

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported)
July 18, 2024

SM Energy Company
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

001-31539
(Commission File Number)

41-0518430
(I.R.S. Employer Identification No.)

1700 Lincoln Street, Suite 3200
Denver, Colorado
(Address of principal executive offices)

80203
(Zip Code)

Registrant's telephone number, including area code: **(303) 861-8140**

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value	SM	New York Stock Exchange

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

Emerging growth company

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

Item 8.01 Other Events.

On July 18, 2024, SM Energy Company (the "**Company**") issued a press release announcing that, subject to market and other conditions, the Company intends to offer for sale (the "**Offering**") an expected \$650,000,000.00 aggregate principal amount of senior notes due 2029 (the "**2029 Notes**"), and \$650,000,000.00 aggregate principal amount of senior notes due 2032 (the "**2032 Notes**," and together with the 2029 Notes, the "**Notes**"). The Notes to be offered will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or under any state or other securities laws, and the Notes will be issued pursuant to an exemption therefrom, and may not be offered or sold within the United States, or to or for the account or benefit of any U.S. person, absent registration or an applicable exemption from registration requirements. The Notes are being offered only to persons reasonably believed to be qualified institutional buyers under Rule 144A under the Securities Act and non-U.S. persons outside the United States in accordance with Regulation S under the Securities Act. The 2029 Notes will be subject to a "special mandatory redemption" in the event that the transactions contemplated by the Purchase and Sale Agreement (the "**XCL Acquisition Agreement**" and such transactions, the "**XCL Acquisition**") among the Company and certain entities affiliated with XCL Resources, LLC (collectively, the "**XCL Sellers**"), dated June 27, 2024, is not consummated on or prior to July 1, 2025, or if the Company notifies the trustee of the 2029 Notes that it will not pursue the consummation of the XCL Acquisition. A copy of the press release is furnished as Exhibit 99.1 to this report and incorporated by reference herein.

In accordance with General Instruction B.2. of Form 8-K, this press release is deemed "furnished" and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information or Exhibit be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

In connection with the Offering, the Company will provide certain financial and other information with respect to the Company, XCL Acquisition Agreement, and the assets to be acquired. Excerpts of such information are included as Exhibit 99.2 hereto and incorporated herein by reference.

Audited historical financial statements for the fiscal years ended December 31, 2023 and 2022, for the XCL Sellers, are furnished as Exhibit 99.3 to this report and incorporated by reference herein. Interim historical financial statements (unaudited) as of March 31, 2024, and for the periods ended March 31, 2024 and 2023, for the XCL Sellers, are furnished as Exhibit 99.4 to this report and incorporated by reference herein. Unaudited pro forma condensed combined financial information for the periods presented, for the Company and the XCL Sellers, are furnished as Exhibit 99.5 to this report and incorporated by reference herein. The reserve report as of December 31, 2023 for the XCL Sellers is furnished as Exhibit 99.6 to this report and incorporated by reference herein.

FORWARD LOOKING STATEMENTS

This Current Report on Form 8-K contains forward-looking statements within the meaning of Section 17A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this report include, among other things, the consummation of the XCL Acquisition, the contingencies related to the special mandatory redemption, and other aspects of the Offering. These statements involve known and unknown risks, including market conditions, customary offering closing conditions and other factors described in the excerpts from the Preliminary Offering Memorandum, which may cause the Company's actual results to differ materially from results expressed or implied by the forward-looking statements. Future results may be impacted by the risks discussed in the Risk Factors section of the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2023, as such risk factors may be updated from time to time in the Company's other periodic and current reports filed with the Securities and Exchange Commission. These risks also include risks associated with the XCL Acquisition, including the risk that we may fail to consummate the XCL Acquisition on the terms or timing currently contemplated, or at all, the risk that Northern Oil and Gas, Inc. may fail to consummate its purchase of an undivided 20% of the XCL Acquisition Agreement, the risk that we may fail to realize the expected benefits of the XCL Acquisition, including as it relates to the number of net acres to be acquired, the number of expected drilling locations, reserves estimates and producing formations, and risks related to the integration of the XCL Acquisition or business disruptions that could result from the XCL Acquisition. The forward-looking statements contained herein speak as of the date of this report. Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so, except as required by applicable securities laws.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
23.1	Consent of Plante & Moran, PLLC
23.2	Auditor's Acknowledgement of Plante & Moran, PLLC
23.3	Consent of DeGolyer and MacNaughton Corp.
99.1*	Press release of the Company dated July 18, 2024, entitled "SM Energy Announces Private Offering of \$650 Million of Senior Notes due 2029 and \$650 Million of Senior Notes due 2032"
99.2	Excerpts from the Preliminary Offering Memorandum of the Company
99.3	Audited historical financial statements for the fiscal years ended December 31, 2023 and 2022, for the XCL Sellers
99.4	Reviewed interim historical financial statements (unaudited) as of March 31, 2024 and for the periods ended March 31, 2024 and 2023 for the XCL Sellers
99.5	Unaudited pro forma condensed combined financial information for the periods presented, for the Company and the XCL Sellers
99.6	Reserve Report as of December 31, 2023 for the XCL Sellers
104	Cover Page Interactive Data File (formatted as Inline XBRL and included as Exhibit 101)

* Furnished, not filed.

SIGNATURES

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

SM ENERGY COMPANY

Date: July 18, 2024

By: /s/ JAMES B. LEBECK

James B. Lebeck

Executive Vice President and General Counsel



Plante & Moran, PLLC

Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We consent to the incorporation by reference in SM Energy Company's ("SM Energy") Post-Effective Amendment No. 1 to Registration Statement No. 333-106438 on Form S-8, Registration Statement Nos. 333-30055, 333-35352, 333-88780, 333-58273, 333-134221, 333-151779, 333-165740, 333-170351, 333-194305, 333-212359, 333-219719, 333-226660, and 333-257005 on Form S-8, and Registration Statement Nos. 333-257046 and 333-259979 on Form S-3 of our report dated March 18, 2024, relating to the consolidated financial statements of XCL Resources Holdings, LLC and subsidiaries appearing in this Current Report on Form 8-K of SM Energy.

/s/ Plante & Moran, PLLC

Denver, Colorado

July 17, 2024



Plante & Moran, PLLC

Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

AUDITOR'S ACKNOWLEDGMENT

We acknowledge the incorporation by reference in SM Energy Company's ("SM Energy") Post-Effective Amendment No. 1 to Registration Statement No. 333-106438 on Form S-8, Registration Statement Nos. 333-30055, 333-35352, 333-88780, 333-58273, 333-134221, 333-151779, 333-165740, 333-170351, 333-194305, 333-212359, 333-219719, 333-226660, and 333-257005 on Form S-8, and Registration Statement Nos. 333-257046 and 333-259979 on Form S-3 of our report dated July 17, 2024, relating to our review of the interim consolidated financial statements of XCL Resources Holdings, LLC and subsidiaries appearing in this Current Report on Form 8-K of SM Energy.

/s/ Plante & Moran, PLLC

Denver, Colorado

July 17, 2024

DeGolyer and MacNaughton
5001 Spring Valley Road Suite 800 East
Dallas, Texas 75244

July 18, 2024

SM Energy Company
1700 Lincoln Street
Suite 3200
Denver, Colorado 80203

Ladies and Gentlemen:

The undersigned hereby consents to the references to our firm in the form and context in which they appear, and to the references to, and the inclusion of, our report of third party and oil and gas reserve estimates and forecasts of economics of certain properties of XCL Resources as of December 31, 2023. We further consent to the incorporation by reference thereof into SM Energy Company's Post-Effective Amendment No. 1 to Registration Statement No. 333-106438 on Form S-8, Registration Statement Nos. 333-30055, 333-35352, 333-88780, 333-58273, 333-134221, 333-151779, 333-165740, 333-170351, 333-194305, 333-212359, 333-219719, 333-226660, and 333-257005 on Form S-8, and Registration Statement Nos. 333-257046 and 333-259979 on Form S-3.

Very truly yours,

/s/ DeGolyer and MacNaughton
DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

SM ENERGY ANNOUNCES PRIVATE OFFERING OF \$650 MILLION OF SENIOR NOTES DUE 2029 AND \$650 MILLION OF SENIOR NOTES DUE 2032

DENVER, CO — July 18, 2024 — SM Energy Company (“SM Energy” or “the Company”) (NYSE: SM) announced today that, subject to market conditions, it intends to offer \$650,000,000.00 aggregate principal amount of its senior notes due 2029 (the “2029 Notes”), and \$650,000,000.00 aggregate principal amount of its senior notes due 2032 (the “2032 Notes,” and together with the 2029 Notes, the “Notes”).

SM Energy intends to use the net proceeds from the offering of the Notes, together with cash on hand and borrowings under its Credit Agreement, to fund the purchase price for SM Energy’s recently announced pending acquisition of certain oil and gas properties, interests, and related assets located in the Uinta Basin from certain entities affiliated with XCL Resources, LLC (the “XCL Acquisition”), to redeem all of its outstanding 5.625% Notes due 2025 (the “2025 Notes”), and to pay related fees and expenses.

The 2029 Notes will be subject to a “special mandatory redemption” if the consummation of the XCL Acquisition does not occur on or before July 1, 2025, or if the Company notifies the trustee of the 2029 Notes that it will not pursue the consummation of the XCL Acquisition.

The Notes to be offered will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), or under any state or other securities laws, and the Notes will be issued pursuant to an exemption therefrom, and may not be offered or sold within the United States, or to or for the account or benefit of any U.S. person, absent registration or an applicable exemption from registration requirements. The Notes are being offered only to persons reasonably believed to be qualified institutional buyers under Rule 144A under the Securities Act and non-U.S. persons outside the United States in accordance with Regulation S under the Securities Act.

This press release does not constitute an offer to sell, a solicitation to buy, or an offer to purchase or sell any securities, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. This press release is not a notice of redemption with respect to the 2025 Notes.

DISCLOSURES

FORWARD LOOKING STATEMENTS

This release contains forward-looking statements within the meaning of securities laws. Forward-looking statements in this release include, among other things, the consummation of the XCL Acquisition, the contingencies related to the special mandatory redemption, the intended use of offering proceeds and other aspects of the Notes offering. These statements involve known and unknown risks, including market conditions, customary offering closing conditions and other factors described in the Confidential Offering Memorandum, which may cause SM Energy’s actual results to differ materially from results expressed or implied by the forward-looking statements. Future results may be impacted by the risks discussed in the Risk Factors section of SM Energy’s most recent Annual Report on Form 10-K for the year ended December 31, 2023, as such risk factors may be updated from time to time in the Company’s other periodic and current reports filed with the Securities and Exchange Commission. These risks also include risks associated with the XCL Acquisition, including the risk that we may fail to consummate the

XCL Acquisition on the terms or timing currently contemplated, or at all, the risk that Northern Oil and Gas, Inc., may fail to consummate its purchase of an undivided 20% of the purchase and sale agreement for the XCL Acquisition, the risk that we may fail to realize the expected benefits of the XCL Acquisition, including as it relates to the number of net acres to be acquired, the number of expected drilling locations, reserves estimates and producing formations, and risks related to the integration of the XCL Acquisition or business disruptions that could result from the XCL Acquisition. The forward-looking statements contained herein speak as of the date of this release. Although SM Energy may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so, except as required by applicable securities laws.

ABOUT THE COMPANY

SM Energy Company is an independent energy company engaged in the acquisition, exploration, development, and production of oil, gas, and NGLs in the state of Texas.

SM ENERGY INVESTOR CONTACTS

Jennifer Martin Samuels, jsamuels@sm-energy.com, 303-864-2507

EXCERPTS FROM THE PRELIMINARY OFFERING MEMORANDUM DATED JULY 18, 2024

As used in this Exhibit 99.2, unless otherwise indicated or the context otherwise requires, the terms “SM Energy,” “the Company,” “we,” “us” and “our” in this offering memorandum mean SM Energy Company, a Delaware corporation, and its subsidiaries.

RECENT DEVELOPMENTS**XCL Acquisition**

On June 27, 2024, we entered into a Purchase and Sale Agreement (the “XCL Acquisition Agreement”) with XCL AssetCo, LLC, a Delaware limited liability company, XCL Marketing, LLC, a Delaware limited liability company, Wasatch Water Logistics, LLC, a Delaware limited liability company, XCL SandCo, LLC, a Delaware limited liability company, and XCL Resources, LLC, a Texas limited liability company (“XCL Resources” and collectively, the “XCL Sellers”), and, solely for purposes of ratifying certain representations and warranties, interim covenants and interpretative provisions, Northern Oil and Gas, Inc., a Delaware corporation (“NOG”), pursuant to which we agreed to purchase all of the rights, titles and interests in the Uinta Basin oil and gas assets owned by the XCL Sellers (the “Uinta Basin Assets”). Pursuant to the terms of the XCL Acquisition Agreement and the Cooperation Agreement (as defined herein), we expect to, immediately prior to the closing of the transactions contemplated by the XCL Acquisition Agreement, assign an undivided 20% interest in the XCL Acquisition Agreement to NOG and cause the XCL Sellers to directly assign an undivided 20% interest in certain of the Uinta Basin Assets to NOG.

Upon the closing of the transactions contemplated by the XCL Acquisition Agreement (collectively, the “XCL Acquisition”), the XCL Sellers will receive aggregate consideration of \$2,550,000,000 in cash (the “XCL Purchase Price”), subject to certain customary purchase price adjustments set forth in the XCL Acquisition Agreement. After the anticipated assignment to NOG of an undivided 20% interest in the XCL Acquisition Agreement, our proportionate share of the unadjusted XCL Purchase Price will be \$2,040,000,000.

The undivided 80% of the Uinta Basin Assets that the Company expects to acquire from the XCL Sellers encompasses approximately 37,200 net acres and includes first quarter 2024 production of approximately 38,200 boe/d (at approximately 88% oil). The Uinta Basin Assets are 99% operated by the XCL Sellers and 95% of the acreage is held by production. Based on the Company’s planned operations and drilling plans with respect to the Uinta Basin Assets, the Company estimates that the undivided 80% of the Uinta Basin Assets that the Company expects to acquire includes approximately 390 net locations, nearly 4,000 feet of stacked pay and 145 MMBOE of proved reserves.

The XCL Sellers have entered into a Purchase and Sale Agreement with Altamont Energy LLC and Altamont Minerals LLC (collectively, “Altamont”) to purchase certain oil and gas assets contemplated therein (the “Altamont Assets”). The Altamont Assets are adjacent to the Uinta Basin Assets, are comprised of approximately 32,625 net acres and include production as of May 1, 2024, of approximately 1,700 boe/d (at approximately 75% oil). The Altamont Assets are approximately 70% operated, and our 80% interest in the Altamont Assets would include approximately 75 net locations. If,

prior to the consummation of the XCL Acquisition, the XCL Sellers acquire the Altamont Assets, then we have the right and option, but not the obligation, to acquire the Altamont Assets as part of the XCL Acquisition. If we exercise our right to purchase the Altamont Assets, the additional purchase price of the 80% interest in the Altamont Assets attributable to the Company is anticipated to be approximately \$70 million, and the 20% interest attributable to NOG would be approximately \$17.5 million.

Upon execution of the XCL Acquisition Agreement, the Company and NOG deposited cash with an escrow agent equal to 5% of the unadjusted XCL Purchase Price pursuant to an escrow agreement among the Company, the XCL Sellers and the escrow agent. Funding of the cash deposit was allocated 80% to the Company and 20% to NOG. Upon the closing of the XCL Acquisition, the deposit will be applied as a credit toward the XCL Purchase Price. The obligations of the parties to complete the XCL Acquisition are subject to the satisfaction or waiver of customary closing conditions set forth in the XCL Acquisition Agreement.

In connection with entry into the XCL Acquisition Agreement, we obtained commitments from JPMorgan Chase Bank, N.A., Bank of America, N.A., and Wells Fargo Bank, N.A. (together with their applicable affiliates, the “Commitment Parties”), pursuant to which the Commitment Parties initially agreed to provide, subject to the satisfaction of customary closing conditions, (i) up to \$1,200,000,000 of senior unsecured 364-day bridge term loans (the “Bridge Loan”); and (ii) a backstop to proposed amendments to the Seventh Amended and Restated Credit Agreement, dated as of August 2, 2022 (as amended, restated, supplemented, or otherwise modified) among us, the Commitment Parties, and the other “Lenders” and “Issuing Banks” party thereto, in each case, for the purpose of financing a portion of the XCL Purchase Price and/or otherwise paying related fees, costs and expenses associated with the XCL Acquisition.

This offering is not conditioned upon, and will be consummated before, the closing of the XCL Acquisition. If (i) the consummation of the XCL Acquisition does not occur on or before July 1, 2025, or (ii) prior thereto, we notify the trustee that we will not pursue the consummation of the XCL Acquisition, then we will be required to redeem the 2029 Notes in connection with the 2029 Notes Special Mandatory Redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but not including, the 2029 Notes Special Mandatory Redemption Date. See “Description of Notes—2029 Notes Special Mandatory Redemption.”

XCL Acquisition Rationale

We believe the XCL Acquisition accomplishes several strategic objectives for us and is complementary to our business strategies in the following ways:

Expands Our Top-Tier Asset Portfolio. We expect the Uinta Basin Assets to increase our oil production and oil production mix, enhance our cash production margin, and add inventory of net locations that we expect to compete for capital immediately following closing. In addition, the Uinta Basin Assets should add two years to our inventory life and meaningfully reduce our reinvestment ratio.

Significant Resources Upside Driven By Our Technical Expertise. Given our historical track record of unlocking value in stacked pay, we expect that our technical expertise will create differential value within the Uinta Basin assets. We see significant development potential from the high oil content across 17 benches over nearly 4,000 feet of hydrocarbon column in the basin.

Maintains Strong Balance Sheet. We are committed to maintaining a premier capital structure and expect over time to reduce our outstanding debt following the closing of the XCL Acquisition to ultimately achieve our net debt to Adjusted EBITDAX target leverage ratio of less than 1.0x.

Increasing Adjusted Free Cash Flow and Return of Capital. We expect the XCL Acquisition to be accretive to adjusted free cash flow and to enhance our cash production margin. As a result, our Board of Directors has approved an increase in our fixed quarterly dividend policy to \$0.20/share and authorized a new \$500 million share repurchase program through 2027, which replaced our remaining existing repurchase program.

Cooperation Agreement with NOG

Concurrently with the execution of the XCL Acquisition Agreement, we entered into an Acquisition and Cooperation Agreement with NOG (the “Cooperation Agreement”). Pursuant to the terms of the Cooperation Agreement, we and NOG will cooperate in connection with the XCL Acquisition Agreement, we and NOG agree to certain interim covenants, NOG will pay for its proportionate share of the cash deposit and the XCL Purchase Price, and NOG will become a party to, and take a 20% undivided interest in, the XCL Acquisition Agreement. The obligations of the parties to complete the transactions contemplated by the Cooperation Agreement are subject to the satisfaction or waiver of customary closing conditions, and the Cooperation Agreement establishes the rights, remedies, and indemnification obligations of us and NOG in the event either party fails to perform its obligations as set forth in the Cooperation Agreement.

Credit Agreement Amendments

On July 2, 2024, we, as borrower, certain lenders under our existing senior secured revolving credit facility (our “revolving credit facility”), and Wells Fargo Bank, National Association, as administrative agent and swingline lender, entered into the First Amendment to our Credit Agreement governing our revolving credit facility to facilitate the financing of the XCL Acquisition by permitting this offering and the entry into and existence of the Bridge Loan.

On July 8, 2024, we, as borrower, certain lenders under our revolving credit facility, and Wells Fargo Bank, National Association, as administrative agent and swingline lender, began the process of seeking the Second Amendment to our Credit Agreement to, among other amendments, increase the revolving commitments available under the Credit Agreement from \$1.25 billion to \$2.0 billion and to extend the maturity of the Credit Agreement to five years beyond the effective date of such amendment. There can be no assurances that the increases to the commitments or extension of the maturity date of the Credit Agreement will be obtained.

Redemption of the 2025 Notes

In connection with the closing of this offering, we intend to redeem all of our outstanding 5.625% Notes due 2025 (such notes, the “2025 Notes” and such redemption, the “Redemption”). Following the closing of this offering, we intend to issue a notice to redeem in full the 2025 Notes at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the redemption date, in accordance with the terms of the indenture governing the 2025 Notes (the “2025 Notes Indenture”). Neither this offering memorandum nor anything contained herein shall constitute a notice of redemption for the 2025 Notes.

RISK FACTORS

Risks Related to the XCL Acquisition

Our ability to consummate the XCL Acquisition is subject to various conditions, some of which are outside of our control.

The XCL Acquisition is subject to a number of conditions to closing, as specified in the XCL Acquisition Agreement. These closing conditions include, (i) the expiration or termination of all applicable waiting periods under HSR, (ii) the absence of any injunction or other order or award enjoining or otherwise prohibiting the consummation of the transactions contemplated by the XCL Acquisition Agreement, (iii) the accuracy of the representations and warranties made by us and the XCL Sellers in the XCL Acquisition Agreement, and (iv) whether certain adjustments to the unadjusted XCL Purchase Price, including adjustments for title and environmental defects, unobtained consents, and casualty losses exceed 20% of the unadjusted XCL Purchase Price. No assurance can be given that these conditions will be satisfied. Even if the HSR waiting periods are satisfied, no assurance can be given as to the terms, conditions and timing of such clearance, including whether any required conditions will materially adversely affect the expected benefits of the XCL Acquisition. Any delay in completing the XCL Acquisition could cause the combined company not to realize, or to be delayed in realizing, some or all of the benefits that we expect to achieve if the XCL Acquisition is successfully completed within its expected timeframe. We can provide no assurance that these conditions will not result in the abandonment or delay of the XCL Acquisition. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and the trading price of our common stock.

Failure to complete the XCL Acquisition could have a material adverse effect on our results of operations, cash flows and financial position.

If the XCL Acquisition is not completed for any reason, including as a result of failure to obtain all requisite regulatory approvals, we may be materially adversely affected and, without realizing any of the benefits of having completed the XCL Acquisition, we would be subject to a number of risks, including the following:

- financial markets may react negatively, negatively impacting the trading price of our securities;
 - we will still incur significant costs relating to the XCL Acquisition, including costs of the Bridge Loan, and legal, accounting, and financial advisor fees;
 - if our conditions to closing are otherwise satisfied, and closing has not occurred solely as a result of the breach or failure of any of our representations, warranties, or covenants contained in the XCL Acquisition Agreement – including our failure to consummate the XCL Acquisition – then the XCL Sellers would be entitled to: (i) the enforcement of specific performance of our obligations under the XCL Acquisition Agreement, or (ii) our forfeiture of the cash performance deposit made upon signing of the XCL Acquisition Agreement, and our reimbursement to NOG for its portion of the cash performance deposit and its transaction expenses incurred in connection with the XCL Acquisition; and
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- litigation related to any failure to complete the XCL Acquisition or related to any enforcement proceeding commenced against us to perform our obligations under the XCL Acquisition Agreement.

