrowing Base") to $425 million, extends the maturity date through April 2024 and makes other modifications to the terms of the Credit Facility. 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 will be redetermined semi-annually on each May 1 and November 1. The Borrowing Base will also be reduced in certain circumstances such as the sale or disposition of certain oil and gas properties of the Company or its subsidiaries and cancellation of certain hedging positions.

The Credit Facility allows for Eurodollar Loans and Base Rate Loans. The interest rate on each Eurodollar Loan will be the adjusted LIBOR for the applicable interest period plus a margin between 1.75% and 2.75% (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, the (iii) 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 0.75% and 1.75% (depending on the then-current level of Borrowing Base usage).

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

The Credit Facility contains certain covenants, which, among other things, require the maintenance of (i) a total Leverage Ratio (as defined in the Credit Facility) of not more than 4.0 to 1.0 and (ii) a minimum current 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, 2019, $360,500,000 was outstanding on the Credit Facility. We are in compliance with all covenants contained in the Credit Facility.

**NOTE 9 – ASSET RETIREMENT OBLIGATION**

The Company provides for 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 estimated cash flows. The asset retirement obligation incurred at the time of drilling was computed using the annual credit-adjusted risk-free discount rate at the applicable dates. Changes in the asset retirement obligation were as follows:

| | |
|---|---|
| Balance, December 31, 2018 | $ 13,055,797 |
| Liabilities acquired | 2,979,645 |
| Liabilities incurred | 441,244 |
| Liabilities settled | (384,956) |
| Accretion expense | 445,179 |
| Balance, June 30, 2019 | $ 16,536,909 |

**NOTE 10 – STOCKHOLDERS' EQUITY**

***Common Stock Issued in Public Offering*** – In April 2019, the Company completed the acquisition of assets from Wishbone Partners, LLC as disclosed in Note 5. As a part of the consideration for the acquisition, the Company issued 4,581,001 shares of common stock, of which 2,538,071 shares are being held in escrow to satisfy potential indemnification claims arising under the Purchase Agreement. The full amount of the shares placed into escrow remain in escrow as of June 30, 2019. The escrow shares will be released pursuant to the terms of the Purchase and Sale Agreement. The shares were valued at February 25, 2019, the date of the signing of the Purchase and Sale Agreement. The price on February 25, 2019 was $6.19 per share. The aggregate value of the shares issued, based on this price, was $28,356,396.

In February 2018, the Company closed on an underwritten public offering of 6,164,000 shares of its common stock, including 804,000 shares sold pursuant to the full exercise of an over-allotment option, at $14.00 per share for gross proceeds of $86,296,000. Total net proceeds from the offering were $81,819,073, after deducting underwriting commissions and offering expenses payable by the Company of $4,476,927.

**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, 2019, was $808,734 and $1,643,199, respectively, as compared to $1,081,199 and $2,083,547, respectively, for the three and six months ended June 30, 2018. These amounts are included in general and administrative expense in the accompanying financial statements.

In 2011, the 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. As of June 30, 2019, there were 668,340 shares remaining eligible for issuance under the plan.

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

***Stock Options***

A summary of the stock option activity as of June 30, 2019, and changes during the six months then ended is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, December 31, 2018 | 2,751,000 | $ 6.28 | | |
| Granted | — | $ — | | |
| Forfeited or rescinded | (2,500) | $ 11.70 | | |
| Vested | — | $ — | | |
| Outstanding, June 30, 2019 | 2,748,500 | $ 6.28 | 4.5 Years | $ 493,750 |
| Exercisable, June 30, 2019 | 2,327,400 | $ 5.42 | 4.0 Years | |

The intrinsic value was calculated using the closing price on June 28, 2019 of $3.25. As of June 30, 2019, there was $1,239,664 of unrecognized compensation cost related to stock options that is expected be recognized over a weighted-average period of 1.7 years.

