UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 3)

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

Date of report (Date of earliest event reported): October 31, 2023

VITAL ENERGY, INC.

(Exact name of registrant as specified in charter)

Delaware	**001-35380**	**45-3007926**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

521 E. Second Street	**Suite 1000**	
Tulsa	**Oklahoma**	**74120**
(Address of principal executive offices)		(Zip code)

Registrant's telephone number, including area code: **(918) 513-4570**

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

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

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

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

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.01 par value	**VTLE**	**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. ☐

Explanatory Note

As previously disclosed in its Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on November 6, 2023 (the "Original Form 8-K"), (i) on October 31, 2023, Vital Energy, Inc. (the "Company") completed the acquisition of oil and gas properties from Maple Energy Holdings, LLC, (ii) on November 5, 2023, the Company completed the acquisition of oil and gas properties from Henry Resources, LLC, Henry Energy LP and Moriah Henry Partners LLC, and (iii) on November 6, 2023, the Company completed the acquisition of oil and gas properties from Tall City Property Holdings III LLC and Tall City Operations III LLC. The Original Form 8-K was subsequently amended by Amendment No. 1 to Form 8-K filed with the SEC on December 22, 2023, and by Amendment No.2 to Form 8-K filed with the SEC on February 5, 2024 (together with the Original Form 8-K, the "Amended Form 8-K").

This Amendment to Current Report on Form 8-K is being filed as Amendment No. 3 to amend and supplement the Amended Form 8-K, the purpose of which is to provide the financial statements and pro forma financial information required by Item 9.01, which are filed as exhibits hereto and are incorporated herein by reference. This Amendment No. 3 does not amend any other item of the Amended Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of business to be acquired.

The audited annual combined financial statements of PEP HPP Jubilee SPV LLC, PEP PEOF Dropkick SPV, LLC, PEP HPP Dropkick SPV LLC, and HPP Acorn SPV LLC, (collectively, the "PEP Subject Companies"), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the combined financial statements, are filed as Exhibit 99.1 hereto and incorporated by reference herein.

The unaudited quarterly condensed combined financial statements of PEP Subject Companies, which comprise the balance sheet as of September 30, 2023, the related statements of operations, members' equity, and cash flows for the nine-month periods ended September 30, 2023 and 2022, and the related notes to the combined financial statements, are filed as Exhibit 99.2 hereto and incorporated by reference herein.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of the Company, which comprises the balance sheet as of September 30, 2023, the related statements of operations for the nine-month period ended September 30, 2023 and the year ended December 31, 2022, and the related notes thereto, is filed as Exhibit 99.3 hereto and incorporated by reference herein.

(d) Exhibits.

Exhibit Number	Description
23.1	Consent of Weaver and Tidwell, L.L.P.
23.2	Consent of Cawley, Gillespie & Associates, Inc.
99.1	Audited combined financial statements of PEP Subject Companies as of December 31, 2022 and 2021 and for the years then ended.
99.2	Unaudited financial statements of PEP Subject Companies as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and September 30, 2022.
99.3	Unaudited pro forma condensed combined financial information of Vital Energy, Inc. as of September 30, 2023, and for the nine-month period ended September 30, 2023 and the year ended December 31, 2022.
99.4	Reserves report of Cawley, Gillespie & Associates, Inc. for certain oil and gas properties owned by PEP Subject Companies dated November 7, 2023, as of December 31, 2022.
104	Cover Page Interactive Data File (formatted as Inline XBRL).

SIGNATURES

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

VITAL ENERGY, INC.

Date: February 14, 2024	By:	/s/ Bryan J. Lemmerman
		Bryan J. Lemmerman
		Executive Vice President and Chief Financial Officer

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-257799, 333-260479, 333-263752, 333-271095, 333-275259, 333-275347, 333-275348 and 333-276380) and Form S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of Vital Energy, Inc. of our report dated December 22, 2023, with respect to the combined balance sheets as of December 31, 2022 and 2021 and the related combined statements of operations, changes in members' equity, and cash flows for the year ended December 31, 2022 and for the period from January 22, 2021 (Commencement) through December 31, 2021, and the related notes to the combined financial statements of PEP HPP Dropkick SPV LLC, PEP PEOF Dropkick SPV LLC, HPP Acorn SPV LLC, and PEP HPP Jubilee SPV LLC included in Vital Energy, Inc.'s current report on this Form 8-K/A.