In addition to the potential risks set forth above, the process of pursuing the XCL Acquisition has been, and will continue to be time-consuming and distracting for our management. If the XCL Acquisition is not consummated, the impact on other efforts management could have pursued (including ongoing business operations and other acquisition opportunities) could be meaningful. These impacts and the risks described above could have a material adverse effect on our results of operations, cash flows, financial position, and stock price.

NOG may not satisfy their obligations under the Cooperation Agreement.

NOG has agreed to purchase an undivided 20% interest in the XCL Acquisition Agreement. If NOG fails to satisfy their obligations under the Cooperation Agreement but all of our closing conditions under the XCL Acquisition Agreement are otherwise satisfied, we will be required to pay the entire purchase price. This means we could be forced to borrow additional funds, and the costs of those borrowings could be significant. If we are unable to borrow sufficient funds to pay NOG's portion of the purchase price, we may be forced to default under the XCL Acquisition Agreement, which could subject us to litigation and significant financial penalties, including forfeiture of the cash performance deposit and exposure to enforcement proceedings commenced against us to perform our obligations under the XCL Acquisition Agreement.

We may be unable to integrate the XCL Acquisition successfully or realize the anticipated benefits of the XCL Acquisition.

The XCL Acquisition involves our acquiring a significant set of assets that we have not previously operated. Our ability to achieve the anticipated benefits of the XCL Acquisition depends in part on whether we can integrate the Uinta Basin Assets into our existing business in an efficient and effective manner. Potential risks or difficulties include:

- operating assets in the Uinta Basin, an area in which we have not previously owned assets or conducted operations;
- complexities associated with integrating our existing complex systems, technologies, and other workflows with new assets in a new region;
- the inability to retain the services of key management and personnel;
- the accuracy of our assessments of the Uinta Basin Assets, including recoverable reserves, transportation costs and availability, drilling equipment cost and availability, regulatory, permitting, and related matters; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the XCL Acquisition.

Any of these issues could adversely affect our ability to maintain relationships with customers, suppliers, employees, and other constituencies or achieve the anticipated benefits of the XCL Acquisition, or could reduce our earnings or otherwise adversely affect our business and financial results following the XCL Acquisition.

Unaudited pro forma combined financial information included in or incorporated by reference into this offering memorandum is presented for illustrative purposes only and does not represent the actual financial position or results of operations of the combined company following the completion of the XCL Acquisition. Future results may differ, possibly materially, from the unaudited pro forma combined financial information included in or incorporated by reference into this offering memorandum.

The unaudited pro forma combined financial statements included in or incorporated by reference into this offering memorandum are presented for illustrative purposes only, contain a variety of adjustments, assumptions and preliminary estimates and do not represent the actual financial position or results of operations of us or the XCL Sellers prior to the XCL Acquisition or that of the combined company for a variety of reasons. Specifically, the unaudited pro forma combined financial statements do not reflect the effect of any integration costs, the final determination of the purchase price and purchase price allocation upon closing of the transaction, the determination of whether the transaction should be accounted for as an asset acquisition or a business combination, as well as other considerations. In addition, the XCL Acquisition and post-closing integration process may give rise to unexpected liabilities and costs. Unexpected delays in completing the XCL Acquisition or in connection with the post-acquisition integration process may significantly increase the related costs and expenses incurred by us. The actual financial positions and results of operations of us and the XCL Sellers prior to the XCL Acquisition and that of the combined company may be different, possibly materially, from the unaudited pro forma combined financial statements included in or incorporated by reference into this offering memorandum. In addition, the assumptions used in preparing the unaudited pro forma combined financial statements included in or incorporated by reference into this offering memorandum may not prove to be accurate and may be affected by other factors. Any significant changes in the market price of our common stock may cause a significant change in the purchase price used by us for accounting purposes.

Securities class action and derivative lawsuits may be brought against us in connection with the XCL Acquisition, which could result in substantial costs.

Securities class action lawsuits and derivative lawsuits are often brought against public companies that have entered into acquisition, merger, or other business combination agreements. Even if such a lawsuit is without merit, defending against these claims can result in substantial costs and divert management time and resources. An adverse judgment could result in monetary damages, which could have a negative impact on our liquidity and financial condition.

We will incur significant transaction costs in connection with the XCL Acquisition.

We have incurred and expect to continue to incur significant non-recurring costs associated with the XCL Acquisition, financing the XCL Acquisition, integrating the Uinta Basin Assets into our business, and realizing the expected benefits of the XCL Acquisition. A substantial majority of non-recurring expenses will consist of transaction costs and include, among others, fees paid to financial, legal, accounting, and other advisors. Although we expect that the elimination of duplicative costs, as well as the realization of expected benefits related to the integration of the Uinta Basin Assets, should allow us to offset these transaction costs over time, this net benefit may not be achieved in the near term or at all.

The Uinta Basin Assets are located in the Uinta Basin, a basin in which we do not currently have operations.

We have no experience with assets or operations in the Uinta Basin. Our operations are focused on the Midland Basin and South Texas. The XCL Acquisition is an expansion into an area with which we are not as familiar and is partially within the exterior boundaries of the Uinta and Ouray Reservation. We have no recent experience operating in Indian Country. We may encounter obstacles that may cause us to not achieve the expected results of the XCL Acquisition. These obstacles may include less familiar geological formations, different legal and regulatory environments, different completion techniques, different transportation methods and operators, and unfamiliar operating conditions. For example, approximately 80% of the production from the Uinta Basin Assets is currently expected to use a single rail terminal. Capacity constraints at this terminal or in this basin may cause difficulties for the operation of the Uinta Basin Assets. If we encounter any of these difficulties, they may have a negative impact on our business and our ability to achieve the expected results of the XCL Acquisition.

The benefits attributable to the XCL Acquisition may vary from expectations.

We may fail to realize the anticipated benefits expected from the XCL Acquisition. The success of the XCL Acquisition will depend, in significant part, on our ability to successfully integrate the acquired business, grow the revenue, and realize the anticipated strategic benefits from the XCL Acquisition. The anticipated benefits of the XCL Acquisition may not be realized fully or at all or may take longer to realize than expected. Actual operating, technological, strategic, and revenue opportunities, if achieved at all, may be less significant than expected or may take longer to achieve than anticipated. Additionally, the integration process may result in the disruption of ongoing business and there could be potential unknown liabilities and unforeseen expenses associated with the XCL Acquisition that were not discovered in the course of performing due diligence. The integration may also require significant time and focus from management following the XCL Acquisition which may disrupt our business and results of operations. If we are not able to realize the anticipated benefits expected from the XCL Acquisition within the anticipated timing or at all, its business and operating results may be adversely affected.

DESCRIPTION OF OTHER INDEBTEDNESS

We had no outstanding borrowings under our Credit Agreement as of July 17, 2024. We had \$1,247.5 million of available borrowing capacity under our Credit Agreement as of July 17, 2024. We had \$2.5 million of letters of credit outstanding as of July 17, 2024.



XCL Resources Holdings, LLC and Subsidiaries

Consolidated Financial Statements
December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Managers
XCL Resources Holdings, LLC

Opinion

We have audited the consolidated financial statements of XCL Resources Holdings, LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and 2022 and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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



To the Board of Managers
XCL Resources Holdings, LLC

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

/s/ Plante & Moran, PLLC

March 18, 2024

December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 36,252,869	\$ 27,117,034
Accounts receivable	152,001,562	79,044,462
Oil inventories	7,254,699	4,213,521
Commodity derivative instruments	11,412,863	—
Prepaid and other current assets	41,968,361	41,546,277
Total current assets	<u>248,890,354</u>	<u>151,921,294</u>
Oil and Gas Properties , successful efforts method		
Proved properties	1,786,642,745	1,150,300,036
Unproved properties	60,831,162	57,765,037
Accumulated depreciation, depletion, and amortization	(321,666,538)	(130,912,710)
Total oil and gas properties, net	<u>1,525,807,369</u>	<u>1,077,152,363</u>
Other Assets , net	161,077,498	93,357,332
Total assets	<u>\$ 1,935,775,221</u>	<u>\$ 1,322,430,989</u>
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 53,934,087	\$ 32,679,548
Commodity derivative instruments	10,508,605	58,046,052
Accrued liabilities	321,492,594	177,624,157
Total current liabilities	<u>385,935,286</u>	<u>268,349,757</u>
Long-term Liabilities		
Asset retirement obligations	7,576,135	5,227,319
Operating lease liabilities	45,856,626	23,976,715
Commodity derivative instruments	5,719,707	29,451,941
Income tax liability	1,727,115	—
Credit facility	375,000,000	295,000,000
Total liabilities	<u>821,814,869</u>	<u>622,005,732</u>
Members' Equity		
Contributions	630,566,518	616,026,867
Accumulated earnings	483,393,834	84,398,390
Total members' equity	<u>1,113,960,352</u>	<u>700,425,257</u>
Total liabilities and members' equity	<u>\$ 1,935,775,221</u>	<u>\$ 1,322,430,989</u>

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended December 31, 2023 and 2022

	2023	2022
Revenue		
Oil sales	\$ 846,170,283	\$ 351,039,190
Natural gas and natural gas liquid sales	16,004,859	9,579,875
Other revenue	9,062,197	—
Total revenue	<u>871,237,339</u>	<u>360,619,065</u>
Gain on sale of oil and gas properties	3,681,077	—
Operating costs and expenses		
Lease operating	57,509,241	30,486,252
Production taxes	21,396,455	14,593,343
Transportation, gathering, and handling	131,992,181	35,655,710
Workover	6,488,589	2,467,887
Depreciation, depletion, amortization, and accretion	191,609,210	61,475,874
General and administrative	18,828,920	16,512,533
Acquisition costs (Note 5)	421,051	1,280,164
Exploration and abandonment	1,421,191	470,658
Cost of acquired oil inventories	32,179,410	16,108,798
Total operating costs and expenses	<u>461,846,248</u>	<u>179,051,219</u>
Operating income	413,072,168	181,567,846
Other income (expense)		
Interest expense	(36,137,426)	(11,871,498)
Commodity derivative instrument gain (loss)	23,754,532	(87,765,474)
Other	33,285	5,498,977
Total other income (expense)	<u>(12,349,609)</u>	<u>(94,137,995)</u>
Income before income taxes	400,722,559	87,429,851
Deferred income tax expense	(1,727,115)	—
Net income	<u>\$ 398,995,444</u>	<u>\$ 87,429,851</u>

See notes to consolidated financial statements.

Consolidated Statement of Members' Equity

	Years Ended December 31, 2023 and 2022		
	Members' Contributions	Accumulated Earnings (Deficit)	Total Members' Equity
Balance - January 1, 2022	\$ 530,685,349	\$ (3,031,461)	\$ 527,653,888
Contributions - Series A	74,619,737	—	74,619,737
Contributions - Series B	380,263	—	380,263
Deal cost reimbursement via Affiliate (Note 5)	10,341,518	—	10,341,518
Net income	—	87,429,851	87,429,851
Balance - December 31, 2022	<u>616,026,867</u>	<u>84,398,390</u>	<u>700,425,257</u>
Contributions - Series A	14,401,809	—	14,401,809
Contributions - Series B	137,842	—	137,842
Net income	—	398,995,444	398,995,444
Balance - December 31, 2023	<u><u>\$ 630,566,518</u></u>	<u><u>\$ 483,393,834</u></u>	<u><u>\$ 1,113,960,352</u></u>

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Net income	\$ 398,995,444	\$ 87,429,851
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation, depletion, amortization, and accretion	191,609,210	61,475,874
Gain on sale of oil and gas properties	(3,681,077)	—
Change in fair value of commodity derivative instruments	(85,136,292)	(2,195,109)
Amortization of other assets	2,453,776	735,777
Amortization of right-of-use assets	25,522,359	23,359,139
Deferred income tax	1,727,115	—
Changes in operating assets and liabilities		
Accounts receivable	(72,957,100)	(33,896,152)
Prepaid and other assets	(7,072,584)	(3,277,206)
Operating leases	(24,077,440)	(17,966,262)
Accounts payable and accrued liabilities	59,629,659	19,358,164
Asset retirement obligation settlements	(317,030)	(1,261,405)
Net cash provided by operating activities	<u>486,696,040</u>	<u>133,762,671</u>
Cash Flows from Investing Activities		
Investments in oil and gas properties	(465,636,987)	(346,922,526)
Proceeds from sale of oil and gas properties	9,579,929	—
Purchase of materials and supplies and other assets	(114,312,436)	(43,454,913)
Net cash used in investing activities	<u>(570,369,494)</u>	<u>(390,377,439)</u>
Cash Flows from Financing Activities		
Contributions	14,539,651	85,341,518
Proceeds from credit facility	105,000,000	258,000,000
Payments on credit facility	(25,000,000)	(85,000,000)
Deferred financing costs	(1,730,362)	(2,605,101)
Net cash provided by financing activities	<u>92,809,289</u>	<u>255,736,417</u>
Net increase (decrease) in Cash and Cash Equivalents	9,135,835	(878,351)
Cash and Cash Equivalents- beginning of period	<u>27,117,034</u>	<u>27,995,385</u>
Cash and Cash Equivalents- end of period	<u>\$ 36,252,869</u>	<u>\$ 27,117,034</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 33,085,664	\$ 11,683,336
Significant Noncash Transactions		
Oil and gas properties expenditures included within accounts payable and accrued liabilities	\$ 94,565,648	\$ 48,267,973
Material and supplies expenditures included within accounts payable and accrued liabilities	23,348,786	11,774,721
Transfers of materials and supplies to oil and gas properties	133,674,866	18,299,742
Asset retirement obligation incurred	2,324,379	607,584
Operating lease liabilities arising from obtaining right-of-use assets	156,648,609	137,832,340

December 31, 2023 and 2022

Note 1 - Nature of Business

XCL Resources Holdings, LLC (the "Company"), a Delaware limited liability company, was formed on July 3, 2018. Through its wholly-owned subsidiaries, XCL Intermediate, LLC, XCL AssetCo, LLC, XCL RoyaltyCo, LLC, XCL Marketing, LLC, Wasatch Water Logistics, LLC, XCL SandCo LLC, and XCL Resources, LLC, the Company is engaged in the acquisition, exploration, exploitation, and production of its operated, non-operated, and royalty interests in oil and natural gas properties throughout the United States of America and currently owns interests primarily in Utah's Uinta Basin. The Company began substantial operations in 2019 upon the completion of acquisitions of oil and gas assets.

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States. All intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Depletion, depreciation, and amortization ("DD&A") and impairment of proved oil and gas properties are determined using estimates of oil and gas reserves. There are numerous uncertainties in estimating the quantity of reserves and in projecting the future rates of production and timing of development expenditures, including future costs to dismantle, dispose, and restore the Company's properties. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way.

In addition, estimates with regard to the financial statements include the estimated realizability of proved and unproved properties, the estimated cost and timing related to asset retirement obligations, accrued revenues and liabilities, and the fair value of commodity derivative instruments.

Although management believes the estimates with regard to the consolidated financial statements are reasonable, actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instrument purchases with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet dates and during the periods, balances of cash and cash equivalents were primarily held with one financial institution and exceeded the federally insured limit.

Concentrations of Credit Risk

The Company's accounts receivable are generated primarily from the sale of oil, natural gas, and natural gas liquids to purchasers and from the billing of expenditures incurred by the Company to joint interest owners for costs incurred on properties the Company operates.

The Company continually monitors the financial condition of its purchasers and joint interest owners and assesses the recoverability of the receivables to determine their collectability. As the receivables are primarily with other entities within the oil and gas industry, such concentration may impact the Company's credit risk as these entities may be similarly impacted by economic or other changes within the oil and gas industry.

December 31, 2023 and 2022

The Company accrues a reserve for the allowance for credit losses based on management's current estimate of expected credit losses that includes historical credit loss experience of financial assets with similar risk characteristics, adjusted for management's expectation of current conditions and reasonable and supportable forecasts. The risk of nonpayment by the joint interest owners is considered minimal, as the Company generally has the right to withhold revenue to offset amounts receivable. The Company's accounts receivable relate primarily from the sale of oil, condensate, natural gas, and natural gas liquids and are generally collected within one to two months.

To date, the Company has not had any bad debts.

During 2023 and 2022, four purchasers made up approximately 62% and 75% of the Company's oil, natural gas, and natural gas liquid sales, respectively. Substantially all of the Company's revenue receivables are made up of amounts from these same four purchasers.

Oil Inventories

The Company's crude oil inventory represents oil maintained in tanks at the Company's leased rail terminal (the "transload facility") and/or crude that is in transit FOB destination on leased railcars to refineries primarily in the Gulf Coast. Oil inventories is costed primarily of depletion, depreciation, and amortization and lease operating expenses associated with the oil maintained in tanks or on railcars and is carried at the lower of cost or net realizable value. The Company accounts for its crude oil inventory using the first-in, first-out method.

Materials and Supplies

Materials and supplies are reported within the prepaid and other current assets line on the balance sheet. The Company's materials and supplies, including tubular goods, completion materials, and production and facility equipment, are carried at the lower of cost or net realizable value. Materials and supplies are generally purchased for use in the Company's oil and gas drilling, completion, and production activities and are transferred to proved oil and gas properties, net to the Company's interests, when the associated asset is placed in service.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas activities. Under this method of accounting, costs associated with the acquisition, drilling, and equipping of successful exploratory wells and costs of successful and unsuccessful development wells are capitalized and depleted, net of estimated salvages values, using the units-of-production method on a field-by-field basis based upon proved oil and gas reserves. The Company's proved oil and gas reserve information was computed by applying the average first-day-of-the-month oil and gas price during the 12-month periods ended December 31, 2023 and 2022. Depreciation, depletion, and amortization expense for the years ended December 31, 2023 and 2022 was \$190,506,528 and \$60,240,497, respectively, net of amounts capitalized as inventory. Exploration, geological and geophysical costs, delay rentals, and drilling costs of unsuccessful exploratory wells are charged to expense as incurred.

Costs associated with unevaluated exploratory wells are excluded from the depletable basis until the determination of proved reserves, at which time those costs are reclassified to proved oil and gas properties and subject to depletion. If it is determined that the exploratory well costs were not successful in establishing proved reserves, such costs are expensed at the time of such determination.

The Company reviews its oil and gas properties for impairment whenever events and circumstances indicate a decline in the recoverability of their carrying value. The Company estimates the expected future cash flows of its proved oil and gas properties and compares such cash flows to the carrying amount of the proved oil and gas properties to determine if the amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust its proved oil and gas properties to estimated fair value. The factors used to estimate fair value include estimates of proved reserves, future commodity prices adjusted for basis

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differentials, future production estimates, anticipated capital expenditures, and a discount rate commensurate with the risk associated with realizing the projected cash flows. The discount rate is a rate that management believes is representative of current market conditions and includes estimates for a risk premium and other operational risks. There were no proved oil and gas property impairments during the years ended December 31, 2023 and 2022.

Unproved oil and gas properties are assessed at least annually to determine whether they have been impaired by the drilling of dry holes on or near the related acreage or other circumstances that may indicate a decline in value. When unproved property is determined to be impaired, a loss equal to the portion impaired is recognized. When leases for unproved properties expire, the costs thereof, are removed from the accounts and charged to expense. There were no unproved property impairments during the years ended December 31, 2023 and 2022.

From time to time, the Company may sell its oil and gas properties. The partial sale of proved properties within an existing field may be accounted for as a normal retirement and no gain or loss on divestiture is recognized as long as this treatment does not significantly affect the units-of-production depletion rate. The partial sale of unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to the ultimate recovery of the cost applicable to the interest retained. A gain on divestiture activity is recognized to the extent that the sales price exceeds the carrying amount of the unproved property. A gain or loss is recognized for all other sales of proved and unproved properties. During the year ended December 31, 2023, the Company divested its oil and gas properties in North Dakota's Williston Basin for approximately \$8.9 million, resulting in a gain on sale of approximately \$3.2 million. The Company also sold certain other proved properties within Utah's Uinta Basin during the year ended December 31, 2023 for \$0.7 million resulting in a gain on sale of approximately \$0.5 million. There were no sales of proved or unproved oil and gas properties during the year ended December 31, 2022.

Other Assets

Other assets include deferred financing costs, property and equipment, operating lease right-of-use assets, and non-current commodity derivative instruments.

Property and equipment, which includes leasehold improvements, furniture and fixtures, and equipment, is recorded at cost and depreciated using the straight-line method over the assets' estimated useful lives. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Depreciation expense for property and equipment totaled \$761,215 and \$932,786 for the years ended December 31, 2023 and 2022, respectively.

Deferred financing costs represent legal and consulting costs associated with the Credit Facility (Note 6) and are \$2,144,858 and \$2,868,273, net of accumulated amortization at December 31, 2023 and 2022, respectively. Such charges are being amortized on a straight-line basis over the term of the Credit Facility.

The Company's right-of-use (ROU) assets are operating leases that represent the Company's right to use an underlying asset for the lease term upon the adoption of ASC 842 (Note 9). These ROU assets are related to the Company's operating leases with various operations, transportation and office lease contracts.

Long-Lived Assets

The Company reviews the recoverability of long-lived assets, including the transload facility, property and equipment, and right-of-use assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future undiscounted cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make

December 31, 2023 and 2022

estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Asset Retirement Obligation

Asset retirement obligations (AROs) relate to estimated plugging and abandonment costs of oil and gas properties, including facilities, and the reclamation of the Company's well locations. The Company records the fair value of an ARO in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes an estimated cost by increasing the carrying amount of proved oil and gas properties. Over time, the liability is accreted each period toward an estimated future cost, and the capitalized cost is depleted. The Company uses the income valuation technique to estimate the fair value of AROs using the amounts and timing of expected future dismantlement costs, credit-adjusted risk-free rate, market risk premiums, and time value of money. All of the inputs are estimated at the time the liability is incurred or revised upward.

Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives or if federal or state regulators enact new requirements regarding the abandonment of wells. Adjustments to the liability are made as these estimates change, and, upon settlement of the liability, the Company reports a gain or loss to the extent the actual costs differ from the recorded liability.

Revenue Recognition

The Company's revenue is primarily derived from the sale of its produced oil, natural gas, and natural gas liquids. The Company sells its produced oil, natural gas, and natural gas liquids under a variety of short-term and long-term agreements with numerous customers. The Company's revenue is primarily derived from produced oil, natural gas, and natural gas liquids from oil and gas wells operated by the Company. The Company also receives revenue from its ownership in non-operating and royalty interests. During 2023 and 2022, sales of oil of approximately \$43.2 million and \$18.4 million, respectively, were related to oil the Company purchased from third party producers.