***Restricted Stock***

A summary of the restricted stock activity as of June 30, 2019, and changes during the six months then ended is as follows:

| | Restricted stock | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding, December 31, 2018 | 878,360 | $ 7.36 |
| Granted | 15,400 | 5.01 |
| Forfeited or rescinded | (4,120) | 7.13 |
| Vested | (400) | 13.32 |
| Outstanding, June 30, 2018 | 889,240 | $ 7.31 |

As of June 30, 2019, there was $4,046,963 of unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted average period of 1.9 years.

**NOTE 12 – CONTINGENCIES AND COMMITMENTS**

***Standby Letters of Credit*** – A commercial bank issued standby letters of credit on behalf of the Company totaling $260,000 to state and federal agencies and $741,000 to an electric utility company. The standby letters of credit are valid until cancelled or matured and is collateralized by the revolving credit facility with the bank. 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 letters of credit to the utility company should not require renewal after the initial one year term. 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 should not require renewal after the initial one year term.

**NOTE 13 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events from June 30, 2019, through the date of filing this Form 10-Q and determined there are no other items to disclose.

**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, 2018, and our interim unaudited financial statements and accompanying notes to these financial statements.*

**Our Business**

Ring is a Midland-based exploration and production company that is engaged in oil and natural gas acquisition, exploration, development and production activities. Our exploration and production interests are currently focused in Texas and New Mexico. We take a conventional approach to our drilling program and seek to develop our traditional core areas, as well as look for new growth opportunities with significant upside potential.

In April 2019, the Company significantly expanded its acreage position through the acquisition of oil and gas properties primarily in southwest Yoakum County, Texas and eastern Lea County, New Mexico, from Wishbone Energy Partners, LLC, Wishbone Texas Operating Company LLC and WB WaterWorks, LLC, effective as of February 1, 2019 (the "Acquisition"). The acquired properties consist of 49,754 gross (38,230 net) acres and include a 77% average working interest and a 58% average net revenue interest and the Acquisition has resulted in increases to our production and our revenues.

We plan to continue to exploit our acreage position through the drilling of highly economic horizontal and vertical wells using the most recent drilling and completion techniques, as well as to continue to evaluate potential transactions to acquire attractive acreage in our core areas of interest.

***Results of Operations – For the Three Months Ended June 30, 2019 and 2018***

*Oil and natural gas sales.* For the three months ended June 30, 2019, oil and natural gas sales revenue increased $21,409,342 to $51,334,225, compared to $29,924,884 for the same period during 2018, primarily as a result of the Acquisition.

Oil sales increased $21,830,592 and natural gas sales decreased $421,250. For the three months ended June 30, 2019, oil sales volume increased 423,858 barrels to 893,304 barrels, compared to 469,446 barrels for the same period in 2018. The average realized per barrel of oil price decreased 8% from $61.70 for the three months ended June 30, 2018, to $56.86 for the three months ended June 30, 2019. For the three months ended June 30, 2019, gas sales volume increased 250,426 thousand cubic feet (MCF) to 569,482 MCF, compared to 319,056 MCF for the same period in 2018. The average realized natural gas price per MCF decreased 69% from $3.02 for the three months ended June 30, 2018, to $0.95 for the three months ended June 30, 2019.

*Oil and gas production costs.* Our lease operating expenses (LOE) increased from $6,638,313, or $12.70 per barrel of oil equivalent (BOE) for the three months ended June 30, 2018, to $11,569,107 or $11.71 per BOE for the three months ended June 30, 2019. The increase in total LOE is the result of both increased production between the periods and the Acquisition. The decrease in the per BOE rate is primarily a result of the Acquisition.

*Production taxes.* Production taxes as a percentage of oil and natural gas sales were 5% during the three months ended June 30, 2018 and remained steady at 5% for the three months ended June 30, 2019. These rates are expected to stay relatively steady unless we make acquisitions in other states with differing production tax rates or the states of Texas or New Mexico change their production tax rates.

*Depreciation, depletion, amortization and accretion.* Our depreciation, depletion, amortization and accretion expense increased by $5,535,719 to $14,844,504 for the three months ended June 30, 2019, compared to $9,308,785 during the same period in 2018. The increase was primarily a result of higher production volumes as a result of the Acquisition.