/s/ Weaver and Tidwell, L.L.P.

Midland, Texas
February 14, 2023

EXHIBIT 23.2

Consent of Independent Petroleum Engineers

We hereby consent to the inclusion in the current report on Form 8-K/A of Vital Energy, Inc. and incorporation by reference in Vital Energy, Inc.'s Registration Statements on Form S-3 (File Nos. 333-257799, 333-260479, 333-263752, 333-271095, 333-275259, 333-275347, 333-275348 and 333-276380) and Form S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of all references to our firm and information from our reserve report and oil, natural gas and NGL reserves estimates and forecasts of economics as of December 31, 2022, dated November 7, 2023, relating to the oil and gas reserves of Pickering Energy Partners.

CAWLEY, GILLESPIE & ASSOCIATES, INC.
Texas Registered Engineering Firm

/s/ J.Zane Meekins
J. Zane Meekins, P.E.
Executive Vice President

Fort Worth, Texas
February 14, 2024

EXHIBIT 99.1

PEP SUBJECT COMPANIES
Combined Financial Statements
December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)

PEP SUBJECT COMPANIES
Table of Contents

Independent Auditor's Report

To the Members of the
PEP Subject Companies

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the combined financial statements of PEP HPP Dropkick SPV LLC ("Dropkick"), PEP PEOF Dropkick SPV LLC ("Dropkick II"), HPP Acorn SPV LLC ("Acorn"), PEP HPP Jubilee SPV LLC ("Jubilee"), collectively referred to as the "PEP Subject Companies" which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of operations, changes in members' equity, and cash flows for the year ended December 31, 2022 and for the period from January 22, 2021 (Commencement) through December 31, 2021, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the PEP Subject Companies as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the year ended December 31, 2022 and for the period from January 22, 2021 (Commencement) through December 31, 2021, 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 Audit of the Financial Statements section of our report. We are required to be independent of the PEP Subject Companies, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the PEP Subject Companies' ability to continue as a going concern for one year after the date that the combined financial statements are issued (or when applicable, one year after the date that the combined financial statements are available to be issued).

The Members of the
PEP Subject Companies

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PEP Subject Companies' 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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PEP Subject Companies' ability to continue as a going concern for a reasonable period of time.

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

/s/ Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
December 22, 2023

PEP SUBJECT COMPANIES

Combined Balance Sheets

	As of December 31, 2022	As of December 31, 2021
Assets	*(in thousands)*	
Current assets:		
Cash	$ 6,132	$ 240
Due from affiliate	4,225	2,508
Accounts receivable, net	4,968	4,234
Drilling advances	53	4,100
Total current assets	15,378	11,082
Oil and natural gas property and equipment, based on full-cost method of accounting, net	117,826	110,677
Total assets	$ 133,204	$ 121,759
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,618	$ 4,156
Derivative financial instruments	4,226	1,036
Due to affiliate, short-term	—	793
Total current liabilities	5,844	5,985
Due to affiliate, long-term	—	49,992
Derivative financial instruments	4,362	982
Asset retirement obligations	592	624
Total liabilities	10,798	57,583
Commitment and contingencies (Note 8)	—	—
Members' equity	122,406	64,176
Total liabilities and members' equity	$ 133,204	$ 121,759

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

PEP SUBJECT COMPANIES
Combined Statements of Operations

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Revenues:		
Crude oil, natural gas, and NGL sales, net	$ 83,038	$ 11,685
Loss on derivatives, net	(19,890)	(3,134)
Total revenues, net	63,148	8,551
Operating expenses:		
Lease operating and workover	18,465	2,950
Severance taxes	4,292	603
Depletion, depreciation, and amortization	14,759	2,760
Accretion	46	12
General and administrative	5,145	2,660
Total operating expenses	42,707	8,985
Operating income (loss)	20,441	(434)
Other expense:		
Interest expense	(492)	(755)
Total other expense	(492)	(755)
Net income (loss)	$ 19,949	$ (1,189)