Revenue is recognized in the month in which the contractual performance obligations are satisfied, which is generally at the point in time when the customer obtains control of the produced oil, natural gas, and natural gas liquids. The point in time when the customer obtains control may differ depending on the contractual terms of each of the Company's sales agreements and generally occurs when the customer accepts, takes possession, title to, and bears the risk of loss of the produced oil, natural gas, and natural gas liquids.

All of the Company's sales of produced oil, natural gas, and natural gas liquids are made under contracts with customers, which typically include variable consideration based on monthly pricing tied to published indices and volumes delivered. While revenue is recorded at the point in time when control of the produced oil, natural gas, and natural gas liquids transfer to the customer, statements and payment from those customers may not be received for one to two months after the date the produced oil, natural gas, and natural gas liquids are delivered, and as a result, the amount of production delivered to the customer and the price that will be received for the sale of the product is estimated utilizing production reports, contractual pricing, and market indices. Estimated revenue due to the Company is recorded as a revenue receivable within accounts receivable in the accompanying balance sheet until payment is received. Differences between the estimated amounts and the actual amounts received from the sale of the produced oil, natural gas, and natural gas liquids are recorded when known, which is generally when payment is received from the customer. The revenue receivable balance on January 1, 2022 was approximately \$30.4 million.

For the Company's produced oil sales agreement, the Company generally delivers produced oil to customers at defined locations, including tank batteries, common delivery points near the production location, or at other defined delivery locations including terminal facilities in the Gulf Coast. Upon delivery to the customers, the Company is entitled to an agreed-upon index price, net of pricing differentials for each barrel produced (net realized price). The Company recognizes

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revenue when control transfers to the customers at the tank batteries and common delivery points near the production location, or at other defined delivery locations at the net realized price.

Transportation and gathering costs, including the costs for the leasing and transporting railcars, is recorded as transportation, gathering, and handling on the accompanying consolidated statement of operations to the extent such costs are incurred prior to the transfer of control of produced crude oil to the customers.

Commodity Derivative Instruments

The Company uses derivative instruments to provide a measure of stability to its cash flows and manage its exposure to commodity price risk in an environment of volatile oil and natural gas prices. The Company records all derivative instruments at fair value within the accompanying consolidated balance sheet. The Company does not apply hedge accounting to any of its outstanding derivative instruments, and as a result, all changes in derivative fair value are recognized in earnings.

Realized gains and losses associated with commodity derivatives with underlying commodity volumes are classified as operating activities in the accompanying consolidated statement of cash flows.

Unit-Based Compensation

For any Series B Units which are issued at prices less than their estimated fair value, and for all Series C Units, the Company recognizes unit-based compensation expense over the requisite service period for unit-based awards to holders based on the estimated grant date fair value of the awards. During the years ended December 31, 2023 and 2022, the Company did not record any unit-based compensation expense related to the Series B Units as all Series B Units issued have been at prices equal to, or in excess of, their estimated fair value and the Company did not record any unit-based compensation expenses related to the Series C Units as the amounts were de minimis.

Income Taxes

The Company is a limited liability company treated as a partnership for U.S. federal, state, and local income tax purposes. Accordingly, members are generally taxed on their allocable share of taxable income or loss as determined under the Company's operating agreement. The Company evaluates uncertain tax positions for measurement and recognition in the financial statements. To recognize a tax position, the Company determines whether it is more-likely-than-not the tax positions will be sustained upon examination. The Company has no uncertain tax positions requiring measurement and recognition in the financial statements for the years ended December 31, 2023 and 2022. Due to IRS rules, adjustments resulting from an IRS audit of the Company may be assessed at the Company level.

The State of Texas assesses a franchise tax at the Company level. For the year ended December 31, 2023, the Company recorded a provision for deferred taxes of \$1.7 million associated with such franchise taxes. These deferred taxes reflect the impact of temporary differences between assets and liabilities recognized under accounting principles generally accepted in the United States and such amounts recognized for tax purposes. The primary differences resulting in the Company's deferred taxes are a result of differing treatment of intangible drilling costs recorded as part of the Company's oil and gas properties.

Adoption of ASU 2016-02

On January 1, 2022, the Company adopted ASU 2016-02, Leases (Topic 842) ("ASC 842"), as amended, using the modified retrospective approach. This pronouncement requires lessees to recognize a lease liability and a right-of-use asset for each lease with a term longer than twelve months and adds new presentation and disclosure requirements for both lessees and lessors.

December 31, 2023 and 2022

The Company elected the package of practical expedients permitted under the transition guidance in ASC 842 and did not reassess prior conclusions related to contracts containing leases, lease classification, initial direct costs, or land easements.

The adoption of the new lease standard resulted in the recognition of operating lease right-of-use (ROU) assets and lease liabilities for lease arrangements with an initial term greater than twelve months. Upon adoption of ASC 842 on January 1, 2022, the Company recognized lease ROU assets and liabilities of \$13.9 million.

Leases

The Company primarily leases office space, trucking fleets, railcars, and drilling, completion, and production equipment from third parties. The Company determines if a contract is a lease at inception. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease term begins on the commencement date, which is the date the Company takes possession of the asset and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Certain of the Company's leases contain renewal options for varying periods, which can be exercised at the Company's sole discretion. Leases are classified as operating or finance leases based on factors such as the lease term, lease payments, and the economic life, fair value and estimated residual value of the asset. Where leases include options to purchase the leased asset at the end of the lease term, this is assessed as a part of the Company's lease classification determination. The Company's leases have remaining lease terms ranging from 1 to 10 years.

The Company recognizes a ROU asset and lease liability to account for its leases. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. ROU assets are based on the lease liability and are increased by prepaid lease payments and decreased by lease incentives received. Lease incentives are amortized through the lease asset as reductions of expense over the lease term. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company's ROU assets and lease liabilities.

Leases typically contain rent escalations over the lease term. The Company recognizes costs for these leases on a straight-line basis over the lease term. Some leases include rent escalations based on inflation indexes and fair market value adjustments. Certain leases contain contingent rental provisions that include a fixed base rent plus an additional variable percentage of the tenant's operating costs. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. Certain leases require the Company to pay taxes, insurance, maintenance and other operating expenses associated with the leased asset. Such amounts are not included in the measurement of the ROU assets and lease liabilities to the extent they are variable in nature. These variable lease costs are recognized as a variable lease expense when incurred.

As a practical expedient, lease agreements with lease and non-lease components are accounted for as a single lease component for all of the Company's asset classes.

The Company elected the short-term lease recognition exemption for all leases that qualify. Therefore, leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. The depreciable life of the ROU assets and leasehold improvements are limited by the expected lease term unless the Company is reasonably certain of a transfer of title or purchase option. The Company uses its incremental borrowing rate to discount future lease payments based on the information available on the commencement date for each lease as the implicit rate in the lease is not known. The determination of the incremental borrowing rate requires judgment and is determined using the Company's current secured borrowing rate, adjusted for various factors aligned with the lease including total lease payments and lease term.

December 31, 2023 and 2022

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued.

Pending Oil and Gas Property Acquisition

In January of 2024, the Company entered into a purchase and sale agreement and made a \$12.8 million deposit into an escrow account for a potential acquisition of oil and gas properties. The purchase and sale agreement, which has a purchase price of \$85.0 million, subject to certain adjustments, is subject to customary conditions to close. If the purchase and sale agreement is terminated, dependent upon the terminating party and cause of determination, all of the deposit is subject to forfeiture. As of the date these consolidated financial statements were available for issuance, the purchase and sale agreement has not closed.

Credit Facility

On January 5, 2024, the Company entered into an amendment to its Credit Facility (Note 6).

December 31, 2023 and 2022

Note 3 - Balance Sheet DisclosuresAccounts Receivable

Accounts receivable consist of the following:

	December 31,	
	2023	2022
Revenue receivable	\$ 139,295,253	\$ 65,592,034
Joint interest billing receivable	12,706,309	13,452,428
Total accounts receivable	<u>\$ 152,001,562</u>	<u>\$ 79,044,462</u>

Prepaid and other current assets

Prepaid and other current assets consist of the following:

	December 31,	
	2023	2022
Materials and supplies	\$ 32,041,846	\$ 38,524,688
Prepaid costs	9,255,509	1,634,173
Deposits and other assets	671,006	1,387,416
Total prepaid and other current assets	<u>\$ 41,968,361</u>	<u>\$ 41,546,277</u>

Proved Oil and Gas Properties

Proved oil and gas properties consist of the following:

	December 31,	
	2023	2022
Leasehold costs	\$ 562,653,863	\$ 552,452,841
Facility, drilling, and completion costs	1,223,988,882	597,847,195
Accumulated depreciation, depletion, and amortization	(321,666,538)	(130,912,710)
Total proved oil and gas properties, net	<u>\$ 1,464,976,207</u>	<u>\$ 1,019,387,326</u>

Other Assets, net

Other assets, net consist of the following:

	December 31,	
	2023	2022
Right-of-use assets	\$ 155,836,359	\$ 89,713,680
Furniture, fixture and equipment, net	642,532	775,379
Commodity derivative instruments, non-current	2,453,749	—
Debt issuance costs, net of amortization	2,144,858	2,868,273
Total other assets, net	<u>\$ 161,077,498</u>	<u>\$ 93,357,332</u>

December 31, 2023 and 2022

Accrued Liabilities:

Accrued liabilities consist of the following:

	December 31,	
	2023	2022
Suspended revenues	\$ 50,006,800	\$ 36,913,361
Lease liability - operating	113,876,061	68,255,118
Revenue payable	10,552,924	9,762,968
Production taxes payable	19,480,540	11,233,477
Operating expenses	10,159,742	6,397,148
General and administrative	4,797,677	4,465,695
Buyer performance deposit	19,000,000	—
Capital expenditures	92,832,682	40,396,841
Interest	786,168	199,549
Total accrued liabilities	<u>\$321,492,594</u>	<u>\$177,624,157</u>

Buyer Performance Deposit

In June 2023, the Company entered into a purchase and sale agreement with a buyer for certain of the Company's royalty and mineral interests in Utah's Uinta Basin. The purchase price for the transaction is \$32.0 million and subject to customary adjustments. The purchase and sale agreement requires performance deposits, of which \$19.0 million have been paid through December 31, 2023 and have been presented as a buyer performance deposit. The transaction, which is scheduled to close in 2024, is subject to customary conditions to close. If the buyer has not met all conditions to close, including failure to make payment of the remaining performance deposits in full, the Company is not obligated to close or the Company may elect to close and instead sell an undivided interest in the properties that is proportional to the amount of installment payments received and the purchase price, as defined.

December 31, 2023 and 2022

Note 4 - Commodity Derivative Instruments

The Company classifies the fair value amounts of commodity derivative assets and liabilities as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty.

The Company had the following open commodity derivative instruments as of December 31, 2023:

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Price per Bbl	Price Index	Contract Period	Fair Value
Oil Swap	3,729,424	\$ 69.02	Oil-WTI-NYMEX	1/1/24-12/31/24	\$ (9,153,328)
Oil Swap	2,515,800	69.65	Oil-WTI-NYMEX	1/1/25-12/31/25	3,851,665

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Price Floor per Bbl	Weighted Average Price Ceiling per Bbl	Price Index	Contract Period	Fair Value
Oil Collar	3,556,997	\$ 68.12	\$ 76.63	Oil-WTI-NYMEX	1/1/24-12/31/24	\$ 3,725,044
Oil Collar	872,000	54.98	62.57	Oil-WTI-NYMEX	1/1/25-12/31/25	(7,117,624)

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Strike Price per Bbl	Price Index	Contract Period	Fair Value
Purchased Oil Put	2,218,000	\$ 75.000	Oil-WTI-NYMEX	1/1/24-6/30/24	\$ 6,332,543

As of December 31, 2023 and 2022, the Company's commodity derivative instruments were subject to enforceable master netting arrangements that provide for offsetting of amounts payable or receivable between the Company and the counterparties. The agreements also provide that, in the event of an early termination or default, the counterparties have the right to offset amounts owed or due under that and any other agreement with the same counterparty.

December 31, 2023 and 2022

The following tables reconcile the Company's outstanding derivative instruments on a gross contract basis to the net contract basis presentation on the consolidated balance sheets and the related fair value at the consolidated balance sheet date:

2023				
	Balance Sheet Classification	Gross Assets/ Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Commodity derivative assets:				
	Current assets	\$ 42,138,501	\$ (30,725,638)	\$ 11,412,863
	Noncurrent assets	7,850,463	(5,396,714)	2,453,749
	Total derivative assets	<u>\$ 49,988,964</u>	<u>\$ (36,122,352)</u>	<u>\$ 13,866,612</u>
Commodity derivative liabilities:				
	Current liabilities	\$ (41,234,243)	\$ 30,725,638	\$ (10,508,605)
	Noncurrent liabilities	(11,116,421)	5,396,714	(5,719,707)
	Total derivatives liabilities	<u>\$ (52,350,664)</u>	<u>\$ 36,122,352</u>	<u>\$ (16,228,312)</u>

Included within 2023 current assets and current liabilities in the table above are \$3.9 million and \$3.9 million, respectively, of obligations representing deferred premium payments for certain purchased puts.

2022				
	Balance Sheet Classification	Gross Assets/ Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Commodity derivative assets:				
	Current assets	\$ 11,188,554	\$ (11,188,554)	\$ —
	Noncurrent assets	6,509,970	(6,509,970)	—
	Total derivative assets	<u>\$ 17,698,524</u>	<u>\$ (17,698,524)</u>	<u>\$ —</u>
Commodity derivative liabilities:				
	Current liabilities	\$ (69,234,606)	\$ 11,188,554	\$ (58,046,052)
	Noncurrent liabilities	(35,961,911)	6,509,970	(29,451,941)
	Total derivatives liabilities	<u>\$ (105,196,517)</u>	<u>\$ 17,698,524</u>	<u>\$ (87,497,993)</u>

The table below summarizes the location and amount of commodity derivative instrument gains and losses reported on the consolidated statement of operations for the year ended indicated below:

	2023	2022
Other income (expense):		
Unrealized gain	\$ 85,136,292	\$ 2,195,109
Realized loss	(61,381,760)	(89,960,583)
Commodity derivative instruments gain (loss)	<u>\$ 23,754,532</u>	<u>\$ (87,765,474)</u>

Due to the volatility of oil and gas prices, the estimated fair values of the Company's commodity derivative instruments are subject to large fluctuations from period to period.

The counterparties in all of the Company's derivative instruments are lenders in the Company's Credit Facility. Accordingly, the Company is not required to post collateral since the Credit Facility is secured by substantially all of the Company's oil and gas properties.

December 31, 2023 and 2022

Note 5 - Members' Equity

The Company issues Series A, B, and C units under the terms of its July 2018 Amended and Restated Limited Liability Company Agreement (the "Agreement").

The total authorized number of each of the classes of series, together with the number of units issued and outstanding are as follows as of December 31, 2023:

	Authorized	Issued and Outstanding
Series A Units (Institutional Investors)	Unlimited	614,345,000
Series B Units (Management Investors)	5,880,000	5,880,000
Series C Units (Management Investors and Employees)	100,000	99,100

Series A and B units were issued for \$1 per unit. As of December 31, 2023, aggregate capital commitments total \$620,225,000, of which all \$620,225,000 had been funded.

The affairs of the Company are overseen by the Board of Managers. The Board of Managers are comprised of four managers designated by the Institutional Investors, three managers designated by the Management Investors, and one manager designated with the approval of at least one Institutional Investor designated manager and one Management Investor designated manager.

Allocations of profits, losses, distributions, and other items are done in accordance with the provisions within the Agreement.

Upon the event of a Management Investor default, as defined, the Company has the option to cause the defaulting unitholder to sell its Series B Units at a defined price and forfeit any Series C Units. Upon termination of employment of any Management Investor, its respective remaining capital commitment shall be reduced to \$0.

All Series B Units issued since inception have been at prices equal to, or in excess of, their estimated fair value. As a result, no unit-based compensation expense has been recognized on Series B Units issued to Management Investors.

In the event that the employment of a Series B unitholder is terminated by the Company for cause or by the unitholder without good reason, the Company has the option to repurchase all of that unitholder's Series B Units at the lower of the unitholder's cost basis or defined appraisal value. In the event that the employment of a Series B unitholder is terminated by the Company without cause or by the unitholder for good reason, or as a result of death or disability, the Company has the right, but not the obligation, to repurchase such unitholder's Series B Units at the defined appraisal value.

Series C Units are authorized for issuance to certain Management Investors and employees of the Company. The Series C Units entitle the holder to the right to receive distributions from the Company upon the attainment of the specific payout threshold, as defined in the Agreement. The Series C Units vest 12.5% on each anniversary of the issuance date for the first four years. The remaining 50% will become vested upon the consummation of a qualified exit event, as defined.

Upon termination of employment of a Series C unitholder by the Company for cause or by the unitholder without good reason, all Series C Units, whether vested or unvested, will be forfeited. Upon death or disability by the unitholder, all unvested Series C units will become tentatively vested Series C Units. If an exit event occurs on or prior to the date that is six months following the death or disability of the unitholder, then all unvested Series C units become vested. If an exit event does not occur within six months following the death or disability of the unitholder, then the unvested Series C units are forfeited. Upon termination of the employee by the Company for any reason other than cause, or by the Series C Unitholder for good reason, all unvested Series C Units are forfeited. For any vested Series C Units, the Company has the right, but not the obligation, to repurchase such unitholder's Series C Units at the defined appraisal value.

December 31, 2023 and 2022

All Series C Units issued since inception have had de minimis grant-date fair value. As a result, no unit-based compensation expense has been recognized on Series C Units issued to Management Investors and employees.

A summary of the activity associated with the Series C Units during 2023 and 2022 is as follows:

	For the Year and Period Ended December 31,	
	2023	2022
Series C Units at beginning of period	98,500	88,850
Granted	600	9,750
Forfeited	—	(100)
Series C Units at end of period	99,100	98,500

Deal Cost Reimbursement

During 2022 and 2021, the Company pursued an acquisition of oil and gas assets from an operator within the Uinta basin, incurring acquisition-related fees and expenditures related to the transaction, totaling \$1,280,164 and \$9,126,201, respectively. In February 2022, the Company learned that the transaction would not be completed due to regulatory actions taken by the United States Government. During 2022, the majority of these acquisition-related fees, totaling \$10.3 million, were reimbursed by an affiliate of a Series A Unitholder, a related party. This reimbursement is reflected in the total Members' Contributions in the consolidated statement of members' equity.

Note 6 - Credit Facility

On December 20, 2019, the Company entered into a syndicated revolving credit facility with Wells Fargo Bank, N.A., as administrative agent and lender, (the "Credit Facility"). The Credit Facility provides for a maximum \$1.0 billion credit facility with an initial borrowing base of \$170.0 million. Interest on amounts outstanding under the Credit Facility accrues at percentages as defined in the Credit Facility, plus a margin depending upon the amount drawn under the borrowing base. On a quarterly basis the Credit Facility also requires commitment fees assessed at annual rates of 0.50% on any unfunded portion of the borrowing base.

As of December 31, 2023, the Company had borrowings of \$375.0 million outstanding under the Credit Facility which had a borrowing base of \$550.0 million and an elected commitment amount of \$500 million. The Credit Facility had a weighted average interest rate of 8.91% for the year ended December 31, 2023 and an interest rate of 8.95% at December 31, 2023. The Credit Facility was scheduled to mature on December 20, 2024. The Seventh Amendment to the Credit Agreement, dated as of January 5, 2024, increased the borrowing base and elected commitment amount to \$650.0 million and extended the Maturity Date from December 20, 2024 to December 20, 2027.

The Credit Facility contains customary affirmative and negative covenants, including both financial covenants and commodity hedged minimum and maximum requirement covenants, as defined, and is collateralized by substantially all of the Company's oil and gas properties. As of December 31, 2023, the Company was in compliance with the financial covenants. The commodity hedging arrangements require a maximum hedge covenant of 85% of forecasted production from proved reserves with a maximum tenor of 60 months, subject to a lookback test. The Credit Facility also contains an excess cash threshold provision which requires cash balances, other than cash held for specific excluded purposes, as defined, held by the Company in excess of the greater of \$35.0 million or 15% of the borrowing base then in effect to be used to pay down outstanding amounts under the Credit Facility. It also requires that upon entering into a credit event, as defined, including new borrowings under the Credit Facility, no excess cash, defined as the greater of \$25.0 million or 10% of the borrowing base then in effect, shall exist.

December 31, 2023 and 2022

The Credit Facility also has customary restrictions on distributions, other investments, and new or additional debt, and automatic reductions to the borrowing base upon certain property dispositions or issuance of additional permitted debt. The borrowing base is redetermined semi-annually and optional interim redeterminations are available at the option of the Company and the lenders. Amounts outstanding under the Credit Facility may be prepaid without penalty, and reborrowed, subject to the borrowing base then established.

Letter of Credit

In conjunction with the Third Amendment to the Credit Facility on May 24, 2022, a Series A Unitholder (Note 5), a related party, entered into a guarantee agreement with the administrative agent of the Company's Credit Facility. The guarantee agreement, which provided collateral in support of the Company's borrowing base was initially for \$75.0 million and was reduced to \$60.0 million in the Fourth Amendment of the Credit Facility on December 14, 2022. The guarantee agreement, which contained certain financial covenants of the Series A Unitholder (Note 5), a related party, expired on March 30, 2023 upon the execution of the Fifth Amendment to the Credit Facility which increased the borrowing base to \$400.0 million.

Note 7 - Asset Retirement Obligations

During the years ended December 31, 2023 and 2022, ARO additions were made for acquired wells and additional wells drilled.

A reconciliation of the changes in the Company's ARO liability is as follows:

	2023	2022
Asset retirement obligations - beginning of period	\$ 5,227,319	\$ 5,578,549
Liabilities incurred	2,324,379	607,584
Settlements	(317,030)	(1,261,405)
Accretion	341,467	302,591
Asset retirement obligations - end of period	<u>\$ 7,576,135</u>	<u>\$ 5,227,319</u>

Note 8 - Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance established a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions as to what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or

Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level

December 31, 2023 and 2022

input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2023 and 2022 by level within the fair value hierarchy.