*Realized loss from Derivative Instruments.* Realized loss on derivatives for the three months ended June 30, 2018 was $2,402,426. There was no realized gain or loss on derivatives during the three months ended June 30, 2019.

*Unrealized loss from Derivative Instruments and Hedging Activities.* The Company records all derivative instruments, other than those that meet the normal purchases and sales exception, on the balance sheet 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. During the three months ended June 30, 2019, the change in fair value resulted in the recognition of a gain of $1,530,230 on derivative contracts as compared to a loss of $1,099,273 during the same period in 2018.

*General and administrative expenses.* General and administrative expense increased $1,591,896 to $4,743,127 for the three months ended June 30, 2019, as compared to $3,151,231 for the three months ended June 30, 2018. Compensation related costs make up the bulk of our general and administrative expense.

*Net income.* For the three months ended June 30, 2019, the Company had net income of $12,375,256, as compared to $4,719,806 for the three months ended June 30, 2018. The increase in net income primarily resulted from increased revenues as a result of the Acquisition.

***Results of Operations – For the Six Months Ended June 30, 2019 and 2018***

*Oil and natural gas sales.* For the six months ended June 30, 2019, oil and natural gas sales revenue increased $33,316,266 to $93,132,540, compared to $59,816,274 for the same period during 2018, primarily as a result of the Acquisition.

Oil sales increased $33,568,410 and natural gas sales decreased $252,144. For the six months ended June 30, 2019, oil sales volume increased 756,558 barrels to 1,705,868 barrels, compared to 949,310 barrels for the same period in 2018. The average realized per barrel of oil price decreased 12% from $61.21 for the six months ended June 30, 2018, to $53.74 for the six months ended June 30, 2019. For the six months ended June 30, 2019, gas sales volume increased 436,659 thousand cubic feet (MCF) to 965,746 MCF, compared to 529,087 MCF for the same period in 2018. The average realized natural gas price per MCF decreased 53% from $3.24 for the six months ended June 30, 2018, to $1.51 for the six months ended June 30, 2019.

*Oil and gas production costs.* Our lease operating expenses (LOE) increased from $12,420,223 or $11.97 per barrel of oil equivalent (BOE) for the six months ended June 30, 2018, to $20,977,873 or $11.24 per BOE for the six months ended June 30, 2019. The increase in total LOE is the result of both increased production between the periods and the Acquisition. The decrease in the per BOE rate is primarily a result of the Acquisition.

*Production taxes.* Production taxes as a percentage of oil and natural gas sales were 5% during the six months ended June 30, 2018 and remained steady at 5% for the six months ended June 30, 2019. These rates are expected to stay relatively steady unless we make acquisitions in other states with differing production tax rates or the states of Texas or New Mexico change their production tax rates.

*Depreciation, depletion, amortization and accretion.* Our depreciation, depletion, amortization and accretion expense increased by $10,018,219 to $27,989,503 for the six months ended June 30, 2019, compared to $17,971,284 during the same period in 2018. The increase was primarily a result of higher production volumes as a result of the Acquisition.

*Realized loss from Derivative Instruments.* Realized loss on derivatives for the six months ended June 30, 2018 was $3,877,452. There was no realized gain or loss on derivatives during the six months ended June 30, 2019.

*Unrealized loss from Derivative Instruments and Hedging Activities.* The Company records all derivative instruments, other than those that meet the normal purchases and sales exception, on the balance sheet 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. During the six months ended June 30, 2019, the change in fair value resulted in the recognition of a gain of $1,189,545 on derivative contracts as compared to a loss of $1,889,974 during the same period in 2018.

*General and administrative expenses.* General and administrative expense increased $5,303,933 to $11,541,144 for the six months ended June 30, 2019, as compared to $6,237,211 for the six months ended June 30, 2018. Acquisition related costs of approximately $4.1 million was the primary reason for the increase.