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

PEP SUBJECT COMPANIES
Combined Statements of Changes in Members' Equity

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

		Members' Equity
		(in thousands)
Balance – January 22, 2021 (Commencement)	$	—
Contributions from parent, net		65,365
Net loss		(1,189)
Balance – December 31, 2021	$	64,176
Contributions from parent, net		38,281
Net income		19,949
Balance – December 31, 2022	$	122,406

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

PEP SUBJECT COMPANIES
Combined Statements of Cash Flows

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 19,949	$ (1,189)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation, and amortization	14,759	2,760
Accretion	46	12
Loss on derivatives, net	19,890	3,134
Cash settlements on commodity derivatives	(13,320)	(1,116)
Changes in operating assets and liabilities:		
Accounts receivable and due from affiliate	(2,451)	(6,742)
Drilling advances	4,047	(4,100)
Accounts payable and accrued liabilities	(2,538)	1,203
Net cash provided by (used in) operating activities	40,382	(6,038)
Cash flows from investing activities:		
Additions to oil and natural gas properties	(18,678)	(17,571)
Acquisition of oil and natural gas properties	(3,308)	(92,301)
Net cash used in investing activities	(21,986)	(109,872)
Cash flows from financing activities:		
Contributions from parent, net	38,281	65,365
Proceeds from affiliate debt	12,238	68,560
Payments on affiliate debt	(63,023)	(17,775)
Net cash used in financing activities	(12,504)	116,150
Net increase in cash and cash equivalents	5,892	240
Cash and cash equivalents - Beginning of period	240	—
Cash and cash equivalents- End of period	$ 6,132	$ 240

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

Note 1. Organization

Description of the Company

PEP HPP Dropkick SPV LLC ("Dropkick") was formed on January 22, 2021, as a wholly owned subsidiary of PEP Asset Management Ultimate GP LLC (the "Parent").

PEP PEOF Dropkick SPV LLC ("Dropkick II") was formed on April 8, 2021, as a wholly owned subsidiary of the Parent.

HPP Acorn SPV LLC ("Acorn") was formed on August 27, 2021, as a wholly owned subsidiary of the Parent.

PEP HPP Jubilee SPV LLC ("Jubilee") was formed on October 21, 2021, as a wholly owned subsidiary of the Parent.

The combined historical financial statements of Dropkick, Acorn, Jubilee and Dropkick II along with the respective allocations of general and administrative expenses from the Parent are hereafter collectively referred to as the "PEP Subject Companies." The PEP Subject Companies invests in non-operated working interests in oil and gas properties primarily located in the Midland and Delaware Basins, in Texas, United States ("U.S.").

The PEP Subject Companies uses the earliest formation date as the commencement date for purposes of the combined financial statements, which is January 22, 2021 ("Commencement").

Basis of Presentation of Combined Financial Statements

These combined financial statements have been prepared on a combined basis and derived from the historical results of operations, assets and liabilities the PEP Subject Companies along with allocations of general and administrative expenses from the Parent to each of these entities. For more details on these allocated general and administrative expenses, please see "— Note 9. Transactions with Affiliates." The combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The historical costs and expenses reflected in the combined financial statements of the PEP Subject Companies include an allocation for certain corporate and shared service functions historically provided by Parent, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology, and other shared services. These expenses have been allocated to PEP Subject Companies pro-rata on the cost basis of each investment by the Parent, which is considered to be a reasonable reflection of the historical utilization levels of these services. The PEP Subject Companies believe the assumptions underlying its combined financial statements, including the assumptions regarding the allocation of general corporate expenses from the Parent, are reasonable.

All significant intercompany accounts and transactions between the entities included in the PEP Subject Companies have been eliminated in the accompanying combined financial statements.

Use of Estimates

The preparation of the combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ significantly from these estimates, and changes in these estimates are recorded when known. Significant items subject to such estimates and assumptions include proved oil and natural gas reserves and derivative financial instruments.

Cash and Cash Equivalents

The PEP Subject Companies considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The PEP Subject Companies maintains deposits which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”).

On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. If one or more of the financial institution with whom the PEP Subject Companies conduct business were to be placed into receivership, it may be unable to access the cash it has on deposit with such institution. If the PEP Subject Companies is unable to access its cash and cash equivalents as needed, its financial position and ability to operate its business could be adversely affected.