	2023			
	Level 1	Level 2	Level 3	Total
Commodity derivative instruments				
Assets	\$ —	\$ 13,866,612	\$ —	\$ 13,866,612
Liabilities	\$ —	<u>\$(16,228,312)</u>	\$ —	<u>\$(16,228,312)</u>
	2022			
	Level 1	Level 2	Level 3	Total
Commodity derivative instruments				
Assets	\$ —	\$ —	\$ —	\$ —
Liabilities	\$ —	<u>\$(87,497,993)</u>	\$ —	<u>\$(87,497,993)</u>

At December 31, 2023 and 2022, the Company's commodity derivative instruments consisted of oil swaps, collars, and puts. The fair value of the swaps was determined under the income valuation technique using a discounted cash flows model. The fair value of the collars and puts were determined using an option pricing model. These valuation models require a variety of inputs, including contractual terms, published forward prices, estimated volatilities, and discount rates, as appropriate. The Company's estimates of fair value of derivatives include consideration of the counterparty's credit worthiness, the Company's credit worthiness, and the time value of money. The consideration of these factors results in an estimated exit-price for each derivative asset or liability under a market participant's view. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's derivative instruments are included within the Level 2 fair value hierarchy.

The Company uses the income valuation technique to estimate the fair value of asset retirement obligations using the amounts and timing of expected future dismantlement costs, credit-adjusted risk-free rate, market risk premium adjustments, and time value of money. Accordingly, the fair value is based on unobservable pricing inputs and therefore, is considered a Level 3 value input in the fair value hierarchy. The asset retirement obligations are estimated based on projected cash flows, an estimated long-term inflation rate, and a discount rate based on estimated credit-adjusted, risk-free rate inclusive of market and risk premium conditions.

December 31, 2023 and 2022

Note 9 – Leases

The Company has lease arrangements for office space, trucking fleets, railcars, and drilling and completion rigs. These leases expire at various dates through 2031.

	Year 1	2-3 Years	4-5 Years	>5 Years	Total
Rail Cars	\$ 9,393,900	\$ 6,777,805	\$ 2,322,900	\$ —	\$ 18,494,605
Trucking	28,300,000	16,280,417	—	—	44,580,417
Completion Rig	70,140,000	17,535,000	—	—	87,675,000
Drilling Rig	12,386,250	—	—	—	12,386,250
Compressors and Vapor Recovery Units	1,885,200	1,041,150	—	—	2,926,350
Office space	621,921	1,214,633	1,148,403	1,581,095	4,566,052
Total	<u>\$ 122,727,271</u>	<u>\$ 42,849,005</u>	<u>\$ 3,471,303</u>	<u>\$ 1,581,905</u>	<u>\$ 170,628,674</u>
Less Imputed Interest:					<u>\$ (10,895,987)</u>
Total Lease Liability at December 31, 2023					<u>\$ 159,732,687</u>

The Company leases its corporate and field office facilities under non-cancelable operating leases. Remaining commitments for its corporate and field office facilities total approximately \$4.6 million through 2031. The corporate office lease contains a one-time early termination provision allowing the Company to terminate the lease in 2027 if certain events occur, as defined, including a sale of all Company assets or equity interests to an unrelated third party as well as an option to extend the lease at the end of the primary term. Both the option to terminate and the option to extend are not included in the lease term as they are not deemed reasonably certain to be exercised.

The Company leases railcars to facilitate transportation of crude oil under non-cancelable agreements. The terms for these agreements extend through 2027 and the remaining minimum commitment totals approximately \$18.5 million through 2027. To facilitate the utilization of the railcars, the Company has a transload facility agreement to utilize oil storage tanks and rail terminal near the Company's Uinta Basin oil and gas properties (Note 10).

As of December 31, 2023, the Company had three active drilling rig contracts with third-party contractors related to development of the Company's Uinta Basin property interests. Two of these contracts are accounted for as short-term leases under ASC 842. Minimum commitments associated with the agreements total approximately \$27.6 million in 2024.

In December of 2023, the Company extended its contract with a completion rig for an additional 13 months. Minimum commitments associated with the agreements total approximately \$70.1 million and \$17.5 million in 2024 and 2025, respectively.

December 31, 2023 and 2022

The tables below summarize the Company's operating lease costs and include ROU assets and lease liabilities, amounts recognized in net income during the year and other lease information.

Lease balances, as of December 31:

	2023	2022
Assets		
Operating lease ROU assets, in Other assets, net	\$ 155,836,359	\$ 89,713,680
Total lease assets	<u>\$ 155,836,359</u>	<u>\$ 89,713,680</u>
Liabilities		
Current operating lease liabilities, in accrued liabilities	\$ 113,876,061	\$ 68,255,118
Long-term operating lease liabilities	\$ 45,856,626	\$ 23,976,715
Total lease liabilities	<u>\$ 159,732,687</u>	<u>\$ 92,231,833</u>
Weighted-average remaining lease term (in years):		
Operating leases	1.7 Years	1.7 years
Weighted-average discount rate:		
Operating leases	8.2%	3.3%

Lease costs for the years indicated below are as follows:

	2023	2022
Lease Cost		
Operating lease cost	\$ 96,845,723	\$ 54,946,970
Short-term lease cost	41,876,729	34,316,377
Variable lease cost	20,241,693	3,910,689
Total lease cost	<u>\$ 158,964,145</u>	<u>\$ 93,174,036</u>

Included within operating lease cost for the years ended December 31, 2023 and 2022 are approximately \$63.1 million of costs associated the completion rig and one of the Company's drilling rigs and \$39.0 million of costs associated with the completion rig, which were capitalized as a part of oil and gas properties net to the Company's interests.

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Note 10 - Commitments and ContingenciesMinimum Volume Commitments*Transload Facility*

The Company's transload agreement allows it to utilize comingled oil storage tanks and rail terminal at a transload facility near the Company's Uinta Basin oil and gas properties. This agreement, which was amended during 2023, is effective through 2032. Under the current contract, a minimum volume commitment of \$1.65 per barrel exists through December 2028. Any monthly deficiency payments due by the Company shall constitute as prepayments for certain services provided by the facility operator as long as such amounts are used during the three months immediately following the month in which the deficiency occurred. The agreement allows the Company to elect to utilize the facility after expiration of the term, subject to additional reservation fees and fees per barrel.

Year	Minimum Volume Commitment (Barrels per day)
2024	10,000
2025	3,750
2026	3,750
2027	3,750
2028	3,750

Rail Transportation Contract

During 2023, the Company entered into a rail transportation services contract with a major railway company through 2028. The minimum commitment associated with this contract for these rail transportation services total 240 crude unit trains during the five-year period. Pricing is determined based on a specific rate per destination, and at a minimum of 84 railcars or a maximum of 88 railcars per crude unit train shipment. A shortfall penalty of \$400 per railcar below the minimum commitment not shipped within the term of the agreement will be assessed at the termination of the agreement.

Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business. As of the date of the date of the independent auditor's report, no legal proceedings are pending that management believes could have a materially adverse effect upon the Company's financial condition or results of operations.

Environmental Matters

As an owner or lessee of oil and gas properties, the Company is subject to various federal, state, and local laws and regulations relating to discharge of materials into and protection of the environment. The Company has policies to ensure continuing compliance with environmental laws and regulations and maintains insurance coverage for certain environmental matters. There can be no assurance that current or future local, state, or federal rules and regulations will not require the Company to spend material amounts to comply with such rules and regulations.



XCL Resources Holdings, LLC and Subsidiaries

Consolidated Financial Statements
For the quarterly period ended March 31, 2024

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Independent Auditor's Review Report

To the Board of Managers
XCL Resources Holdings, LLC and Subsidiaries

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated financial statements of XCL Resources Holdings, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2024 and the related consolidated statements of operations, members' equity, and cash flows for the three-month periods ended March 31, 2024 and 2023, and the related notes to the consolidated financial statements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and, accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our reviews. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Consolidated Balance Sheet as of December 31, 2023

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2023 and the related consolidated statements of operations, members' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 18, 2024. In our opinion, the accompanying consolidated balance sheet of the Company as of December 31, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ Plante & Moran, PLLC

July 17, 2024



Consolidated Balance Sheet (Unaudited)

	March 31, 2024	December 31, 2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,424,138	\$ 36,252,869
Accounts receivable	132,244,676	152,001,562
Oil inventories	10,816,171	7,254,699
Commodity derivative instruments	—	11,412,863
Prepaid and other current assets	47,537,514	41,968,361
Total current assets	211,022,499	248,890,354
Oil and Gas Properties , successful efforts method		
Proved properties	1,925,405,696	1,786,642,745
Unproved properties	61,598,364	60,831,162
Accumulated depreciation, depletion, and amortization	(387,898,080)	(321,666,538)
Total oil and gas properties, net	1,599,105,980	1,525,807,369
Other Assets , net		
Total assets	\$ 1,968,907,485	\$ 1,935,775,221
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 9,979,988	\$ 53,934,087
Commodity derivative instruments	55,303,990	10,508,605
Accrued liabilities	287,351,277	321,492,594
Total current liabilities	352,635,255	385,935,286
Long-term Liabilities		
Asset retirement obligations	7,749,303	7,576,135
Operating lease liabilities	27,136,291	45,856,626
Commodity derivative instruments, net of current	15,744,346	5,719,707
Income tax liability	1,700,568	1,727,115
Credit facility	463,000,000	375,000,000
Total liabilities	867,965,763	821,814,869
Members' Equity		
Contributions	630,566,518	630,566,518
Accumulated earnings	470,375,204	483,393,834
Total members' equity	1,100,941,722	1,113,960,352
Total liabilities and members' equity	\$ 1,968,907,485	\$ 1,935,775,221

See notes to consolidated financial statements and independent auditor's review report.

XCL Resources Holdings, LLC and Subsidiaries**Consolidated Statement of Operations (Unaudited)**

	For the Three Months Ended March 31,	
	2024	2023
Revenue		
Oil sales	\$ 222,335,953	\$ 151,474,307
Natural gas and natural gas liquid sales	3,868,252	6,754,248
Other revenue	2,181,165	1,724,957
Total revenue	<u>228,385,370</u>	<u>159,953,512</u>
Operating costs and expenses		
Lease operating	17,000,639	12,995,240
Production taxes	5,944,671	2,890,971
Transportation, gathering, and handling	49,573,868	24,186,113
Workover	1,915,179	640,712
Depreciation, depletion, amortization, and accretion	64,422,617	34,451,315
General and administrative	7,660,839	4,128,737
Exploration and abandonment	847,059	204,856
Cost of acquired oil inventories	—	1,921,103
Total operating costs and expenses	<u>147,364,872</u>	<u>81,419,047</u>
Operating income	81,020,498	78,534,465
Other income (expense)		
Interest expense	(10,875,149)	(7,433,684)
Commodity derivative instrument gain (loss)	(83,198,046)	22,949,849
Other	(2,144)	66
Total other income (expense)	<u>(94,075,339)</u>	<u>15,516,231</u>
Income (loss) before income taxes	(13,054,841)	94,050,696
Income tax benefit (expense)	36,211	(918,213)
Net income (loss)	<u>\$ (13,018,630)</u>	<u>\$ 93,132,483</u>

See notes to consolidated financial statements and independent auditor's review report.

XCL Resources Holdings, LLC and Subsidiaries

Consolidated Statement of Members' Equity (Unaudited)

	Members' Contributions	Accumulated Earnings	Total Members' Equity
Balance - December 31, 2023	\$ 630,566,518	\$ 483,393,834	\$ 1,113,960,352
Contributions - Series A	—	—	—
Contributions - Series B	—	—	—
Net loss	—	(13,018,630)	(13,018,630)
Balance - March 31, 2024	\$ 630,566,518	\$ 470,375,204	\$ 1,100,941,722

	Members' Contributions	Accumulated Earnings	Total Members' Equity
Balance - December 31, 2022	\$ 616,026,867	\$ 84,398,390	\$ 700,425,257
Contributions - Series A	9,377	—	9,377
Contributions - Series B	122,487	—	122,487
Net income	—	93,132,483	93,132,483
Balance - March 31, 2023	\$ 616,158,731	\$ 177,530,873	\$ 793,689,604

See notes to consolidated financial statements and independent auditor's review report.

Consolidated Statement of Cash Flows (Unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Cash Flows from Operating Activities		
Net income (loss)	\$ (13,018,630)	\$ 93,132,483
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Depreciation, depletion, amortization, and accretion	64,422,617	34,451,315
Change in fair value of commodity derivative instruments	68,686,636	(35,241,189)
Amortization of other assets	1,094,594	366,415
Amortization of right-of-use assets	8,669,065	4,796,388
Deferred income tax	(26,547)	918,213
Changes in operating assets and liabilities		
Accounts receivable	19,756,886	(35,419,705)
Prepaid and other assets	6,250,026	9,870,991
Accounts payable and accrued liabilities	(23,415,989)	12,396,445
Operating leases	(9,745,883)	(6,688,655)
Asset retirement obligation settlements	(236,916)	(108,437)
Net cash provided by operating activities	<u>122,435,859</u>	<u>78,474,264</u>
Cash Flows from Investing Activities		
Investments in oil and gas properties	(162,486,808)	(103,843,928)
Purchase of materials and supplies and other assets	(55,853,260)	(26,333,098)
Net cash used in investing activities	<u>(218,340,068)</u>	<u>(130,177,026)</u>
Cash Flows from Financing Activities		
Contributions	—	131,864
Proceeds from credit facility	88,000,000	45,000,000
Deferred financing costs	(7,924,522)	(979,746)
Net cash provided by financing activities	<u>80,075,478</u>	<u>44,152,118</u>
Net decrease in Cash and Cash Equivalents	(15,828,731)	(7,550,644)
Cash and Cash Equivalents- beginning of period	<u>36,252,869</u>	<u>27,117,034</u>
Cash and Cash Equivalents- end of period	<u>\$ 20,424,138</u>	<u>\$ 19,566,390</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 9,535,775	\$ 7,073,629
Significant Noncash Transactions		
Oil and gas properties expenditures included within accounts payable and accrued liabilities	\$ 50,431,402	\$ 65,064,465
Material and supplies expenditures included within accounts payable and accrued liabilities	14,556,906	20,356,482
Transfers of materials and supplies to oil and gas properties	20,921,669	24,763,259
Asset retirement obligation incurred	286,195	146,961
Operating lease liabilities arising from obtaining right-of-use assets	7,937,248	19,745,639

See notes to consolidated financial statements and independent auditor's review report.

Note 1 - Nature of Business

XCL Resources Holdings, LLC (the "Company"), a Delaware limited liability company, was formed on July 3, 2018. Through its wholly-owned subsidiaries, XCL Intermediate, LLC, XCL AssetCo, LLC, XCL RoyaltyCo, LLC, XCL Marketing, LLC, Wasatch Water Logistics, LLC, XCL SandCo LLC, and XCL Resources, LLC, the Company is engaged in the acquisition, exploration, exploitation, and production of its operated, non-operated, and royalty interests in oil and natural gas properties throughout the United States of America and currently owns interests primarily in Utah's Uinta Basin. The Company began substantial operations in 2019 upon the completion of acquisitions of oil and gas assets.

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Depletion, depreciation, and amortization ("DD&A") and impairment of proved oil and gas properties are determined using estimates of oil and gas reserves. There are numerous uncertainties in estimating the quantity of reserves and in projecting the future rates of production and timing of development expenditures, including future costs to dismantle, dispose, and restore the Company's properties. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way.

In addition, estimates with regard to the financial statements include the estimated realizability of proved and unproved properties, the estimated cost and timing related to asset retirement obligations, accrued revenues and liabilities, and the fair value of commodity derivative instruments.

Although management believes the estimates with regard to the consolidated financial statements are reasonable, actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instrument purchases with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet dates and during the periods, balances of cash and cash equivalents were primarily held with one financial institution and exceeded the federally insured limit.

Concentrations of Credit Risk

The Company's accounts receivables are generated primarily from the sale of oil, natural gas, and natural gas liquids to purchasers and from the billing of expenditures incurred by the Company to joint interest owners for costs incurred on properties the Company operates.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The Company continually monitors the financial condition of its purchasers and joint interest owners and assesses the recoverability of the receivables to determine their collectability. As the receivables are primarily with other entities within the oil and gas industry, such concentration may impact the Company's credit risk as these entities may be similarly impacted by economic or other changes within the oil and gas industry.

The Company accrues a reserve for the allowance for credit losses based on management's current estimate of expected credit losses that includes historical credit loss experience of financial assets with similar risk characteristics, adjusted for management's expectation of current conditions and reasonable and supportable forecasts. The risk of nonpayment by the joint interest owners is considered minimal, as the Company generally has the right to withhold revenue to offset amounts receivable. The Company's accounts receivables relate primarily from the sale of oil, condensate, natural gas, and natural gas liquids and are generally collected within one to two months.

To date, the Company has not had any bad debts.

During the three-month periods ended March 31, 2024 and 2023, four purchasers made up approximately 81% and 66% of the Company's oil, natural gas, and natural gas liquid sales, respectively. Substantially all of the Company's revenue receivables as of March 31, 2024 and December 31, 2023 are made up of amounts from these same four purchasers.

Oil Inventories

The Company's crude oil inventory represents oil maintained in tanks at the Company's leased rail terminal (the "transload facility") and/or crude that is in transit FOB destination on leased railcars to refineries primarily in the Gulf Coast, Midwest and Southwest United States of America. Oil inventories is costed primarily of depletion, depreciation, and amortization and lease operating expenses associated with the oil maintained in tanks or on railcars and is carried at the lower of cost or net realizable value. The Company accounts for its crude oil inventory using the first-in, first-out method.

Materials and Supplies

Materials and supplies are reported within the prepaid and other current assets line on the balance sheet. The Company's materials and supplies, including tubular goods, completion materials, and production and facility equipment, are carried at the lower of cost or net realizable value. Materials and supplies are generally purchased for use in the Company's oil and gas drilling, completion, and production activities and are transferred to proved oil and gas properties, net to the Company's interests, when the associated asset is placed in service.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas activities. Under this method of accounting, costs associated with the acquisition, drilling, and equipping of successful exploratory wells and costs of successful and unsuccessful development wells are capitalized and depleted, net of estimated salvages values, using the units-of-production method on a field-by-field basis based upon proved oil and gas reserves. The Company's proved oil and gas reserve information was computed by applying the average first-day-of-the-month oil and gas price during the preceding 12-month period. Depreciation, depletion, and amortization expense for the three-month periods ended March 31, 2024 and 2023 was \$63,991,726 and \$33,837,270, respectively, net of amounts capitalized as inventory. Exploration, geological and geophysical costs, delay rentals, and drilling costs of unsuccessful exploratory wells are charged to expense as incurred.

Costs associated with unevaluated exploratory wells are excluded from the depletable basis until the determination of proved reserves, at which time those costs are reclassified to proved oil and gas properties and subject to depletion. If it is determined that the exploratory well costs were not

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

successful in establishing proved reserves, such costs are expensed at the time of such determination.

The Company reviews its oil and gas properties for impairment whenever events and circumstances indicate a decline in the recoverability of their carrying value. The Company estimates the expected future cash flows of its proved oil and gas properties and compares such cash flows to the carrying amount of the proved oil and gas properties to determine if the amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust its proved oil and gas properties to estimated fair value. The factors used to estimate fair value include estimates of proved reserves, future commodity prices adjusted for basis differentials, future production estimates, anticipated capital expenditures, and a discount rate commensurate with the risk associated with realizing the projected cash flows. The discount rate is a rate that management believes is representative of current market conditions and includes estimates for a risk premium and other operational risks. There were no proved oil and gas property impairments during the three-month periods ended March 31, 2024 and 2023.

Unproved oil and gas properties are assessed at least annually to determine whether they have been impaired by the drilling of dry holes on or near the related acreage or other circumstances that may indicate a decline in value. When unproved property is determined to be impaired, a loss equal to the portion impaired is recognized. When leases for unproved properties expire, the costs thereof, are removed from the accounts and charged to expense. There were no unproved property impairments during the three-month periods ended March 31, 2024 and 2023.

From time to time, the Company may sell its oil and gas properties. The partial sale of proved properties within an existing field may be accounted for as a normal retirement and no gain or loss on divestiture is recognized as long as this treatment does not significantly affect the units-of-production depletion rate. The partial sale of unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to the ultimate recovery of the cost applicable to the interest retained. A gain on divestiture activity is recognized to the extent that the sales price exceeds the carrying amount of the unproved property. A gain or loss is recognized for all other sales of proved and unproved properties. There were no sales of proved or unproved oil and gas properties for the periods ended March 31, 2024 and 2023.

Other Assets

Other assets include deferred financing costs, property and equipment, operating lease right-of-use assets, and non-current commodity derivative instruments.

Property and equipment, which includes leasehold improvements, furniture and fixtures, and equipment, is recorded at cost and depreciated using the straight-line method over the assets' estimated useful lives. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Depreciation expense for property and equipment totaled \$276,731 and \$517,971 for the three-month periods ended March 31, 2024 and 2023, respectively.

Deferred financing costs represent legal and consulting costs associated with the Credit Facility (Note 6) and are \$8,974,787 and \$2,144,858, net of accumulated amortization as of March 31, 2024 and December 31, 2023, respectively. Such charges are amortized on a straight-line basis over the term of the Credit Facility.

The Company's right-of-use (ROU) assets are operating leases that represent the Company's right to use an underlying asset for the lease term (Note 9). These ROU assets are related to the Company's operating leases with various operations, transportation, and office lease contracts.

Long-Lived Assets

The Company reviews the recoverability of long-lived assets, property and equipment, and right-of-use assets when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future undiscounted cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Asset Retirement Obligation

Asset retirement obligations (AROs) relate to estimated plugging and abandonment costs of oil and gas properties, including facilities, and the reclamation of the Company's well locations. The Company records the fair value of an ARO in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes an estimated cost by increasing the carrying amount of proved oil and gas properties. Over time, the liability is accreted each period toward an estimated future cost, and the capitalized cost is depleted. The Company uses the income valuation technique to estimate the fair value of AROs using the amounts and timing of expected future dismantlement costs, credit-adjusted risk-free rate, market risk premiums, and time value of money. All of the inputs are estimated at the time the liability is incurred or revised upward.

Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives or if federal or state regulators enact new requirements regarding the abandonment of wells. Adjustments to the liability are made as these estimates change, and, upon settlement of the liability, the Company reports a gain or loss to the extent the actual costs differ from the recorded liability.

Revenue Recognition

The Company's revenue is primarily derived from the sale of its produced oil, natural gas, and natural gas liquids. The Company sells its produced oil, natural gas, and natural gas liquids under a variety of short-term and long-term agreements with numerous customers. The Company's revenue is primarily derived from produced oil, natural gas, and natural gas liquids from oil and gas wells operated by the Company. The Company also receives revenue from its ownership in non-operating and royalty interests. For the three-month period ended March 31, 2023, sales of oil of approximately \$2.4 million were related to oil the Company purchased from third party producers.

Revenue is recognized in the month in which the contractual performance obligations are satisfied, which is generally at the point in time when the customer obtains control of the produced oil, natural gas, and natural gas liquids. The point in time when the customer obtains control may differ depending on the contractual terms of each of the Company's sales agreements and generally occurs when the customer accepts, takes possession, title to, and bears the risk of loss of the produced oil, natural gas, and natural gas liquids.