*Net income.* For the six months ended June 30, 2019, the Company had net income of $23,464,697, as compared to $10,385,440 for the six months ended June 30, 2018. The increase in net income primarily resulted from increased revenues as a result of the Acquisition.

***Capital Resources and Liquidity***

As shown in the financial statements for the six months ended June 30, 2019, the Company had cash on hand of $10,578,982, compared to $3,363,726 as of December 31, 2018. The Company had net cash provided by operating activities for the six months ended June 30, 2019, of $35,411,743, compared to $33,277,813 for the same period of 2018. The other most significant cash inflows during the periods were proceeds from draws on our Credit Facility of $321,000,000 in 2019 and proceeds from issuance of common stock of $81,819,073 in 2018. The most significant cash outflows during the six months ended June 30, 2019 and 2018 were capital expenditures in connection with the purchase and development of oil and gas properties of $349,172,411 and $116,672,321, respectively.

Availability of Capital Resources under Credit Facility

On July 1, 2014, the Company entered into a Credit Agreement with SunTrust Bank, as lender, issuing bank and administrative agent for several banks and other financial institutions and lenders (the "Administrative Agent"), which was amended on June 14, 2018, May 18, 2016, July 24, 2015, and June 26, 2015. In April 2019, the Company amended and restated its Credit Facility with the Administrative Agent (as amended and restated, the "Credit Facility"). The amendment and restatement of the Credit Facility, among other things, increases the maximum borrowing amount to $1 billion, increases the borrowing base (the "Borrowing Base") to $425 million, extends the maturity date through April 2024 and makes other modifications to the terms of the Credit Facility. 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 will be redetermined semi-annually on each May 1 and November 1. The Borrowing Base will also be reduced in certain circumstances such as the sale or disposition of certain oil and gas properties of the Company or its subsidiaries and cancellation of certain hedging positions.

The Credit Facility allows for Eurodollar Loans and Base Rate Loans. The interest rate on each Eurodollar Loan will be the adjusted LIBOR for the applicable interest period plus a margin between 1.75% and 2.75% (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, the (iii) 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 0.75% and 1.75% (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 (as defined in the Credit Facility) of not more than 4.0 to 1.0 and (ii) a minimum current 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, 2019, $360,500,000 was outstanding on the Credit Facility. We are in compliance with all covenants contained in the Credit Facility.

Derivative Financial Instruments and Hedging Activity

During March and April 2019, the Company entered into new 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 of 5,500 barrels of oil per day for the period of April 2019 through December 2019 and 2,000 barrels of oil per day for the period of January 2020 through December 2020. The following table reflects the put and call prices of those contracts:

| Date entered into | Barrels per day | Put price | Call price |
|---|---|---|---|
| **2019 contracts** | | | |
| 03/12/19 | 1,500 | $ 50.00 | $ 66.00 |
| 03/13/19 | 500 | 50.00 | 67.40 |
| 03/20/19 | 500 | 50.00 | 67.90 |
| 03/20/19 | 1,000 | 50.00 | 68.71 |
| 04/01/19 | 1,000 | 50.00 | 69.50 |
| 04/03/19 | 1,000 | 50.00 | 70.20 |
| | | | |
| **2020 contracts** | | | |
| 04/01/19 | 1,000 | 50.00 | 65.83 |
| 04/01/19 | 1,000 | 50.00 | 65.40 |

On September 25, 2017, the Company entered into derivative contracts in the form of costless collars for the period of January 2018 through December 2018 for 1,000 barrels per day with a put price of $49.00 and a call price of $54.60.

On October 27, 2017, the Company entered into costless collars of WTI Crude Oil for the period of January 2018 through December 2018 for an additional 1,000 barrels of oil per day with a put price of $51.00 and a call price of $54.80.

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, 2019, 100% of our volumes subject to derivative instruments are with lenders under our Credit Facility (as defined in Note 8).

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 and/or developed undrilled properties rather than exploratory properties. We do not intend to limit our evaluation to any one state. We presently have no intention to evaluate off-shore properties or properties located outside of the United States.