Accounts Receivable

The PEP Subject Companies have accounts receivable representing amounts due from the operators of the oil and gas properties it invests in and these amounts are generally unsecured. The PEP Subject Companies determines its allowance for each type of receivable based on the length of time the receivable is past due, its previous loss history, and the customer’s current ability to pay its obligation. The PEP Subject Companies also bases its allowance for each type of receivable on its respective credit risks. The PEP Subject Companies writes off specific receivables when they become uncollectible. Once an allowance is recorded, any subsequent payments received on such receivables are credited to the allowance for credit losses. To date, the PEP Subject Companies has not experienced any pattern of credit losses and therefore has no allowance as of December 31, 2022 and 2021. The PEP Subject Companies will continually monitor the creditworthiness of its counterparties by reviewing credit ratings, financial statements, and payment history, as appropriate.

Due From/Due To Affiliate

Amounts due to/due from affiliate are for various transactions with the Parent of the PEP Subject Companies. Please see “— Note 9. Transactions with Affiliates” for more information.

Fair Value Measurements

Certain assets and liabilities of the PEP Subject Companies are measured at fair value at each reporting date. Fair value represents the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants. This price is commonly referred to as the “exit price.” Fair value measurements are classified according to a hierarchy that prioritizes the inputs underlying the valuation techniques and requires that assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement. This hierarchy consists of three broad levels:

- Level 1 – Observable inputs that are based upon quoted market prices for identical assets and liabilities within active markets.
- Level 2 – Observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 – Inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Oil and Natural Gas Properties

The PEP Subject Companies use the full-cost method of accounting. Under this method of accounting, costs of both successful and unsuccessful exploration and development activities of the oil and gas properties are capitalized as property and equipment. This includes any internal costs that are directly related to exploration and development activities, but does not include any costs related to production, general corporate overhead, or similar activities. Proceeds from the sale or disposition of oil and natural gas properties are accounted for as a reduction to capitalized costs unless a significant portion of the PEP Subject Companies reserve quantities are sold such that it results in a significant alteration of the relationship between capitalized costs and remaining proved reserves, in which case a gain or loss is generally recognized in income.

Oil and Natural Gas Reserves

Proved oil, NGLs and natural gas reserves utilized in the preparation of the combined financial statements are estimated in accordance with the rules established by the Securities and Exchange Commission (“SEC”) and the Financial Accounting Standards Board (“FASB”), which require that reserve estimates be prepared under existing economic and operating conditions using a 12-month average price with no provision for price and cost escalations in future years except by contractual arrangements.

Reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. It is possible that, because of changes in market conditions or the inherent imprecision of reserve estimates, the estimates of future cash inflows, future gross revenues, the amount of oil and natural gas reserves, the remaining estimated lives of oil and natural gas properties, or any combination of the above may be increased or reduced. Increases in recoverable economic volumes generally reduce per unit depletion rates while decreases in recoverable economic volumes generally increase per unit depletion rates.

Impairment of Oil and Natural Gas Properties

The PEP Subject Companies perform a full-cost ceiling test on an annual basis. The test establishes a limit, or ceiling, on the book value of oil and natural gas properties. The capitalized costs of proved oil and natural gas properties, net of accumulated depreciation, depletion and amortization (“DD&A”) and the related deferred income taxes, may not exceed this ceiling. The ceiling limitation is equal to the sum of: (i) the present value of estimated future net revenues from the projected production of proved oil and natural gas reserves, excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet, calculated using the average oil and natural gas sales prices received by the PEP Subject Companies as of the first trading day of each month over the preceding twelve months (such prices are held constant throughout the life of the properties) and a discount factor of 10%; (ii) the cost of unproved and unevaluated properties excluded from the costs being amortized; (iii) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (iv) related income tax effects. If capitalized costs exceed this ceiling, the excess is charged to expense in the combined statements of operations.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of capitalized drilling and development costs of producing crude oil and natural gas properties, including related support equipment and facilities, are computed using the unit-of-production method (“UOP”). The UOP calculation multiplies the percentage of estimated proved reserves produced by the cost of those reserves. The result is to recognize expense at the same pace that the reserves are estimated to be depleting. The amortization base in the UOP calculation includes the sum of proved property costs net of accumulated depletion, estimated future development costs (future costs to access and develop proved reserves) and asset retirement costs that are not already included in oil and natural gas properties, less related salvage value. The rates utilized under UOP are based upon quantities of recoverable crude oil and natural gas reserves, which are established based on estimates made by the external independent reserve engineers.