All of the Company's sales of produced oil, natural gas, and natural gas liquids are made under contracts with customers, which typically include variable consideration based on monthly pricing tied to published indices and volumes delivered. While revenue is recorded at the point in time when control of the produced oil, natural gas, and natural gas liquids transfer to the customer, statements and payment from those customers may not be received for one to two months after the date the produced oil, natural gas, and natural gas liquids are delivered, and as a result, the amount of production delivered to the customer and the price that will be received for the sale of the product is estimated utilizing production reports, contractual pricing, and market indices. Estimated revenue due to the Company is recorded as a revenue receivable within accounts receivable in the accompanying balance sheet until payment is received. Differences between the

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

estimated amounts and the actual amounts received from the sale of the produced oil, natural gas, and natural gas liquids are recorded when known, which is generally when payment is received from the customer. The revenue receivable balance on January 1, 2023 was approximately \$65.6 million.

For the Company's produced oil sales agreement, the Company generally delivers produced oil to customers at defined locations, including tank batteries, common delivery points near the production location, or at other defined delivery locations including terminal facilities. Upon delivery to the customers, the Company is entitled to an agreed-upon index price, net of pricing differentials for each barrel produced (net realized price). The Company recognizes revenue when control transfers to the customers at the tank batteries and common delivery points near the production location, or at other defined delivery locations at the net realized price.

Transportation and gathering costs, including the costs for the leasing and transporting railcars, is recorded as transportation, gathering, and handling on the accompanying consolidated statement of operations to the extent such costs are incurred prior to the transfer of control of produced crude oil to the customers.

Commodity Derivative Instruments

The Company uses derivative instruments to provide a measure of stability to its cash flows and manage its exposure to commodity price risk in an environment of volatile oil and natural gas prices. The Company records all derivative instruments at fair value within the accompanying consolidated balance sheet. The Company does not apply hedge accounting to any of its outstanding derivative instruments, and as a result, all changes in derivative fair value are recognized in earnings.

Realized gains and losses associated with commodity derivatives with underlying commodity volumes are classified as operating activities in the accompanying consolidated statement of cash flows.

Unit-Based Compensation

For any Series B Units which are issued at prices less than their estimated fair value, and for all Series C Units, the Company recognizes unit-based compensation expense over the requisite service period for unit-based awards to holders based on the estimated grant date fair value of the awards. During the three-month periods ended March 31, 2024 and 2023, the Company did not record any unit-based compensation expense related to the Series B Units as all Series B Units issued have been at prices equal to, or in excess of, their estimated fair value and the Company did not record any unit-based compensation expenses related to the Series C Units as the amounts were de minimis.

Income Taxes

The Company is a limited liability company treated as a partnership for U.S. federal, state, and local income tax purposes. Accordingly, members are generally taxed on their allocable share of taxable income or loss as determined under the Company's operating agreement. The Company evaluates uncertain tax positions for measurement and recognition in the financial statements. To recognize a tax position, the Company determines whether it is more-likely-than-not the tax positions will be sustained upon examination. The Company has no uncertain tax positions requiring measurement and recognition in the financial statements as of March 31, 2024 and December 31, 2023. Due to IRS rules, adjustments resulting from an IRS audit of the Company may be assessed at the Company level.

The State of Texas assesses a franchise tax at the Company level. As of March 31, 2024 and December 31, 2023, the Company recorded a deferred tax liability associated with such franchise taxes totaling \$1.7 million and \$1.7 million, respectively. For the three-month periods ended March 31, 2024 and 2023, the Company recorded a current and deferred tax benefit of \$36,211 and a

Notes to Consolidated Financial Statements (Unaudited)**For the quarterly period ended March 31, 2024**

provision for deferred taxes of \$918,213, respectively, associated with such franchise taxes. These deferred taxes reflect the impact of temporary differences between assets and liabilities recognized under accounting principles generally accepted in the United States and such amounts recognized for tax purposes. The primary differences resulting in the Company's deferred taxes are a result of differing treatment of intangible drilling costs recorded as part of the Company's oil and gas properties.

Leases

The Company primarily leases office space, trucking fleets, railcars, and drilling, completion, and production equipment from third parties. The Company determines if a contract is a lease at inception. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease term begins on the commencement date, which is the date the Company takes possession of the asset and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Certain of the Company's leases contain renewal options for varying periods, which can be exercised at the Company's sole discretion. Leases are classified as operating or finance leases based on factors such as the lease term, lease payments, and the economic life, fair value and estimated residual value of the asset. Where leases include options to purchase the leased asset at the end of the lease term, this is assessed as a part of the Company's lease classification determination. The Company's leases have remaining lease terms ranging from 1 to 8 years.

The Company recognizes a ROU asset and lease liability to account for its leases. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. ROU assets are based on the lease liability and are increased by prepaid lease payments and decreased by lease incentives received. Lease incentives are amortized through the lease asset as reductions of expense over the lease term. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company's ROU assets and lease liabilities.

Leases typically contain rent escalations over the lease term. The Company recognizes costs for these leases on a straight-line basis over the lease term. Some leases include rent escalations based on inflation indexes and fair market value adjustments. Certain leases contain contingent rental provisions that include a fixed base rent plus an additional variable percentage of the tenant's operating costs. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. Certain leases require the Company to pay taxes, insurance, maintenance and other operating expenses associated with the leased asset. Such amounts are not included in the measurement of the ROU assets and lease liabilities to the extent they are variable in nature. These variable lease costs are recognized as a variable lease expense when incurred.

As a practical expedient, lease agreements with lease and non-lease components are accounted for as a single lease component for all of the Company's asset classes.

The Company elected the short-term lease recognition exemption for all leases that qualify. Therefore, leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. The depreciable life of the ROU assets and leasehold improvements are limited by the expected lease term unless the Company is reasonably certain of a transfer of title or purchase option. The Company uses its incremental borrowing rate to discount future lease payments based on the information available on the commencement date for each lease as the implicit rate in the lease is not known. The determination of the incremental borrowing rate requires judgment and is determined using the Company's current secured borrowing rate, adjusted for various factors aligned with the lease including total lease payments and lease term.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including the date of the independent auditor's review report, which is the date the consolidated financial statements were available to be issued.

Buyer Purchase Deposit

In June 2023, the Company entered into a purchase and sale agreement with a buyer for certain of the Company's royalty and mineral interests in Utah's Uinta Basin (Note 3). The transaction closed and the related royalty and mineral interests were transferred to the buyer in April 2024.

Crude Oil Minimum Volume Commitment

In April 2024, the Company entered into a joint crude oil buy/sell and crude oil terminal agreements with an oil and gas marketing company ("the Counterparty"). The buy/sell agreement calls for the Company to sell at least 220,000 barrels of crude each month to the Counterparty's crude oil terminal in Oklahoma for a term beginning in July of 2024 and continuing through May of 2028. The buy/sell agreement is subject to monthly deficiency payments if the minimum volume is not met that range from \$4.44 a barrel to \$3.16 a barrel throughout the course of the agreement.

Year	Minimum Volume Commitment (Barrels per year)
2024	1,320,000
2025	2,640,000
2026	2,640,000
2027	2,640,000
2028	1,100,000

Utah Uinta Basin Oil and Gas Assets Sale

In June 2024, the Company entered into an acquisition agreement with a public company (the "Purchaser") to sell its Utah Uinta Basin oil and gas assets, which comprise substantially all of the Company's oil and gas assets, for a cash purchase price of \$2.55 billion, subject to certain closing adjustments. Immediately prior to closing, the Purchaser, who intends to serve as the operator, intends to assign an undivided 20% interest in and to the acquisition agreement to another public company. The acquisition, subject to customary conditions to close, is expected to close on October 1, 2024 with an effective date of May 1, 2024.

Sand Mine Operating Agreement

In June 2024, the Company entered into an operating services agreement with a third party who will provide operating services to the Company's owned sand mine. The initial term of the operating services agreement is seven years, with annual renewal provisions subject to either parties' termination upon notice. The Company is to reimburse the third party for all operating costs incurred and to pay a fee of \$10 per ton of sand delivered to the Company. If the third-party mines sand in excess of amounts requested by the Company, the third party may market the sand on its own and any sales of such are subject to a \$10 per ton payment to the Company and reimbursement of operating costs attributable to such excess sand.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

Note 3 - Balance Sheet DisclosuresAccounts Receivable

Accounts receivable consist of the following:

	March 31, 2024	December 31, 2023
Revenue receivable	\$ 117,125,624	\$ 139,295,253
Joint interest billing receivable	15,119,052	12,706,309
Total accounts receivable	<u>\$ 132,244,676</u>	<u>\$ 152,001,562</u>

Prepaid and other current assets

Prepaid and other current assets consist of the following:

	March 31, 2024	December 31, 2023
Materials and supplies	\$ 45,182,680	\$ 32,041,846
Prepaid costs	1,209,624	9,255,509
Deposits and other assets	1,145,210	671,006
Total prepaid and other current assets	<u>\$ 47,537,514</u>	<u>\$ 41,968,361</u>

Proved Oil and Gas Properties

Proved oil and gas properties consist of the following:

	March 31, 2024	December 31, 2023
Leasehold costs	\$ 564,829,643	\$ 562,653,863
Facility, drilling, and completion costs	1,360,576,053	1,223,988,882
Accumulated depreciation, depletion, and amortization	(387,898,080)	(321,666,538)
Total proved oil and gas properties, net	<u>\$ 1,537,507,616</u>	<u>\$ 1,464,976,207</u>

Other Assets, net

Other assets, net consist of the following:

	March 31, 2024	December 31, 2023
Right-of-use assets	\$ 136,439,541	\$ 155,836,359
Deposit for pending acquisition	12,752,500	—
Furniture, fixture and equipment, net	612,178	642,532
Commodity derivative instruments, non-current	—	2,453,749
Debt issuance costs, net of amortization	8,974,787	2,144,858
Total other assets, net	<u>\$ 158,779,006</u>	<u>\$ 161,077,498</u>

Pending Oil and Gas Property Acquisition

In January of 2024, the Company entered into a purchase and sale agreement and made a \$12.8 million deposit into an escrow account for a potential acquisition of oil and gas properties. The purchase and sale agreement, which has a purchase price of \$85.0 million, subject to certain adjustments, is subject to customary conditions to close. As of the date these consolidated financial statements were available for issuance, the purchase and sale agreement has not closed. The Company expects to close on this acquisition in late July 2024.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

Accrued Liabilities:

Accrued liabilities consist of the following:

	March 31, 2024	December 31, 2023
Suspended revenues	\$ 38,480,632	\$ 50,006,800
Lease liability - operating	112,541,327	113,876,061
Revenue payable	3,525,105	10,552,924
Production taxes payable	21,460,403	19,480,540
Operating expenses	24,534,850	10,159,742
General and administrative	3,668,896	4,797,677
Buyer performance deposit	19,000,000	19,000,000
Capital expenditures	62,992,489	92,832,682
Interest	1,147,575	786,168
Total accrued liabilities	<u>\$ 287,351,277</u>	<u>\$ 321,492,594</u>

Buyer Performance Deposit

In June 2023, the Company entered into a purchase and sale agreement with a buyer for certain of the Company's royalty and mineral interests in Utah's Uinta Basin. The purchase price for the transaction was \$32.0 million and subject to customary adjustments. The purchase and sale agreement required performance deposits, of which \$19.0 million have been paid through March 31, 2024 and December 31, 2023 and were presented as a buyer performance deposit. The transaction closed in April 2024 for a final adjusted close price of \$32.3 million. If the buyer had not met all conditions to close, including failure to make payment of the remaining performance deposits in full, the Company was not obligated to close or the Company could elect to close and instead sell an undivided interest in the properties that is proportional to the amount of installment payments received and the purchase price, as defined.

Note 4 - Commodity Derivative Instruments

The Company classifies the fair value amounts of commodity derivative assets and liabilities as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The Company had the following open commodity derivative instruments as of March 31, 2024:

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Price per Bbl	Price Index	Contract Period	Fair Value
Oil Swap	1,136,428	\$ 68.15	Oil-WTI-NYMEX	Second Quarter 2024	\$ (15,748,214)
Oil Swap	635,900	70.23	Oil-WTI-NYMEX	Third Quarter 2024	(5,999,312)
Oil Swap	661,600	70.51	Oil-WTI-NYMEX	Fourth Quarter 2024	(4,590,896)
Oil Swap	3,648,800	70.38	Oil-WTI-NYMEX	2025	(13,083,609)
Oil Swap	533,000	70.01	Oil-WTI-NYMEX	2026	(560,404)

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Price Floor per Bbl	Weighted Average Price Ceiling per Bbl	Price Index	Contract Period	Fair Value
Oil Collar	1,599,500	\$ 73.62	\$ 77.93	Oil-WTI-NYMEX	Second Quarter 2024	\$ (1,795,775)
Oil Collar	1,494,266	68.26	76.44	Oil-WTI-NYMEX	Third Quarter 2024	(8,592,543)
Oil Collar	1,240,731	67.87	75.70	Oil-WTI-NYMEX	Fourth Quarter 2024	(5,722,779)
Oil Collar	872,000	54.98	62.57	Oil-WTI-NYMEX	2025	(11,413,397)

Contract Type	Total Quantity Remaining (Bbl)	Weighted Average Strike Price per Bbl	Price Index	Contract Period	Fair Value
Purchased Oil Put	1,272,000	\$ 75.00	Oil-WTI-NYMEX	Second Quarter 2024	\$ (3,541,407)

As of March 31, 2024 and December 31, 2023, the Company's commodity derivative instruments were subject to enforceable master netting arrangements that provide for offsetting of amounts payable or receivable between the Company and the counterparties. The agreements also provide that, in the event of an early termination or default, the counterparties have the right to offset amounts owed or due under that and any other agreement with the same counterparty.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The following tables reconcile the Company's outstanding derivative instruments on a gross contract basis to the net contract basis presentation on the consolidated balance sheets and the related fair value at the consolidated balance sheet date:

		March 31, 2024			
		Balance Sheet Classification	Gross Assets / Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Commodity derivative assets:		Current assets	\$ 8,035,164	\$ (8,035,164)	\$ —
		Noncurrent assets	1,274,536	(1,274,536)	—
Total derivative assets			<u>\$ 9,309,700</u>	<u>\$ (9,309,700)</u>	<u>\$ —</u>
Commodity derivative liabilities:		Current liabilities	\$ (63,339,154)	\$ 8,035,164	\$ (55,303,990)
		Noncurrent liabilities	(17,018,882)	1,274,536	(15,744,346)
Total derivatives liabilities			<u>\$ (80,358,036)</u>	<u>\$ 9,309,700</u>	<u>\$ (71,048,336)</u>

Included within March 31, 2024 current liabilities in the table above are \$4.5 million of obligations representing deferred premium payments for certain purchased puts.

		December 31, 2023			
		Balance Sheet Classification	Gross Assets/ Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Commodity derivative assets:		Current assets	\$ 42,138,501	\$(30,725,638)	\$ 11,412,863
		Noncurrent assets	7,580,463	(5,396,714)	2,453,749
Total derivative assets			<u>\$ 49,988,964</u>	<u>\$ (36,122,352)</u>	<u>\$ 13,866,612</u>
Commodity derivative liabilities:		Current liabilities	\$(41,234,243)	\$ 30,725,638	\$(10,508,605)
		Noncurrent liabilities	(11,116,421)	5,396,714	(5,719,707)
Total derivatives liabilities			<u>\$ (52,350,664)</u>	<u>\$ 36,122,352</u>	<u>\$ (16,228,312)</u>

Included within December 31, 2023 current assets and current liabilities in the table above are \$3.9 million and \$3.9 million, respectively, of obligations representing deferred premium payments for certain purchased puts.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The table below summarizes the location and amount of commodity derivative instrument gains and losses reported on the consolidated statement of operations for the three-month periods indicated below:

	March 31,	
	2024	2023
Other income (expense):		
Unrealized gain (loss)	\$ (68,686,636)	\$ 35,241,189
Realized loss	(14,511,410)	(12,291,340)
Commodity derivative instruments gain (loss)	<u>\$ (83,198,046)</u>	<u>\$ 22,949,849</u>

Due to the volatility of oil and gas prices, the estimated fair values of the Company's commodity derivative instruments are subject to large fluctuations from period to period.

The counterparties in all of the Company's derivative instruments are lenders in the Company's Credit Facility. Accordingly, the Company is not required to post collateral since the Credit Facility is secured by substantially all of the Company's oil and gas properties.

Note 5 - Members' Equity

The Company issues Series A, B, and C units under the terms of its July 2018 Amended and Restated Limited Liability Company Agreement (the "Agreement").

The total authorized number of each of the classes of series, together with the number of units issued and outstanding are as follows as of March 31, 2024 and December 31, 2023:

	Authorized	Issued and Outstanding
Series A Units (Institutional Investors)	Unlimited	614,345,000
Series B Units (Management Investors)	5,880,000	5,880,000
Series C Units (Management Investors and Employees)	100,000	99,100

Series A and B units were issued for \$1 per unit. As of March 31, 2024 and December 31, 2023, aggregate capital commitments total \$620,225,000, of which all \$620,225,000 had been funded.

The affairs of the Company are overseen by the Board of Managers. The Board of Managers are comprised of four managers designated by the Institutional Investors, three managers designated by the Management Investors, and one manager designated with the approval of at least one Institutional Investor designated manager and one Management Investor designated manager.

Allocations of profits, losses, distributions, and other items are done in accordance with the provisions within the Agreement.

Upon the event of a Management Investor default, as defined, the Company has the option to cause the defaulting unitholder to sell its Series B Units at a defined price and forfeit any Series C Units. Upon termination of employment of any Management Investor, its respective remaining capital commitment shall be reduced to \$0.

All Series B Units issued since inception have been at prices equal to, or in excess of, their estimated fair value. As a result, no unit-based compensation expense has been recognized on Series B Units issued to Management Investors.

In the event that the employment of a Series B unitholder is terminated by the Company for cause or by the unitholder without good reason, the Company has the option to repurchase all of that unitholder's Series B Units at the lower of the unitholder's cost basis or defined appraisal value. In

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

the event that the employment of a Series B unitholder is terminated by the Company without cause or by the unitholder for good reason, or as a result of death or disability, the Company has the right, but not the obligation, to repurchase such unitholder's Series B Units at the defined appraisal value.

Series C Units are authorized for issuance to certain Management Investors and employees of the Company. The Series C Units entitle the holder to the right to receive distributions from the Company upon the attainment of the specific payout threshold, as defined in the Agreement. The Series C Units vest 12.5% on each anniversary of the issuance date for the first four years. The remaining 50% will become vested upon the consummation of a qualified exit event, as defined.

Upon termination of employment of a Series C unitholder by the Company for cause or by the unitholder without good reason, all Series C Units, whether vested or unvested, will be forfeited. Upon death or disability by the unitholder, all unvested Series C units will become tentatively vested Series C Units. If an exit event occurs on or prior to the date that is six months following the death or disability of the unitholder, then all unvested Series C units become vested. If an exit event does not occur within six months following the death or disability of the unitholder, then the unvested Series C units are forfeited. Upon termination of the employee by the Company for any reason other than cause, or by the Series C Unitholder for good reason, all unvested Series C Units are forfeited. For any vested Series C Units, the Company has the right, but not the obligation, to repurchase such unitholder's Series C Units at the defined appraisal value.

All Series C Units issued since inception have had de minimis grant-date fair value. As a result, no unit-based compensation expense has been recognized on Series C Units issued to Management Investors and employees.

A summary of the activity associated with the Series C Units during the three-month periods ended March 31, 2024 and March 31, 2023 is as follows:

	For the Three-Month Period Ended	
	March 31, 2024	March 31, 2023
Series C Units at beginning of period	99,100	98,500
Granted	—	600
Forfeited	—	—
Series C Units at end of period	99,100	99,100

Note 6 - Credit Facility

On December 20, 2019, the Company entered into a syndicated revolving credit facility with Wells Fargo Bank, N.A., as administrative agent and lender, (the "Credit Facility"). The Credit Facility provides for a maximum \$1.0 billion credit facility with an initial borrowing base of \$170.0 million. Interest on amounts outstanding under the Credit Facility accrues at percentages as defined in the Credit Facility, plus a margin depending upon the amount drawn under the borrowing base. On a quarterly basis the Credit Facility also requires commitment fees assessed at annual rates of 0.50% on any unfunded portion of the borrowing base.

As of December 31, 2023, the Company had borrowings of \$375.0 million outstanding under the Credit Facility which had a borrowing base of \$550.0 million and an elected commitment amount of \$500 million. The Credit Facility had a weighted average interest rate of 8.91% for the year ended December 31, 2023 and an interest rate of 8.95% at December 31, 2023. The Credit Facility was scheduled to mature on December 20, 2024. The Seventh Amendment to the Credit Agreement, dated as of January 5, 2024, increased the borrowing base and elected commitment amount to \$650.0 million and extended the Maturity Date from December 20, 2024 to December 20, 2027. As of March 31, 2024, the Company had borrowings of \$463.0 million outstanding under the Credit Facility. The Credit Facility had a weighted average interest rate of 8.91% for the three-month period ended March 31, 2024, and an interest rate of 8.93% at March 31, 2024.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The Credit Facility contains customary affirmative and negative covenants, including both financial covenants and commodity hedged minimum and maximum requirement covenants, as defined, and is collateralized by substantially all of the Company's oil and gas properties. As of March 31, 2024, the Company was in compliance with the financial covenants. The commodity hedging arrangements require a maximum hedge covenant of 85% of forecasted production from proved reserves with a maximum tenor of 60 months, subject to a lookback test. The Credit Facility also contains an excess cash threshold provision which requires cash balances, other than cash held for specific excluded purposes, as defined, held by the Company in excess of the greater of \$35.0 million or 15% of the borrowing base then in effect to be used to pay down outstanding amounts under the Credit Facility. It also requires that upon entering into a credit event, as defined, including new borrowings under the Credit Facility, no excess cash, defined as the greater of \$25.0 million or 10% of the borrowing base then in effect, shall exist.

The Credit Facility also has customary restrictions on distributions, other investments, and new or additional debt, and automatic reductions to the borrowing base upon certain property dispositions or issuance of additional permitted debt. The borrowing base is redetermined semi-annually and optional interim redeterminations are available at the option of the Company and the lenders. Amounts outstanding under the Credit Facility may be prepaid without penalty, and reborrowed, subject to the borrowing base then established.

The Eight Amendment to the Credit Agreement, dated as of May 28, 2024, increased the borrowing base and elected commitment amount to \$700.0 million.