The pursuit of and acquisition of additional oil and gas properties may require substantially greater capital than we currently have available, and obtaining additional capital would require that we enter into the sale of either short-term or long-term notes payable or the sale of our common stock. 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 travel costs relating to meeting with individuals instrumental to our acquisition of one or more oil and gas properties, the costs to retain one or more consultants specializing in the purchase of oil and gas properties, obtaining petroleum engineer reports relative to the oil and gas properties that we are investigating, legal fees associated with any such acquisitions including title reports, and accounting fees relative to obtaining historical 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 an oil and/or gas property.

**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 impact the current 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 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.

***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 certain unique 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, operational risks, ability to integrate properties and businesses, and certain environmental 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 and natural disasters; 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 use 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. No specific accounting for environmental compliance has been maintained or projected by Ring to date. Ring does not presently know of any environmental demands, claims, or adverse actions, litigation or administrative proceedings in which it or the acquired properties are involved or subject to or arising out of its predecessor operations.

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, 2019, the Company had $360.5 million outstanding borrowings under the Credit Facility. Our weighted average interest rate on borrowings under the Credit Facility was 5.10%. An increase or decrease of 1% in the interest rate would have a corresponding decrease or increase in our annualized interest expense of approximately $36.5 million based on the aggregate of $360.5 million outstanding under the Credit Facility as of June 30, 2019.

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 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. Oil prices we received during the six month period ended June 30, 2019, ranged from a low of $40.40 per barrel to a high of $62.10 per barrel. Natural gas prices we received during the same period ranged from a low of $0.78 per Mcf to a high of $3.78 per Mcf. A significant decline in the prices of oil or natural gas could 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 may enter into crude oil and natural gas price hedging arrangements with respect to a portion of our expected production.

During March and April 2019, the Company entered into new 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 of 5,500 barrels of oil per day for the period of April 2019 through December 2019 and 2,000 barrels of oil per day for the period of January 2020 through December 2020. The following table reflects the put and call prices of those contracts:

| Date entered into | Barrels per day | Put price | Call price |
|---|---|---|---|
| **2019 contracts** | | | |
| 03/12/19 | 1,500 | $ 50.00 | $ 66.00 |
| 03/13/19 | 500 | 50.00 | 67.40 |
| 03/20/19 | 500 | 50.00 | 67.90 |
| 03/20/19 | 1,000 | 50.00 | 68.71 |
| 04/01/19 | 1,000 | 50.00 | 69.50 |
| 04/03/19 | 1,000 | 50.00 | 70.20 |
| | | | |
| **2020 contracts** | | | |
| 04/01/19 | 1,000 | 50.00 | 65.83 |
| 04/01/19 | 1,000 | 50.00 | 65.40 |

On September 25, 2017, the Company entered into derivative contracts in the form of costless collars for the period of January 2018 through December 2018 for 1,000 barrels per day with a put price of $49.00 and a call price of $54.60.

On October 27, 2017, the Company entered into costless collars of WTI Crude Oil for the period of January 2018 through December 2018 for an additional 1,000 barrels of oil per day with a put price of $51.00 and a call price of $54.80.

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 amount the Company can borrow under our 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 of its oil and natural gas production under price sensitive or market price contracts.

*Customer Credit Risk*

Our principal exposures to credit risk is through receivables from the sale of our oil and natural gas production (approximately $21.8 million at June 30, 2019) and through receivables from our joint interest partners (approximately $1.3 million at June 30, 2019). 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, 2019, sales to two customers, Occidental Energy Marketing ("Oxy") and Phillips 66 ("Phillips") represented 45% and 35% of oil and gas revenues, respectively. As of June 30, 2019, Oxy and Phillips represented 44% and 30% 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 Kelly W. Hoffman, our principal executive officer, and William R. Broaddrick, 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, Mssrs. Hoffman and Broaddrick 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 Securities and Exchange Commission'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 quarter ended June 30, 2019, 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.

### Item 2. Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

On April 9, 2019, the Company completed an acquisition of assets, consisting of approximately 38,230 net acres located primarily in southwest Yoakum County, Texas and eastern Lea County, New Mexico, for an aggregate adjusted consideration of approximately $291 million, comprised of approximately $264 million cash and 4,581,001 shares of the Company's common stock (the "Equity Consideration"), of which 2,538,071 shares are being held in escrow to satisfy potential indemnification claims arising under the Purchase Agreement, pursuant to a Purchase and Sale Agreement (the "Purchase Agreement") with Wishbone Energy Partners, LLC, Wishbone Texas Operating Company LLC and WB WaterWorks, LLC. The Equity Consideration was issued in reliance upon the exemption from registration provided by Rule 506 of Regulation D of the Securities Act of 1933. The shares held in escrow will be released pursuant to the terms of the Purchase and Sale Agreement.

On April 19, 2019, the Company filed a registration statement on Form S-3 (Registration No. 333-230966) to register the above-referenced unregistered common stock, which was declared effective on June 25, 2019.

**Item 6. Exhibits**

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File No. | Exhibit | Filing Date | Filed Here-with |
|---|---|---|---|---|---|---|
| 3.1 | Articles of Incorporation (as amended) | 10-K | 000-53920 | 3.1 | 4/1/13 | |
| 3.2 | Current Bylaws | 8-K | 000-53920 | 3.2 | 1/24/13 | |
| 31.1 | Rule 13a-14(a) Certification by Chief Executive Officer | | | | | X |
| 31.2 | Rule 13a-14(a) Certification by Chief Financial Officer | | | | | X |
| 32.1 | Section 1350 Certification by Chief Executive Officer | | | | | X |
| 32.2 | Section 1350 Certification by Chief Financial Officer | | | | | X |
| 4.1 | Registration Rights Agreement, dated April 9, 2019, by and between Ring Energy, Inc. and Wishbone Energy Partners, LLC | 8-K | 001-36057 | 4.1 | 04/12/19 | |
| 10.1 | Purchase and Sale Agreement dated February 25, 2019, among Ring Energy, Inc. and Wishbone Energy Partners, LLC, Wishbone Texas Operating Company LLC and WB WaterWorks, LLC | 8-K | 001-36057 | 2.1 | 02/27/19 | |
| 10.2 | Amended and Restated Senior Credit Facility, dated April 9, 2019, by and among Ring Energy, Inc., the several banks and other financial institutions and lenders from time to time party thereto, and SunTrust Bank, as administrative agent for the lenders and as issuing bank LLC | 8-K | 001-36057 | 10.2 | 04/12/19 | |
| 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 |

**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 7, 2019 | By: /s/ Kelly W. Hoffman |
| | Kelly W. Hoffman<br>Chief Executive Officer and Director<br>(Principal Executive Officer) |
| Date: August 7, 2019 | By: /s/ William R. Broaddrick |
| | William R. Broaddrick<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

**Exhibit 31.1**

CERTIFICATIONS

I, Kelly W. Hoffman, certify that:

1. I have reviewed this Form 10-Q for the quarter ended June 30, 2019, 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 7, 2019

/s/ Kelly W. Hoffman
Kelly W. Hoffman, CEO
(Principal Executive Officer)

**Exhibit 31.2**

CERTIFICATIONS

I, William R. Broaddrick, certify that:

1. I have reviewed this Form 10-Q for the quarter ended June 30, 2019, 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 7, 2019

/s/ William R. Broaddrick
William R. Broaddrick, 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, 2019, as filed with the Securities and Exchange Commission (the "Report"), the undersigned principal executive officer and 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 7, 2019

/s/ Kelly W. Hoffman
Kelly W. Hoffman
(Principal 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, 2019, as filed with the Securities and Exchange Commission (the “Report”), the undersigned principal executive officer and 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 7, 2019

/s/ William R. Broaddrick
William R. Broaddrick
(Principal Financial Officer)