Letter of Credit

In conjunction with the Third Amendment to the Credit Facility on May 24, 2022, a Series A Unitholder (Note 5), a related party, entered into a guarantee agreement with the administrative agent of the Company's Credit Facility. The guarantee agreement, which provided collateral in support of the Company's borrowing base was initially for \$75.0 million and was reduced to \$60.0 million in the Fourth Amendment of the Credit Facility on December 14, 2022. The guarantee agreement, which contained certain financial covenants of the Series A Unitholder (Note 5), a related party, expired on March 30, 2023 upon the execution of the Fifth Amendment to the Credit Facility which increased the borrowing base to \$400.0 million.

Note 7 - Asset Retirement Obligations

During the three-month period ended March 31, 2024 and year ended December 31, 2023, ARO additions were made for acquired wells and additional wells drilled.

A reconciliation of the changes in the Company's ARO liability is as follows:

	March 31, 2024	December 31, 2023
Asset retirement obligations - beginning of period	\$ 7,576,135	\$ 5,227,319
Liabilities incurred	286,195	2,324,379
Settlements	(236,916)	(317,030)
Accretion	123,889	341,467
Asset retirement obligations - end of period	<u>\$ 7,749,303</u>	<u>\$ 7,576,135</u>

Note 8 - Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance established a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions is what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or

Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2024 and December 31, 2023 by level within the fair value hierarchy.

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
Commodity derivative instruments				
Assets	\$ —	\$ —	\$ —	\$ —
Liabilities	\$ —	\$(71,048,336)	\$ —	\$(71,048,336)
	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Commodity derivative instruments				
Assets	\$ —	\$ 13,866,612	\$ —	\$ 13,866,612
Liabilities	\$ —	\$(16,228,312)	\$ —	\$(16,228,312)

As of March 31, 2024 and December 31, 2023, the Company's commodity derivative instruments consisted of oil swaps, collars, and puts. The fair value of the swaps was determined under the income valuation technique using a discounted cash flows model. The fair value of the collars and puts were determined using an option pricing model. These valuation models require a variety of inputs, including contractual terms, published forward prices, estimated volatilities, and discount rates, as appropriate. The Company's estimates of fair value of derivatives include consideration of the counterparty's credit worthiness, the Company's credit worthiness, and the time value of money. The consideration of these factors results in an estimated exit-price for each derivative asset or liability under a market participant's view. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's derivative instruments are included within the Level 2 fair value hierarchy.

The Company uses the income valuation technique to estimate the fair value of asset retirement obligations using the amounts and timing of expected future dismantlement costs, credit-adjusted risk-free rate, market risk premium adjustments, and time value of money. Accordingly, the fair value is based on unobservable pricing inputs and therefore, is considered a Level 3 value input in the fair value hierarchy. The asset retirement obligations are estimated based on projected cash

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

flows, an estimated long-term inflation rate, and a discount rate based on estimated credit-adjusted, risk-free rate inclusive of market and risk premium conditions.

Note 9 – Leases

As of March 31, 2024, the Company has lease arrangements for office space, trucking fleets, railcars, and drilling and completion rigs. These leases expire at various dates through 2031.

	Year 1	2-3 Years	4-5 Years	>5 Years	Total
Rail Cars	\$ 10,921,150	\$ 10,887,160	\$ 3,693,450	\$ —	\$ 25,501,760
Trucking	28,300,000	9,205,417	—	—	37,505,417
Completion Rig	70,140,000	—	—	—	70,140,000
Drilling Rig	9,315,000	—	—	—	9,315,000
Compressors and Vapor Recovery Units	2,135,100	1,013,850	—	—	3,148,950
Office space	626,777	1,198,938	1,152,485	1,435,163	4,413,363
Total	<u>\$ 121,438,027</u>	<u>\$ 22,305,365</u>	<u>\$ 4,845,935</u>	<u>\$ 1,435,163</u>	<u>\$ 150,024,490</u>
Less Imputed Interest:					<u>\$ (10,346,872)</u>
Total Lease Liability at March 31, 2024					<u>\$ 139,677,618</u>

The Company leases its corporate and field office facilities under non-cancelable operating leases. Remaining commitments for its corporate and field office facilities total approximately \$4.4 million through 2031. The corporate office lease contains a one-time early termination provision allowing the Company to terminate the lease in 2027 if certain events occur, as defined, including a sale of all Company assets or equity interests to an unrelated third party as well as an option to extend the lease at the end of the primary term. Both the option to terminate and the option to extend are not included in the lease term as they are not deemed reasonably certain to be exercised.

The Company leases railcars to facilitate transportation of crude oil under non-cancelable agreements. The terms for these agreements extend through 2028 and the remaining minimum commitment totals approximately \$25.5 million through 2028. To facilitate the utilization of the railcars, the Company has a transload facility agreement to utilize oil storage tanks and rail terminal near the Company's Uinta Basin oil and gas properties (Note 10).

The Company has agreements with several trucking companies in the Uinta Basin to facilitate transportation of crude oil from the wellsite to purchasers in Salt Lake City or to the Company's transload facility. The terms for these agreements extend through 2025 and the remaining minimum commitment totals approximately \$37.5 million through 2025.

As of March 31, 2024, the Company had four active drilling rig contracts with third-party contractors related to development of the Company's Uinta Basin property interests. Three of these contracts are accounted for as short-term leases under ASC 842. Minimum commitments associated with the recognized lease at March 31, 2024 total approximately \$9.3 million for the remainder of 2024.

In December of 2023, the Company extended its contract with a completion rig for an additional 13 months. Minimum commitments associated with the agreements at March 31, 2024 total approximately \$70.1 million through March 31, 2025.

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

The tables below summarize the Company's operating lease costs and include ROU assets and lease liabilities, amounts recognized in net income during the year and other lease information.

Lease balances, as of:

	March 31, 2024	December 31, 2023
Assets		
Operating lease ROU assets, in Other assets, net	\$ 136,439,541	\$ 155,836,359
Total lease assets	<u>\$ 136,439,541</u>	<u>\$ 155,836,359</u>
Liabilities		
Current operating lease liabilities, in accrued liabilities	\$ 112,541,327	\$ 113,876,061
Long-term operating lease liabilities	\$ 27,136,291	\$ 45,856,626
Total lease liabilities	<u>\$ 139,677,618</u>	<u>\$ 159,732,687</u>
Weighted-average remaining lease term (in years):		
Operating leases	1.5 years	1.7 years
Weighted-average discount rate:		
Operating leases	8.2%	8.2%

Lease costs for the three-month periods indicated below are as follows:

	March 31,	
	2024	2023
Lease Cost		
Operating lease cost	\$ 30,012,564	\$ 16,386,159
Short-term lease cost	13,597,586	8,961,562
Variable lease cost	3,567,131	4,026,079
Total lease cost	<u>\$ 47,177,281</u>	<u>\$ 29,373,800</u>

Included within operating lease cost for the three-month periods ended March 31, 2024 and 2023 are approximately \$20.5 million of costs associated with the completion rig and one of the Company's drilling rigs and \$11.7 million of costs associated with the completion rig, respectively, which were capitalized as a part of oil and gas properties net to the Company's interests.

Note 10 - Commitments and Contingencies

Minimum Volume Commitments

Transload Facility

The Company's transload agreement allows it to utilize comingled oil storage tanks and rail terminal at a transload facility near the Company's Uinta Basin oil and gas properties. This agreement, which was amended during 2023, is effective through 2032. Under the current contract, a minimum volume commitment of \$1.65 per barrel exists through December 2028. Any monthly deficiency payments due by the Company shall constitute as prepayments for certain services provided by the facility operator as long as such amounts are used during the three months immediately following the month in which the deficiency occurred. The agreement allows the Company to elect to utilize the facility after expiration of the term, subject to additional reservation fees and fees per barrel. No deficiency fees were paid during the three-month periods

Notes to Consolidated Financial Statements (Unaudited)

For the quarterly period ended March 31, 2024

ended March 31, 2024 and 2023, and the Company incurred transload fees of \$5.1 million and \$2.5 million during those periods, respectively.

Year	Minimum Volume Commitment (Barrels per day)
2024	10,000
2025	3,750
2026	3,750
2027	3,750
2028	3,750

Rail Transportation Contract

During 2023, the Company entered into a rail transportation services contract with a major railway company through 2028. The minimum commitment associated with this contract for these rail transportation services total 240 crude unit trains during the five-year period. Pricing is determined based on a specific rate per destination, and at a minimum of 84 railcars or a maximum of 88 railcars per crude unit train shipment. A shortfall penalty of \$400 per railcar below the minimum commitment not shipped within the term of the agreement will be assessed at the termination of the agreement.

Wyoming Terminal Services Agreement

In March of 2024, the Company entered into a terminal services agreement with a crude oil terminal in Wyoming. The agreement calls for the Company to deliver its first 15,000 barrels a day, subject to production minimums, for the term effective January 2025 through December 2027. The Company is subject to a deficiency fee of \$3.00 per barrel, dependent on total production, for any deliveries below 10,000 barrels per day in year 1, 5,000 barrels per day in year 2 and 3,000 barrels per day in year 3.

Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. As of the date of the independent auditor's review report, no legal proceedings are pending that management believes could have a materially adverse effect upon the Company's financial condition or results of operations.

Environmental Matters

As an owner or lessee of oil and gas properties, the Company is subject to various federal, state, and local laws and regulations relating to discharge of materials into and protection of the environment. The Company has policies to ensure continuing compliance with environmental laws and regulations and maintains insurance coverage for certain environmental matters. There can be no assurance that current or future local, state, or federal rules and regulations will not require the Company to spend material amounts to comply with such rules and regulations.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On June 27, 2024, SM Energy Company, a Delaware corporation ("SM Energy", "Company", or "we"), as purchaser, entered into a Purchase and Sale Agreement ("XCL Acquisition Agreement") with XCL AssetCo, LLC, a Delaware limited liability company, XCL Marketing, LLC, a Delaware limited liability company, Wasatch Water Logistics, LLC, a Delaware limited liability company, XCL Resources LLC, a Texas limited liability company, and XCL SandCo, LLC, a Delaware limited liability company (collectively, "XCL Sellers"), and, solely for purposes of ratifying certain representations and warranties, interim covenants and interpretative provisions, Northern Oil and Gas, Inc., a Delaware corporation ("NOG"), pursuant to which we agreed to purchase all of the rights, titles and interests in the Uinta Basin oil and gas assets owned by the XCL Sellers ("Uinta Basin Assets") for a combined unadjusted purchase price of \$2.55 billion. Immediately prior to the closing of the transactions contemplated by the XCL Acquisition Agreement, and as permitted by the XCL Acquisition Agreement, we intend to assign an undivided 20 percent interest in the XCL Acquisition Agreement to NOG and cause the XCL Sellers to directly assign an undivided 20 percent interest in certain of the Uinta Basin Assets to NOG. This transaction is described throughout this report as the "XCL Acquisition". The XCL Sellers' consolidated financial statements are included in the consolidated financial statements presented herein under "XCL Resources Holdings, LLC and Subsidiaries" and are referred to throughout this unaudited pro forma condensed combined financial information ("pro forma financial information") as "XCL Resources".

We expect to pay our portion of the unadjusted purchase price, which is \$2.04 billion, in cash, to the XCL Sellers on the expected closing date of October 1, 2024, after the anticipated assignment to NOG of an undivided 20 percent interest in the XCL Acquisition Agreement. We are evaluating the XCL Acquisition to determine whether it is an asset acquisition or a business combination; therefore, the pro forma financial information presented below reflects the estimated allocation of the unadjusted purchase price for the oil and gas assets we expect to acquire in the XCL Acquisition as of the May 1, 2024, effective date of the XCL Acquisition. The XCL Acquisition is subject to final purchase price adjustments and no adjustments have been made to the pro forma financial information to reflect any estimated purchase price adjustments.

Financing for the XCL Acquisition is expected to be comprised of (i) cash on hand, (ii) net proceeds from the anticipated issuance of \$1.3 billion of aggregate senior notes, offset by the use of such net proceeds to redeem the \$349.1 million outstanding principal amount of 5.625% Senior Notes due 2025 ("2025 Senior Notes"), and (iii) borrowings under our revolving credit facility.

The following pro forma financial information is based on SM Energy and XCL Resources' historical financial statements as adjusted to give effect to the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes, on SM Energy's historical financial position and operating results. The unaudited pro forma condensed combined balance sheet ("pro forma balance sheet") as of March 31, 2024, is based on the historical financial statements of SM Energy as of March 31, 2024, after giving effect to the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes, as if such activity had been completed on March 31, 2024. The unaudited pro forma condensed combined statements of operations ("pro forma statements of operations") for the three months ended March 31, 2024, and 2023, the year ended December 31, 2023, and the trailing twelve months ended March 31, 2024, are based on the historical financial statements of SM Energy for such periods after giving effect to the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes as if such activity had been completed on January 1, 2023 ("pro forma financial statements"). The pro forma financial information should be read in conjunction with SM Energy's historical consolidated financial statements and notes included in SM Energy's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission ("SEC") on February 22, 2024, ("2023 Form 10-K") and Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, filed with the SEC on May 3, 2024, and in conjunction with the historical consolidated balance sheets and statements of operations of XCL Resources filed as Exhibit 99.3 and Exhibit 99.4 to SM Energy's Current Report on Form 8-K filed with the SEC on July 18, 2024, of which this Exhibit 99.5 is a part. The preliminary pro forma financial information provided herein is presented for informational purposes only. The pro forma financial information will be updated and filed in accordance with, and as required by Regulation S-X subsequent to the closing of the XCL Acquisition.

The pro forma adjustments are based on available information and certain assumptions that we believe are reasonable and factually supportable as of the date of this report. The pro forma financial information is presented for illustrative purposes only, and does not purport to represent what the actual financial condition or results of operations of SM Energy would have been had the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes occurred on the dates noted above, nor does it project the financial position or results of operations of SM Energy following such activity. Future results may differ significantly from the pro forma amounts presented. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial statements. In the opinion of our management, all adjustments necessary to present fairly the pro forma financial information have been made.

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

We anticipate that certain non-recurring charges will be incurred in connection with the XCL Acquisition, the substantial majority of which will consist of fees paid to financial, legal, and accounting advisors. Any such charges could affect the future results of SM Energy post-acquisition in the period in which such charges are incurred; however, these costs are not expected to be incurred in any period beyond twelve months from the closing date of the XCL Acquisition. These charges will be recorded under applicable accounting guidance upon the determination of whether the XCL Acquisition is to be treated as an asset acquisition or a business combination under Generally Accepted Accounting Principles ("GAAP") and are not included as adjustments to these pro forma financial statements.

As of the date of this report, we have used currently available information to determine the estimated allocation of the unadjusted purchase price for the oil and gas assets to be acquired in the XCL Acquisition. The estimated allocation of the unadjusted purchase price is based on reviews of XCL Resources' historical audited and unaudited financial statements, discussions with XCL Resources' management and other due diligence procedures.

As a result of the foregoing, the transaction accounting adjustments are preliminary and subject to change as additional information becomes available and additional analysis is performed. The preliminary transaction accounting adjustments have been made solely for the purpose of providing the pro forma financial information presented herein.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of March 31, 2024
(in thousands, except share data)

	Historical		Adjustments			Pro Forma Combined
	SM Energy	XCL Resources	Conforming Reclass ⁽¹⁾	Pro Forma Adjustments ⁽¹⁾		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 506,252	\$ 20,424	\$ —	\$ (526,676)	(g)	\$ —
Accounts receivable	241,731	132,245	—	(132,245)	(h)	241,731
Oil inventories	—	10,816	(10,816)	—	(a)	—
Derivative assets	33,913	—	—	—	—	33,913
Prepaid expenses and other	11,149	47,538	(34,367)	(13,171)	(a) (b) (h)	11,149
Total current assets	793,045	211,022	(45,183)	(672,092)		286,793
Property and equipment (successful efforts method):						
Proved oil and gas properties	11,756,523	1,925,406	(263,000)	1,517,000	(c) (i)	13,273,523
				(1,662,406)	(j)	
Accumulated depletion, depreciation, and amortization	(6,994,005)	(387,898)	—	387,898	(j)	(6,994,005)
Unproved oil and gas properties	335,755	61,598	—	299,000	(i)	634,755
				(61,598)	(j)	
Wells in progress	380,419	—	263,000	210,000	(c) (i)	590,419
				(263,000)	(j)	
Other property and equipment, net of accumulated depreciation	34,905	—	45,795	20,000	(b) (d) (i)	54,905
				(45,795)	(j)	
Total property and equipment, net	5,513,597	1,599,106	45,795	401,099		7,559,597
Noncurrent assets:						
Derivative assets	7,198	—	—	—	—	7,198
Other noncurrent assets	84,618	158,779	(612)	(158,167)	(d) (k)	96,269
				11,651	(l)	
Total noncurrent assets	91,816	158,779	(612)	(146,516)		103,467
Total assets	\$ 6,398,458	\$ 1,968,907	\$ —	\$ (417,509)		\$ 7,949,857
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable and accrued expenses	\$ 496,361	\$ 9,980	\$ 155,810	(165,790)	(e) (m)	\$ 496,361
Accrued liabilities	—	287,351	(287,351)	—	(e)	—
Derivative liabilities	24,108	55,304	—	(55,304)	(m)	24,108
Other current liabilities	15,615	—	131,541	(131,541)	(e) (m)	15,615
Total current liabilities	536,084	352,635	—	(352,635)		536,084
Noncurrent liabilities:						
Revolving credit facility	—	—	—	626,217	(n)	626,217
Credit facility	—	463,000	—	(463,000)	(m)	—
Senior Notes, net	1,576,115	—	—	928,920	(o)	2,505,035
Asset retirement obligations	124,085	7,749	—	6,000	(i)	130,085
				(7,749)	(j)	
Net deferred tax liabilities	397,296	1,701	—	(1,701)	(p)	397,296
Derivative liabilities	1,369	15,744	—	(15,744)	(m)	1,369
Operating lease liabilities	—	27,136	(27,136)	—	(f)	—
Other noncurrent liabilities	65,258	—	27,136	(27,136)	(f) (m)	65,258
Total noncurrent liabilities	2,164,123	515,330	—	1,045,807		3,725,260
Commitments and contingencies						
Stockholders' equity:						
Common stock	1,150	—	—	—	—	1,150
Additional paid-in capital	1,536,929	—	—	—	—	1,536,929
Contributions	—	630,567	—	(630,567)	(q)	—
Retained earnings	2,162,771	470,375	—	(470,375)	(q)	2,153,033

	Historical		Adjustments		Pro Forma Combined
	SM Energy	XCL Resources	Conforming Reclass ⁽¹⁾	Pro Forma Adjustments ⁽¹⁾	
Accumulated other comprehensive loss	(2,599)	—	—	(9,738) (r)	(2,599)
Total stockholders' equity	3,698,251	1,100,942	—	(1,110,681)	3,688,513
Total liabilities and stockholders' equity	\$ 6,398,458	\$ 1,968,907	\$ —	\$ (417,509)	\$ 7,949,857

Note: Amounts may not calculate due to rounding.

⁽¹⁾ See Note 3 - Adjustments to Unaudited Pro Forma Financial Information for information about conforming reclass adjustments and pro forma adjustments.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Three Months Ended March 31, 2024
(in thousands, except per share data)

	Historical		Adjustments				Pro Forma Combined
	SM Energy	XCL Resources	Conforming Reclass ⁽¹⁾	Pro Forma Adjustments ⁽¹⁾	Transaction Adjustment ⁽²⁾		
Operating revenues and other income:							
Oil, gas, and NGL production revenue	\$ 559,596	\$ —	\$ 226,202 (a)	\$ 5,663 (g)	\$ (46,373)	\$ 745,088	
Oil sales	—	222,336	(222,336) (a)	—	—	—	
Natural gas and natural gas liquid sales	—	3,868	(3,868) (a)	—	—	—	
Other operating income	274	2,181	2 (a)	—	—	2,457	
Total operating revenues and other income	559,870	228,385	—	5,663	(46,373)	747,545	
Operating expenses:							
Oil, gas, and NGL production expense	137,375	—	74,435 (b)	251 (g)	(14,937)	197,124	
Lease operating	—	17,001	(17,001) (b)	—	—	—	
Production taxes	—	5,945	(5,945) (b)	—	—	—	
Transportation, gathering, and handling	—	49,574	(49,574) (b)	—	—	—	
Workover	—	1,915	(1,915) (b)	—	—	—	
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	166,188	64,423	—	(64,423) (h)	—	219,188	
				53,000 (i)			
Exploration	18,581	—	847 (c)	—	—	19,428	
Exploration and abandonment	—	847	(847) (c)	—	—	—	
General and administrative	30,178	7,661	—	—	—	37,839	
Net derivative loss	28,145	—	83,198 (d)	—	—	111,343	
Cost of acquired oil inventories	—	—	—	—	—	—	
Other operating expense, net	1,008	—	2 (e)	—	—	1,010	
Total operating expenses	381,475	147,365	83,200	(11,172)	(14,937)	585,932	
Income from operations	178,395	81,020	(83,200)	16,835	(31,436)	161,613	
Interest expense	(21,873)	(10,875)	—	10,875 (g)	—	(45,780)	
				(23,907) (j)			
Interest income	6,770	—	—	(6,770) (k)	—	—	
Commodity derivative instrument loss	—	(83,198)	83,198 (d)	—	—	—	
Other non-operating expense, net	(24)	(2)	2 (e)	—	—	(24)	
Income before income taxes	163,268	(13,055)	—	(2,967)	(31,436)	115,809	
Income tax benefit (expense)	(32,069)	36	—	11,670 (m)	—	(20,363)	
Net income	\$ 131,199	\$ (13,019)	\$ —	\$ 8,703	\$ (31,436)	\$ 95,446	
Basic weighted-average common shares outstanding	115,642					115,642	
Diluted weighted-average common shares outstanding	116,456					116,456	
Basic net income per common share	\$ 1.13					\$ 0.83	
Diluted net income per common share	\$ 1.13					\$ 0.82	

Note: Amounts may not calculate due to rounding.

⁽¹⁾ See Note 3 - Adjustments to Unaudited Pro Forma Financial Information for information about conforming reclass adjustments and pro forma adjustments.

⁽²⁾ Adjustments necessary to remove the historical revenues, gains, expenses, and losses associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Three Months Ended March 31, 2023
(in thousands, except per share data)

	Historical		Conforming Reclass ⁽¹⁾	Adjustments			Pro Forma Combined
	SM Energy	XCL Resources		Pro Forma Adjustments ⁽¹⁾	Transaction Adjustment ⁽²⁾		
Operating revenues and other income:							
Oil, gas, and NGL production revenue	\$ 570,778	\$ —	\$ 155,816 (a)	\$ (1,658) (g)	\$ (30,832)	\$ 694,104	
Oil sales	—	151,474	(151,474) (a)	—	—	—	
Natural gas and natural gas liquid sales	—	6,754	(6,754) (a)	—	—	—	
Other operating income	2,727	1,725	2,412 (a)	—	—	6,864	
Total operating revenues and other income	573,505	159,954	—	(1,658)	(30,832)	700,968	
Operating expenses:							
Oil, gas, and NGL production expense	142,348	—	40,238 (b)	(431) (g)	(7,961)	174,194	
Lease operating	—	12,995	(12,995) (b)	—	—	—	
Production taxes	—	2,891	(2,891) (b)	—	—	—	
Transportation, gathering, and handling	—	24,186	(24,186) (b)	—	—	—	
Workover	—	641	(641) (b)	—	—	—	
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	154,189	34,451	—	(34,451) (h)	—	198,689	
				44,500 (i)			
Exploration	18,428	—	205 (c)	—	—	18,633	
Exploration and abandonment	—	205	(205) (c)	—	—	—	
General and administrative	27,669	4,129	—	—	—	31,798	
Net derivative gain	(51,329)	—	(22,950) (d)	—	—	(74,279)	
Cost of acquired oil inventories	—	1,921	475 (b)	—	—	2,396	
Other operating expense, net	10,153	—	—	—	—	10,153	
Total operating expenses	301,458	81,419	(22,950)	9,618	(7,961)	361,584	
Income from operations	272,047	78,534	22,950	(11,276)	(22,871)	339,385	
Interest expense	(22,459)	(7,434)	—	7,434 (g)	—	(59,388)	
				(36,929) (j)			
Interest income	4,702	—	—	(4,702) (k)	—	—	
Net loss on extinguishment of debt	—	—	—	(4,803) (l)	—	(4,803)	
Commodity derivative instrument gain	—	22,950	(22,950) (d)	—	—	—	
Other non-operating expense, net	(232)	—	—	—	—	(232)	
Income before income taxes	254,058	94,051	—	(50,276)	(22,871)	274,962	
Income tax expense	(55,506)	(918)	—	(5,157) (m)	—	(61,581)	
Net income	\$ 198,552	\$ 93,132	\$ —	\$ (55,433)	\$ (22,871)	\$ 213,381	
Basic weighted-average common shares outstanding	121,671					121,671	
Diluted weighted-average common shares outstanding	122,294					122,294	
Basic net income per common share	\$ 1.63					\$ 1.75	
Diluted net income per common share	\$ 1.62					\$ 1.74	

Note: Amounts may not calculate due to rounding.

⁽¹⁾ See Note 3 - Adjustments to Unaudited Pro Forma Financial Information for information about conforming reclass adjustments and pro forma adjustments.

⁽²⁾ Adjustments necessary to remove the historical revenues, gains, expenses, and losses associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2023
(in thousands, except per share data)

	Historical			Adjustments			Pro Forma Combined
	SM Energy	XCL Resources	Conforming Reclass ⁽¹⁾	Pro Forma Adjustments ⁽¹⁾	Transaction Adjustment ⁽²⁾		
Operating revenues and other income:							
Oil, gas, and NGL production revenue	\$ 2,363,889	\$ —	\$ 818,975 (a)	\$ (9,214) (g)	\$ (161,952)	\$ 3,011,698	
Oil sales	—	846,170	(846,170) (a)	—	—	—	
Natural gas and natural gas liquid sales	—	16,005	(16,005) (a)	—	—	—	
Other operating income	9,997	9,062	43,200 (a)	—	—	62,259	
Gain on sale of oil and gas properties	—	3,681	—	(3,681) (g)	—	—	
Total operating revenues and other income	2,373,886	874,918	—	(12,895)	(161,952)	3,073,957	
Operating expenses:							
Oil, gas, and NGL production expense	563,543	—	209,237 (b)	(819) (g)	(41,684)	730,277	
Lease operating	—	57,509	(57,509) (b)	—	—	—	
Production taxes	—	21,397	(21,397) (b)	—	—	—	
Transportation, gathering, and handling	—	131,992	(131,992) (b)	—	—	—	
Workover	—	6,489	(6,489) (b)	—	—	—	
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	690,481	191,609	—	(191,609) (h)	—	868,481	
				178,000 (i)			
Exploration	59,480	—	1,421 (c)	—	—	60,901	
Exploration and abandonment	—	1,421	(1,421) (c)	—	—	—	
General and administrative	121,063	18,829	—	—	—	139,892	
Net derivative gain	(68,154)	—	(23,755) (d)	—	—	(91,909)	
Acquisition costs	—	421	—	—	—	421	
Cost of acquired oil inventories	—	32,179	8,150 (b)	—	—	40,329	
Other operating expense, net	20,567	—	(33) (e)	—	—	20,534	
Total operating expenses	1,386,980	461,846	(23,788)	(14,428)	(41,684)	1,768,926	
Income from operations	986,906	413,072	23,788	1,533	(120,268)	1,305,031	
Interest expense	(91,630)	(36,137)	—	36,137 (g)	—	(212,275)	
				(120,645) (j)			
Interest income	19,854	—	—	(19,854) (k)	—	—	
Net loss on extinguishment of debt	—	—	—	(4,803) (l)	—	(4,803)	
Commodity derivative instrument gain	—	23,755	(23,755) (d)	—	—	—	
Other non-operating expense, net	(928)	33	(33) (e)	—	—	(928)	
Income before income taxes	914,202	400,723	—	(107,632)	(120,268)	1,087,025	
Income tax expense	(96,322)	—	(1,727) (f)	(40,908) (m)	—	(138,957)	
Deferred income tax expense	—	(1,727)	1,727 (f)	—	—	—	
Net income	\$ 817,880	\$ 398,995	\$ —	\$ (148,540)	\$ (120,268)	\$ 948,068	
Basic weighted-average common shares outstanding	118,678					118,678	
Diluted weighted-average common shares outstanding	119,240					119,240	
Basic net income per common share	\$ 6.89					\$ 7.99	
Diluted net income per common share	\$ 6.86					\$ 7.95	

Note: Amounts may not calculate due to rounding.

⁽¹⁾ See Note 3 - Adjustments to Unaudited Pro Forma Financial Information for information about conforming reclass adjustments and pro forma adjustments.

⁽²⁾ Adjustments necessary to remove the historical revenues, gains, expenses, and losses associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

SM ENERGY COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Trailing Twelve Months Ended March 31, 2024
(in thousands, except per share data)

	Historical		Conforming Reclass ⁽¹⁾	Adjustments		Transaction Adjustment ⁽²⁾	Pro Forma Combined
	SM Energy	XCL Resources		Pro Forma Adjustments ⁽¹⁾			
Operating revenues and other income:							
Oil, gas, and NGL production revenue	\$ 2,352,707	\$ —	\$ 889,361 (a)	\$ (1,893) (g)	\$ (177,494)	\$ 3,062,682	
Oil sales	—	917,032	(917,032) (a)	—	—	—	
Natural gas and natural gas liquid sales	—	13,119	(13,119) (a)	—	—	—	
Other operating income	7,544	9,518	40,790 (a)	—	—	57,852	
Gain on sale of oil and gas properties	—	3,681	—	(3,681) (g)	—	—	
Total operating revenues and other income	2,360,251	943,349	—	(5,574)	(177,493)	3,120,534	
Operating expenses:							
Oil, gas, and NGL production expense	558,570	—	243,434 (b)	(137) (g)	(48,659)	753,207	
Lease operating	—	61,515	(61,515) (b)	—	—	—	
Production taxes	—	24,451	(24,451) (b)	—	—	—	
Transportation, gathering, and handling	—	157,380	(157,380) (b)	—	—	—	
Workover	—	7,763	(7,763) (b)	—	—	—	
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	702,480	221,581	—	(221,581) (h)	—	888,980	
	—	—	—	186,500 (i)	—	—	
Exploration	59,633	—	2,063 (c)	—	—	61,696	
Exploration and abandonment	—	2,063	(2,063) (c)	—	—	—	
General and administrative	123,572	22,361	—	—	—	145,933	
Net derivative loss	11,320	—	82,393 (d)	—	—	93,713	
Acquisition costs	—	421	—	—	—	421	
Cost of acquired oil inventories	—	30,258	7,675 (b)	—	—	37,933	
Other operating expense, net	11,422	—	(31) (e)	—	—	11,391	
Total operating expenses	1,466,997	527,792	82,362	(35,218)	(48,659)	1,993,274	
Income from operations	893,254	415,558	(82,362)	29,644	(128,833)	1,127,259	
Interest expense	(91,044)	(39,578)	—	39,578 (g)	—	(198,667)	
	—	—	—	(107,623) (j)	—	—	
Interest income	21,922	—	—	(21,922) (k)	—	—	
Unrealized loss on commodity derivatives	—	(82,393)	82,393 (d)	—	—	—	
Other non-operating expense, net	(720)	31	(31) (e)	—	—	(720)	
Income before income taxes	823,412	293,617	—	(60,323)	(128,833)	927,872	
Income tax benefit (expense)	(72,885)	954	(1,727) (f)	(24,081) (m)	—	(97,739)	
	—	(1,727)	1,727 (f)	—	—	—	
Net income	\$ 750,527	\$ 292,844	\$ —	\$ (84,404)	\$ (128,833)	\$ 830,133	
Basic weighted-average common shares outstanding	115,642					115,642	
Diluted weighted-average common shares outstanding	116,456					116,456	
Basic net income per common share	\$ 6.49					\$ 7.18	
Diluted net income per common share	\$ 6.44					\$ 7.13	

Note: Amounts may not calculate due to rounding.

⁽¹⁾ See Note 3 - Adjustments to Unaudited Pro Forma Financial Information for information about conforming reclass adjustments and pro forma adjustments.

⁽²⁾ Adjustments necessary to remove the historical revenues, gains, expenses, and losses associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1 - Basis of Presentation

The accompanying pro forma financial statements were prepared based on the historical consolidated financial statements of SM Energy and XCL Resources. The Company is evaluating the XCL Acquisition to determine whether it is an asset acquisition or a business combination. Therefore, the pro forma financial information presented herein reflects the estimated allocation of the unadjusted purchase price for the oil and gas assets acquired in the XCL Acquisition as of the May 1, 2024 effective date of the XCL Acquisition.

Certain of XCL Resources' historical amounts have been reclassified to conform to the financial statement presentation of SM Energy. Additionally, adjustments have been made to XCL Resources' historical financial information to remove certain assets and liabilities retained by them and to remove certain historical financial information associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2024, gives effect to the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes as if such activity had been completed on March 31, 2024.

The Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2024, and 2023, the year ended December 31, 2023, and the trailing twelve months ended March 31, 2024, gives effect to the XCL Acquisition, financing related to the XCL Acquisition, and the redemption of the 2025 Senior Notes as if such activity had been completed on January 1, 2023.

If the XCL Acquisition had occurred in the past, the Company's operating results might have been materially different from those presented in the pro forma financial statements. The pro forma financial statements should not be relied upon as an indication of operating results that the Company would have achieved if the XCL Acquisition had taken place on the specified date. In addition, future results may vary significantly from the results reflected in the pro forma statements of operations and should not be relied upon as an indication of the future results the Company will have after the contemplation of the XCL Acquisition by the pro forma financial statements. In management's opinion, all adjustments that are necessary to fairly present the pro forma financial statements have been made.

Note 2 - Estimated Consideration and Unadjusted Purchase Price Allocation

The Company is evaluating the XCL Acquisition to determine whether it is an asset acquisition or a business combination. The XCL Acquisition has an effective date of May 1, 2024 and an unadjusted purchase price, net to the Company, of \$2.04 billion (which is subject to certain customary purchase price adjustments) and is expected to be funded as discussed in *Note 3 - Adjustments to Unaudited Pro Forma Financial Information* below. The allocation of the preliminary unadjusted purchase price is based upon management's estimates and assumptions using currently available information. Due to the fact that the pro forma financial information has been prepared based on preliminary estimates, the final purchase price allocation and the resulting effect on the Company's financial position and results of operations are subject to modification as additional information becomes available and additional analyses are performed.

The final purchase price allocation and the resulting effect on the Company's results of operations may differ significantly from the pro forma amounts included herein, which are based on preliminary estimates and assumptions. The Company expects to finalize the purchase price allocation as soon as practicable subsequent to the closing date of the XCL Acquisition. If the XCL Acquisition is determined to be a business combination, the Company will have a one-year measurement period under ASC 805 to make post-closing adjustments.

The preliminary purchase price allocation is subject to change due to several factors, including, but not limited to the following:

- changes in the recorded amount of the identifiable assets acquired and liabilities assumed as of the closing date;
- the tax bases of the identifiable assets and liabilities as of the closing date; and
- certain of the factors described in the section entitled "Risk Factors" included in our 2023 Form 10-K, as updated by subsequent reports the Company files with the SEC.

The following table presents the preliminary unadjusted purchase price allocation to the underlying assets and liabilities acquired as follows:

	Amount (in millions)
Unadjusted purchase price cash consideration	\$ 2,040
Unadjusted purchase price allocation:	
Proved oil and gas properties	\$ 1,517
Unproved oil and gas properties	299
Wells in progress	210
Other property and equipment	20
Asset retirement obligation liability	(6)
	<u>\$ 2,040</u>

Note: All amounts presented above are subject to potential adjustments that could be material to these pro forma financial statements.

Note 3 - Adjustments to Unaudited Pro Forma Financial Information

The pro forma financial statements have been compiled in a manner consistent with the accounting policies adopted by the Company. Actual results may differ materially from the assumptions and estimates contained herein.

The pro forma adjustments are based on currently available information and certain estimates and assumptions that the Company believes provide a reasonable basis for presenting the significant effects of the XCL Acquisition. General descriptions of the pro forma adjustments are provided below. These adjustments reflect the assumption that the Company will fund the \$2.04 billion purchase price for the XCL Acquisition with (i) cash on hand, (ii) proceeds from the issuance of \$1.3 billion of aggregate senior notes, offset by the use of such net proceeds to redeem the \$349.1 million outstanding principal amount of 2025 Senior Notes, and (iii) borrowings under the Company's revolving credit facility.

Unaudited Pro Forma Condensed Combined Balance Sheet

The following adjustments were made in the preparation of the pro forma balance sheet as of March 31, 2024:

Conforming Reclass Adjustments

Conforming reclass adjustments were made to conform XCL Resources' presentation of the following historical amounts to the presentation by SM Energy:

- (a) Oil inventories;
- (b) materials inventory included in XCL Resources' prepaid expenses and other line item;
- (c) wells in progress included in XCL Resources' proved oil and gas properties line item;
- (d) furniture, fixtures, and equipment, net of accumulated depreciation;
- (e) accrued liabilities; and
- (f) operating lease liabilities.

Pro Forma Adjustments As of March 31, 2024

- (g) Adjustment to remove XCL Resources' historical cash balance and SM Energy's cash on hand included in total cash consideration paid for the XCL Acquisition.
- (h) Adjustment to remove XCL Resources' historical accounts receivable and prepaid expenses and other balances. The preliminary unadjusted purchase price allocation excludes working capital. Any purchase price allocation to working capital will be determined upon the closing of the acquisition.
- (i) Reflects the preliminary estimated allocation of the unadjusted purchase price for the oil and gas assets acquired in the XCL Acquisition as of the effective date of the XCL Acquisition. A final purchase price allocation will be performed as soon as reasonably practicable after the closing of the XCL Acquisition.
- (j) Adjustment to remove XCL Resources' historical book value related to oil and gas properties and the associated accumulated depletion, depreciation, and amortization; and other property and equipment, net of accumulated depreciation.

- (k) Adjustment to remove XCL Resources' historical book value related to other noncurrent assets, including right-of-use assets. The Company cannot reasonably estimate the incremental difference between XCL Resources' historical book value and SM Energy's expected valuation of right-of-use assets; therefore no pro forma adjustment has been made for these items. Upon closing of the XCL Acquisition, SM Energy will evaluate contracts and leases assumed and will record them according to SM Energy's lease accounting policies.
- (l) Adjustment to record deferred financing costs incurred related to amending SM Energy's Seventh Amended and Restated Credit Agreement, as amended ("Credit Agreement") and expected amendments thereto, that the Company is seeking in order to increase the revolving commitments available under the Credit Agreement and to extend the maturity of the Credit Agreement to five years beyond the effective date of such amendment. There can be no assurances that the increases to the commitments or extension of the maturity date of the Credit Agreement will be obtained.
- (m) Adjustment to remove XCL Resources' historical book value related to assets not acquired and liabilities not assumed by SM Energy as part of the XCL Acquisition.
- (n) Reflects incremental borrowings on SM Energy's revolving credit facility to fund the XCL Acquisition.
- (o) Reflects anticipated senior notes issuances, net of estimated deferred financing costs which reduced proceeds received, used to fund the XCL Acquisition; amount reflected is net of proceeds from those senior notes issuances used to redeem the outstanding principal amount of SM Energy's 2025 Senior Notes.
- (p) Adjustment to remove XCL Resources' historical net deferred tax liabilities. No material impact to SM Energy's deferred tax assets and liabilities is expected as a result of the XCL Acquisition.
- (q) Adjustment to eliminate XCL Resources' historical equity balances.
- (r) Includes 1) \$9.0 million paid to obtain commitments related to a \$1.2 billion senior unsecured 364-day bridge loan and a back stop to proposed amendments to SM Energy's Credit Agreement for the purpose of financing a portion of the XCL purchase price and/or otherwise paying related fees, costs and expenses associated with the XCL Acquisition, if determined necessary. It was assumed that the bridge term loans and backstop were unused and no additional fees were incurred related to these commitments, therefore the fees were recorded as interest expense; and 2) \$0.7 million of loss on extinguishment of debt related to the redemption of the Company's 2025 Senior Notes.

Unaudited Pro Forma Condensed Combined Statements of Operations

The following adjustments were made in the preparation of the pro forma statements of operations for the three months ended March 31, 2024, and 2023, the year ended December 31, 2023, and the trailing twelve months ended March 31, 2024, as applicable:

Conforming Reclass Adjustments

Conforming reclass adjustments were made to conform XCL Resources' presentation of the following historical amounts to the presentation by SM Energy:

- (a) Oil sales and natural gas and natural gas liquid sales;
- (b) lease operating, production taxes, transportation, gathering, and handling, and workover;
- (c) exploration and abandonment;
- (d) commodity derivative instrument gain (loss);
- (e) other non-operating expense, net; and
- (f) deferred income tax expense.

Pro Forma Adjustments

- (g) Adjustment to XCL Resources' historical income, expense, gain, or loss related to assets or liabilities not acquired as part of the XCL Acquisition.
- (h) Adjustment to remove XCL Resources' historical depletion, depreciation, amortization, and asset retirement obligation liability accretion expense.
- (i) Adjustment to reflect depletion, depreciation, amortization, and asset retirement obligation liability accretion expense estimated based on SM Energy's cost basis of property and equipment acquired.

- (j) Adjustment to SM Energy's historical interest expense to reflect the impact of borrowing and refinancing activity expected to be completed in order to finance the XCL Acquisition. A one-eighth percent change in the variable portion of the interest rate related to the Company's revolving credit facility would have changed interest expense by \$0.1 million, for each of the three months ended March 31, 2024, and 2023, and by \$0.7 million for each of the year ended December 31, 2023, and the trailing twelve months ended March 31, 2024. Adjustments were made using management's assumptions and estimates and are summarized as follows:

	For the Three Months Ended March 31,		For the Year Ended	For the Trailing
	2024	2023	December 31,	Twelve Months Ended
			2023	March 31,
	(thousands)			
Interest expense on new senior notes ⁽¹⁾	\$ 22,750	\$ 22,750	\$ 91,000	\$ 91,000
Amortization of deferred financing costs on new senior notes	922	922	3,689	3,689
Interest expense on redeemed senior notes ⁽²⁾	(4,909)	(4,909)	(19,638)	(19,638)
Amortization of deferred financing costs on redeemed senior notes ⁽²⁾	(158)	(158)	(632)	(632)
Bridge loan commitment fees ⁽³⁾	—	9,000	9,000	—
Revolving credit facility interest expense and commitment fees ⁽⁴⁾	9,693	12,748	50,920	47,865
Amortization of deferred financing costs on credit facility ⁽⁴⁾	586	586	2,345	2,345
Capitalized interest ⁽⁵⁾	(4,977)	(4,010)	(16,039)	(17,006)
Total acquisition adjustments to interest expense	\$ 23,907	\$ 36,929	\$ 120,645	\$ 107,623

- (1) The estimated coupon rate applicable to the anticipated \$650.0 million 2029 Senior Notes ("2029 Senior Notes") and \$650.0 million 2032 Senior Notes ("2032 Senior Notes") issuances was 7.0 percent which was estimated based on the current expected yield-to-worst rate, adjusted up by an approximate 0.5 percent increment to reflect what management believes is a reasonably conservative estimate. Deferred financing costs related to the 2029 Senior Notes and 2032 Senior Notes were estimated based on SM Energy's historical senior notes activity.
- (2) Reflects the impact of the assumed redemption of \$349.1 million remaining outstanding principal amount of SM Energy's 2025 Senior Notes, using proceeds from the 2029 Senior Notes and 2032 Senior Notes issuances.
- (3) Reflects \$9.0 million paid to obtain commitments related to a \$1.2 billion senior unsecured 364-day bridge loan and a back stop to proposed amendments to SM Energy's Credit Agreement for the purpose of financing a portion of the XCL purchase price and/or otherwise paying related fees, costs and expenses associated with the XCL Acquisition, if determined necessary. It was assumed that the bridge term loan and backstop were unused and no additional fees were incurred related to these commitments.
- (4) Revolving credit facility borrowings necessary to fund a portion of the XCL Acquisition were assumed to have remained outstanding for the full respective periods presented and does not include the effect of incremental cash flow associated with the assets acquired. Estimates of the timing and amount of any additional credit facility borrowings or repayments cannot be reasonably estimated as they could be impacted by multiple factors including the Company's return of capital program, and capital expenditures program. Borrowings on the revolving credit facility were assumed to be SOFR loans, which accrue interest at SOFR plus the applicable margin from the borrowing base utilization grid, as presented in SM Energy's 2023 Form 10-K. The average SOFR rate of 5.35 percent used to estimate pro forma interest expense related to the revolving credit facility was the estimated rate as of the date of this report. Additionally, certain fees incurred and assumed to have been incurred related to the execution of amendments to SM Energy's Credit Agreement, and these fees were recorded as deferred financing costs.
- (5) Reflects an increase in capitalized interest resulting from an increase in the Company's weighted-average interest rate, and an increase in the combined wells in progress balance.
- (k) Adjustment to remove SM Energy's historical interest income giving effect to the use of cash on hand included in consideration paid for the XCL Acquisition.
- (l) Adjustment to reflect the accelerated expense recognition of \$1.5 million of remaining unamortized deferred financing costs and \$3.3 million of premium paid due to the early redemption of the 2025 Senior Notes.
- (m) Adjustment to apply SM Energy's blended federal statutory tax rate and estimated state statutory rate, net of federal benefit, of 24.6 percent to adjustments to pre-tax net income, including transaction adjustments associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

Supplemental Unaudited Pro Forma Combined Additional Information

Oil and Gas Reserves

The following table presents information with respect to the historical and pro forma combined estimated net oil, natural gas, and natural gas liquids reserves as of December 31, 2023, for SM Energy and XCL Resources. The reserve information of SM Energy has been audited by independent petroleum engineers Ryder Scott Company, L.P. and the reserve information of XCL Resources has been prepared by independent petroleum engineers DeGolyer and MacNaughton Corp. The following unaudited pro forma combined estimated net proved reserve information is not necessarily indicative of the results that might have occurred had the XCL Acquisition taken place on January 1, 2023, nor is it intended to be a projection of future results. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Periodic revisions or removals of estimated reserves and future cash flows may be necessary as a result of a number of factors, including reservoir performance, new drilling, crude oil and natural gas prices, changes in costs, technological advances, new geological or geophysical data, changes in business strategies, or other economic factors. Accordingly, proved reserve estimates may differ significantly from the quantities of crude oil and natural gas ultimately recovered. For both SM Energy and XCL Resources, the proved reserve estimates shown below were determined using the average price during the 12-month period prior to December 31, 2023, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within the year ended December 31, 2023.

	As of December 31, 2023				
	Historical		Adjustments		Pro Forma Combined
	SM Energy	XCL Resources	Pro Forma Adjustment ⁽²⁾	Transaction Adjustment ⁽³⁾	
Net proved reserve volumes ⁽¹⁾:					
Proved developed					
Oil (MMBbl)	118.5	56.6	(0.1)	(11.3)	163.6
Gas (Bcf)	948.5	53.3	—	(10.7)	991.1
NGLs (MMBbl)	64.7	—	—	—	64.7
MMBOE	341.2	65.4	(0.1)	(13.1)	393.5
Proved undeveloped					
Oil (MMBbl)	111.6	100.7	—	(20.1)	192.2
Gas (Bcf)	583.5	89.9	—	(18.0)	655.4
NGLs (MMBbl)	54.8	—	—	—	54.8
MMBOE	263.6	115.7	—	(23.1)	356.2
Total proved					
Oil (MMBbl)	230.1	157.3	(0.1)	(31.4)	355.8
Gas (Bcf)	1,532.0	143.1	—	(28.6)	1,646.4
NGLs (MMBbl)	119.5	—	—	—	119.5
MMBOE	604.9	181.1	(0.1)	(36.2)	749.7
Total proved PV-10 (non-GAAP) (in millions) ⁽⁴⁾	\$ 7,376.5	\$ 4,056.5	\$ —	\$ (811.3)	\$ 10,621.7

Note: Amounts may not calculate due to rounding.

⁽¹⁾ The SEC defines proved oil and gas reserves (Rule 4-10(a) of Regulation S-X) as those quantities of oil, gas and NGLs which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation.

⁽²⁾ Adjustment to remove XCL Resources' historical reserves related to assets not acquired by SM Energy as part of the XCL Acquisition.

⁽³⁾ Adjustment to remove the historical reserves associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

⁽⁴⁾ PV-10 is derived from the standardized measure of discounted future net cash flows, which is the most directly comparable GAAP financial measure. PV-10 is a computation of the standardized measure of discounted future net cash flows on a pre-tax basis. PV-10 is equal to the standardized measure of discounted future net cash flows at the applicable date, before deducting future income taxes, discounted at 10 percent. We believe that the presentation of PV-10 is relevant and useful to investors because it presents the discounted future net cash flows attributable to estimated proved reserves prior to taking into account future corporate income taxes, and it is a useful measure for evaluating the relative monetary significance of oil and natural gas assets. Further, investors may utilize the measure as a basis for comparison of the relative size and value.

of pro-forma combined reserves to other companies. We use this measure when assessing the potential return on investment related to our oil and natural gas assets. PV-10, however, is not a substitute for the standardized measure of discounted future net cash flows. The PV-10 measures presented herein do not purport to present the fair value of the oil and natural gas reserves presented. Please see the definitions of “standardized measure of discounted future net cash flows” and “PV-10” in the “Glossary of Oil and Natural Gas Terms” section of our 2023 Form 10-K.

Production

The following tables present information with respect to certain historical and pro forma combined net production data for SM Energy and XCL Resources for the periods presented.

	For the Three Months Ended March 31, 2024				
	Historical		Adjustments		
	SM Energy	XCL Resources	Pro Forma Adjustment ⁽¹⁾	Transaction Adjustment ⁽²⁾	Pro Forma Combined
Production volumes:					
Oil (MMBbl)	5.8	2.9	0.1	(0.6)	8.2
Gas (Bcf)	31.1	3.0	0.1	(0.6)	33.6
NGLs (MMBbl)	2.2	—	—	—	2.2
Equivalent (MMBOE)	13.2	3.4	0.1	(0.7)	16.0
Average net daily production:					
Oil (MBbl per day)	63.7	32.0	0.9	(6.6)	90.0
Gas (MMcf per day)	342.3	32.6	0.6	(6.6)	368.9
NGLs (MBbl per day)	24.4	—	—	—	24.4
Equivalent (MBOE per day)	145.1	37.4	1.0	(7.7)	175.8

Note: Amounts may not calculate due to rounding.

⁽¹⁾ Adjustment to XCL Resources' historical net production volumes, which primarily consist of prior period adjustments, related to assets not acquired by SM Energy as part of the XCL Acquisition.

⁽²⁾ Adjustment to remove the historical reserves associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

	For the Year Ended December 31, 2023				
	Historical		Adjustments		
	SM Energy	XCL Resources	Pro Forma Adjustment ⁽¹⁾	Transaction Adjustment ⁽²⁾	Pro Forma Combined
Production volumes:					
Oil (MMBbl)	23.8	10.7	(0.1)	(2.1)	32.3
Gas (Bcf)	132.4	7.7	(0.1)	(1.5)	138.5
NGLs (MMBbl)	9.7	—	—	—	9.7
Equivalent (MMBOE)	55.5	12.0	(0.1)	(2.4)	65.0
Average net daily production:					
Oil (MBbl per day)	65.1	29.2	—	(5.8)	88.5
Gas (MMcf per day)	362.7	21.2	—	(4.2)	379.7
NGLs (MBbl per day)	26.4	—	—	—	26.4
Equivalent (MBOE per day)	152.0	32.7	—	(6.5)	178.2

Note: Amounts may not calculate due to rounding.

⁽¹⁾ Adjustment to remove XCL Resources' historical net production volumes related to assets not acquired by SM Energy as part of the XCL Acquisition.

⁽²⁾ Adjustment to remove the historical reserves associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

Adjusted EBITDAX

Adjusted EBITDAX represents net income (loss) before interest expense, interest income, income taxes, depletion, depreciation, amortization and asset retirement obligation liability accretion expense, exploration expense, property abandonment and impairment expense, non-cash stock-based compensation expense, derivative gains and losses net of settlements, gains and losses on divestitures, gains, and losses on extinguishment of debt, and certain other items. Adjusted EBITDAX excludes certain items that we believe affect the comparability of operating results and can exclude items that are generally non-recurring in nature or whose timing and/or amount cannot be reasonably estimated. Adjusted EBITDAX is a non-GAAP measure that we believe provides useful additional information to investors and analysts, as a performance measure, for analysis of our ability to internally generate funds for exploration, development, acquisitions, and to service debt. We are also subject to financial covenants under our Credit Agreement based on adjusted EBITDAX ratios as further described in our 2023 Form 10-K. In addition, adjusted EBITDAX is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the oil and gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. Adjusted EBITDAX should not be considered in isolation or as a substitute for net income (loss), income (loss) from operations, net cash provided by operating activities, or other profitability or liquidity measures prepared under GAAP. Because adjusted EBITDAX excludes some, but not all items that affect net income (loss) and may vary among companies, the adjusted EBITDAX amounts presented may not be comparable to similar metrics of other companies. Our revolving credit facility provides a material source of liquidity for us. Under the terms of our Credit Agreement, if we failed to comply with the covenants that establish a maximum permitted ratio of total funded debt, as defined in the Credit Agreement, to adjusted EBITDAX, we would be in default, an event that would prevent us from borrowing under our revolving credit facility and would therefore materially limit a significant source of our liquidity. In addition, if we are in default under our revolving credit facility and are unable to obtain a waiver of that default from our lenders, lenders under that facility and under the indentures governing each series of our outstanding Senior Notes, as defined and described in our 2023 Form 10-K, would be entitled to exercise all of their remedies for default.

The following table presents a reconciliation of pro forma net income to pro forma adjusted EBITDAX.

	Pro Forma Combined			
	For the Three Months Ended March 31,		For the Year Ended December 31,	For the Trailing Twelve Months Ended March 31,
	2024	2023	2023	2024
	(in thousands)			
Net income (GAAP)	\$ 95,446	\$ 213,381	\$ 948,068	\$ 830,133
Interest expense	45,780	59,388	212,275	198,667
Income tax expense	20,363	61,581	138,957	97,739
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	219,188	198,689	868,481	888,980
Exploration ⁽¹⁾	18,303	17,682	56,754	57,375
Stock-based compensation expense	5,018	4,318	20,250	20,950
Net derivative (gain) loss	111,343	(74,279)	(91,909)	93,713
Net derivative settlement (loss)	(1,237)	(7,215)	(34,461)	(28,483)
Net loss on extinguishment of debt	—	4,803	4,803	—
Other, net	597	(152)	1,497	2,246
Adjusted EBITDAX (non-GAAP)	<u>\$ 514,801</u>	<u>\$ 478,196</u>	<u>\$ 2,124,715</u>	<u>\$ 2,161,320</u>

⁽¹⁾ Stock-based compensation expense is a component of the exploration expense and general and administrative expense line items on the accompanying pro forma statements of operations. Therefore, the exploration line item shown in the reconciliation above will vary from the amount shown on the accompanying pro forma statements of operations for the component of stock-based compensation expense recorded to exploration expense.

Capital Expenditures

The following tables present historical and pro forma combined capital expenditures for SM Energy and XCL Resources for the periods presented and were prepared based on the historical consolidated statements of cash flows of SM Energy and XCL Resources.

	For the Three Months Ended March 31, 2024				
	Historical		Adjustments		Pro Forma Combined
	SM Energy	XCL Resources	Conforming	Reclass Transaction Adjustment ⁽²⁾	
Capital expenditures	(332,365)	—	(218,340)	43,668	(507,037)
Investments in oil and gas properties	—	(162,487)	162,487	—	—
Purchase of materials and supplies and other assets	—	(55,853)	55,853	—	—

	For the Year Ended December 31, 2023				
	Historical		Adjustments		Pro Forma Combined
	SM Energy	XCL Resources	Conforming	Reclass Transaction Adjustment ⁽²⁾	
Capital expenditures	(989,411)	—	(579,949)	115,990	(1,453,370)
Investments in oil and gas properties	—	(465,637)	465,637	—	—
Purchase of materials and supplies and other assets	—	(114,312)	114,312	—	—

⁽¹⁾ Reclass adjustment made to XCL Resources line items in order to conform with SM Energy's presentation of capital expenditures.

⁽²⁾ Adjustment to remove the historical capital expenditures associated with the 20 percent undivided interest acquired by NOG in the oil and gas properties of XCL Resources.

DeGolyer and MacNaughton
5001 Spring Valley Road Suite 800 East
Dallas, Texas 75244

This is a digital representation of a DeGolyer and MacNaughton report.

Each file contained herein is intended to be a manifestation of certain data in the subject report and as such is subject to the definitions, qualifications, explanations, conclusions, and other conditions thereof. The information and data contained in each file may be subject to misinterpretation; therefore, the signed and bound copy of this report should be considered the only authoritative source of such information.



DeGolyer and MacNaughton
5001 Spring Valley Road Suite 800 East
Dallas, Texas 75244

July 16, 2024

XCL Resources
3217 Montrose Boulevard
Suite 200
Houston, Texas 77006

Ladies and Gentlemen:

Pursuant to your request, this report of third party presents an independent evaluation, as of December 31, 2023, of the extent and value of the estimated net proved oil and gas reserves of certain properties in which XCL Resources (XCL) has represented it holds an interest. This evaluation was completed on July 16, 2024. The properties evaluated herein consist of working and royalty interests located in Utah. XCL has represented that these properties account for 100 percent on a net equivalent barrel basis of XCL's net proved reserves as of December 31, 2023. The net proved reserves estimates have been prepared in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the United States Securities and Exchange Commission (SEC). This report was prepared in accordance with guidelines specified in Item 1202 (a)(8) of Regulation S–K and is to be used for inclusion in certain SEC filings by XCL.

Reserves estimates included herein are expressed as net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2023. Net reserves are defined as that portion of the gross reserves attributable to the interests held by XCL after deducting all interests held by others.

Values for proved reserves in this report are expressed in terms of future gross revenue, future net revenue, and present worth. Future gross revenue is defined as that revenue which will accrue to the evaluated interests from the production and sale of the estimated net reserves. Future net revenue is calculated by deducting production taxes, ad valorem taxes, operating expenses, capital costs, and abandonment costs from future gross revenue. Operating expenses include field operating expenses, transportation and processing expenses, and an allocation of overhead that

directly relates to production activities. Capital costs include drilling and completion costs, facilities costs, and field maintenance costs. Abandonment costs are represented by XCL to be inclusive of those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment. At the request of XCL, future income taxes were not taken into account in the preparation of these estimates. Present worth is defined as future net revenue discounted at a discount rate of 10 percent per year compounded monthly over the expected period of realization. Present worth should not be construed as fair market value because no consideration was given to additional factors that influence the prices at which properties are bought and sold.

Estimates of reserves and revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

This report was prepared in July 2024; therefore, certain events that may have occurred before the preparation of this report but after the “as-of” date of December 31, 2023, which might have affected the reserves, prices, costs, and values used in the estimates presented herein, were not taken into account.

Information used in the preparation of this report was obtained from XCL and from public sources. In the preparation of this report we have relied, without independent verification, upon information furnished by XCL with respect to the property interests being evaluated, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination was not considered necessary for the purposes of this report.

Definition of Reserves

Petroleum reserves included in this report are classified as proved. Only proved reserves have been evaluated for this report. Reserves classifications used by us in this report are in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the SEC. Reserves are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and

operating conditions using prices and costs consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. The petroleum reserves are classified as follows:

Proved oil and gas reserves – Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not

limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology
-

exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in [section 210.4–10 (a) Definitions], or by other evidence using reliable technology establishing reasonable certainty.

Methodology and Procedures

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the SEC and with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (revised June 2019) Approved by the SPE Board on 25 June 2019” and in Monograph 3 and Monograph 4 published by the Society of Petroleum Evaluation Engineers. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

Based on the current stage of field development, production performance, the development plans provided by XCL, and analyses of areas offsetting existing wells with test or production data, reserves were classified as proved. The proved undeveloped reserves estimates were based on opportunities identified in the plan of development provided by XCL.

XCL has represented that its senior management is committed to the development plan provided by XCL and that XCL has the financial capability to execute the development plan, including the drilling and completion of wells and the installation of equipment and facilities.

For the evaluation of unconventional reservoirs, a performance-based methodology integrating the appropriate geology and petroleum engineering data was utilized for this report. Performance-based methodology primarily includes (1) production diagnostics, (2) decline-curve analysis, and (3) model-based analysis (if necessary, based on availability of data). Production diagnostics include data quality control, identification of flow regimes, and characteristic well performance behavior. These analyses were performed for all well groupings (or type-curve areas).

Characteristic rate-decline profiles from diagnostic interpretation were translated to modified hyperbolic rate profiles, including one or multiple b-exponent values followed by an exponential decline. Based on the availability of data, model-based analysis may be integrated to evaluate long-term decline behavior, the effect of dynamic reservoir and fracture parameters on well performance, and complex situations sourced by the nature of unconventional reservoirs.

In the evaluation of undeveloped reserves, type-well analysis was performed using well data from analogous reservoirs for which more complete historical performance data were available.

Data provided by XCL from wells drilled through December 31, 2023, and made available for this evaluation were used to prepare the reserves estimates herein. These reserves estimates were based on consideration of monthly production data available for certain operated properties only through November 2023. Estimated cumulative production, as of December 31, 2023, was deducted from the estimated gross ultimate recovery to estimate gross reserves. This required that production be estimated for up to 1 month for operated properties. Reserves estimates for non-operated properties were based on consideration of monthly production data available only through August 2023. Estimated cumulative production, as of December 31, 2023, was deducted from the estimated gross ultimate recovery to estimate gross reserves, requiring that production be estimated for up to 4 months for non-operated properties.

Oil reserves estimated herein are to be recovered by normal field separation and are expressed in thousands of barrels (Mbb). In these estimates, 1 barrel equals 42 United States gallons.

Gas quantities estimated herein are expressed as sales gas. Sales gas is defined as the total gas to be produced from the reservoirs, measured at the point of delivery, after reduction for fuel usage, flare, and shrinkage resulting from field separation and processing. Gas reserves estimated herein are reported as sales gas. Gas quantities are expressed at a

temperature base of 60 degrees Fahrenheit (°F) and at the pressure base of the state in which the quantities are located. Gas quantities included in this report are expressed in millions of cubic feet (MMcf).

Gas quantities are identified by the type of reservoir from which the gas will be produced. Nonassociated gas is gas at initial reservoir conditions with no oil present in the reservoir. Associated gas is both gas-cap gas and solution gas. Gas-cap gas is gas at initial reservoir conditions and is in communication with an underlying oil zone. Solution gas is gas dissolved in oil at initial reservoir conditions. Gas quantities estimated herein include only associated gas.

At the request of XCL, sales gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

Primary Economic Assumptions

Revenue values in this report were estimated using initial prices, expenses, and costs provided by XCL. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board (FASB). The following economic assumptions were used for estimating the revenue values reported herein:

Oil Prices

XCL has represented that the oil prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual agreements. XCL supplied differentials to a West Texas Intermediate (WTI) reference price of \$78.21 per barrel and the prices were held constant thereafter. The volume-weighted average price attributable to the estimated proved reserves over the lives of the properties was \$64.13 per barrel of oil.

Gas Prices

XCL has represented that the gas prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by

contractual agreements. XCL supplied differentials to a Henry Hub reference price of \$2.63 per million Btu and the prices were held constant thereafter. These price differentials include revenue from the sale of natural gas liquids attributable to XCL. Btu factors provided by XCL were used to convert prices from dollars per million Btu to dollars per thousand cubic feet. The volume-weighted average price attributable to the estimated proved reserves over the lives of the properties was \$4.58 per thousand cubic feet of gas.

Production and Ad Valorem Taxes

Production taxes were calculated using the tax rates for Utah. Ad valorem taxes were calculated using rates provided by XCL based on recent payments.

Operating Expenses, Capital Costs, and Abandonment Costs

Estimates of operating expenses and future capital expenditures, provided by XCL and based on existing economic conditions, were held constant for the lives of the properties. In certain cases, future expenditures, either higher or lower than current expenditures, may have been used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. Abandonment costs, which are those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment, were provided by XCL for all properties and were not adjusted for inflation. Operating expenses, capital costs, and abandonment costs were considered, as appropriate, in determining the economic viability of the undeveloped reserves estimated herein.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, 932-235-50-9, 932-235-50-30, and 932-235-50-31(a), (b), and (e) of the Accounting Standards Update 932-235-50, *Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the FASB and Rules 4–10(a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, 1202(a) (1), (2), (3), (4), (8), and 1203(a) of Regulation S–K of the SEC; provided, however, that (i) future income tax expenses have not been taken into

account in estimating the future net revenue and present worth values set forth herein and (ii) estimates of the proved developed and proved undeveloped reserves are not presented at the beginning of the year.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature, we, as engineers, are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

Summary of Conclusions

DeGolyer and MacNaughton has performed an independent evaluation of the extent and value of the estimated net proved oil and gas reserves of certain properties in which XCL has represented it holds an interest. The estimated net proved reserves, as of December 31, 2023, of the properties evaluated herein were based on the definition of proved reserves of the SEC and are summarized as follows, expressed in thousands of barrels (Mbbbl), millions of cubic feet (MMcf), and thousands of barrels of oil equivalent (Mboe):

Estimated by DeGolyer and MacNaughton Net Proved Reserves as of December 31, 2023			
	Oil (Mbbbl)	Sales Gas (MMcf)	Oil Equivalent (Mboe)
Proved Developed	56,570	53,261	65,447
Proved Undeveloped	100,719	89,880	115,699
Total Proved	157,289	143,141	181,146

Note: Sales gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

The estimated future revenue to be derived from the production and sale of the net proved reserves, as of December 31, 2023, of the properties evaluated using the guidelines established by the SEC is summarized as follows, expressed in thousands of dollars (M\$):

	Proved Developed (M\$)	Total Proved (M\$)
	3,871,861	10,742,870
Future Gross Revenue		
Production Taxes	196,076	507,091
Ad Valorem Taxes	73,504	204,704
Operating Expenses	848,741	2,002,800
Capital and Abandonment Costs	29,930	1,383,939
Future Net Revenue	2,723,610	6,644,336
Present Worth at 10 Percent	1,841,911	4,056,541

Note: Future income taxes have not been taken into account in the preparation of these estimates.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its reserves, we are not aware of any such governmental actions which would restrict the recovery of the December 31, 2023, estimated reserves.

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in XCL. Our fees were not contingent on the results of our evaluation. This report has been prepared at the request of XCL. DeGolyer and MacNaughton has used all assumptions, data, procedures, and methods that it considers necessary and appropriate to prepare this report.

Submitted,

/s/ DEGOLYER AND MACNAUGHTON
DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716



/s/ Dilhan Ilk
Dilhan Ilk, P.E.
Executive Vice President
DeGolyer and MacNaughton

CERTIFICATE of QUALIFICATION

I, Dilhan Ilk, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am an Executive Vice President with DeGolyer and MacNaughton, which firm did prepare the report of third party addressed to XCL Petroleum Company dated July 16, 2024, and that I, as Executive Vice President, was responsible for the preparation of this report of third party.
2. That I attended Istanbul Technical University, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 2003, a Master of Science degree in Petroleum Engineering from Texas A&M University in 2005, and a Doctor of Philosophy degree in Petroleum Engineering from Texas A&M University in 2010; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the Society of Petroleum Engineers; and that I have in excess of 13 years of experience in oil and gas reservoir studies and reserves evaluations.



/s/ Dilhan Ilk
Dilhan Ilk, P.E.
Executive Vice President
DeGolyer and MacNaughton