Asset Retirement Obligations

The PEP Subject Companies recognize liabilities for retirement obligations associated with tangible long-lived assets, such as producing well sites when there is a legal obligation associated with the retirement of such assets and the amount can be reasonably estimated. The initial measurement of an asset retirement obligation is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property and equipment on the combined balance sheets. When the assumptions used to estimate a recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the asset retirement cost. The asset retirement cost is depreciated over the useful life of the associated asset. Accretion of the discount on asset retirement obligations is charged to expense.

Drilling Advances

The PEP Subject Companies participates in the drilling of crude oil and natural gas wells with other working interest partners. Due to the capital intensive nature of crude oil and natural gas drilling activities, the working interest partner responsible for conducting the drilling operations may request advance payments from other working interest partners for their share of the costs. The PEP Subject Companies expect such advances to be applied by working interest partners against joint interest billings for its share of drilling operations within 90 days from when the advance is paid.

Contributions From Parent, Net

Contributions from Parent, net, consists of the amounts contributed by the Parent for intercompany amounts due to or from the Parent which are forgiven and treated as contributions or distributions of capital and other general and administrative expenses allocated to the PEP Subject Companies. Financial transactions related to PEP Subject Companies are accounted for through the parent investment account. Transactions with the Parent are reflected in the accompanying combined statements of members' equity as "Contributions from parent, net" and in the accompanying combined balance sheets within "Members' equity."

Revenue Recognition

The PEP Subject Companies revenues are primarily derived from its interests in the sale of oil and natural gas production. The PEP Subject Companies recognizes revenue from its interests in the sales of crude oil and natural gas in the period that its performance obligations are satisfied. Performance obligations are satisfied when the customer obtains control of the product, when the PEP Subject Companies have no further obligations to perform related to the sale, when the transaction price has been determined and when collectability is probable. The sales of oil and natural gas are made under contracts which the third-party operators of the wells have negotiated with customers, which typically include variable consideration that is based on pricing tied to local indices and volumes delivered in the current month. The PEP Subject Companies receives payment from the sale of oil and natural gas production from one to three months after delivery. At the end of each month when the performance obligation is satisfied, the variable consideration can be reasonably estimated and amounts due from customers are accrued in accounts receivable, net in the combined balance sheets. Variances between the PEP Subject Companies estimated revenue and actual payments are recorded in the month the payment is received; however, differences have been and are insignificant.

The PEP Subject Companies do not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption, which applies to variable consideration that is recognized as control of the product is transferred to the customer. Since each unit of product represents a separate performance obligation, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

The PEP Subject Companies oil is typically sold at delivery points under contracts terms that are common in its industry. The PEP Subject Companies natural gas produced is delivered by the well operators to various purchasers at agreed upon delivery points under a limited number of contract types that are also common in our industry. Regardless of the contract type, the terms of these contracts compensate the well operators for the value of the oil and natural gas at specified prices, and then the well operators will remit payment to the PEP Subject Companies for its share in the value of the oil and natural gas sold.

Income Taxes

As limited liability companies, the PEP Subject Companies are not liable for federal income taxes. Income and losses of the PEP Subject Companies are reported in the income tax return of each member. Thus, all tax expense and liabilities arising from the operations of the PEP Subject Companies, with the exception of Texas margin tax, will be the responsibility of the members. The PEP Subject Companies uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted.

In the event the PEP Subject Companies incurs interest or penalties in connection with income taxes, such amounts are included in income tax expense on the combined statements of operations. There was no provision for incomes taxes for the year ended December 31, 2022 and 2021. The PEP Subject Companies did not incur interest or penalties in connection with income taxes during the years ended December 31, 2022 and 2021.

At December 31, 2022 and 2021, there are no uncertain tax positions that require disclosure in the financial statements.

Derivative Financial Instruments

The PEP Subject Companies uses derivative instruments to manage market risks resulting from fluctuations in the prices of crude oil and natural gas commodities. The PEP Subject Companies enters into derivative contracts which require payments to, or receipts from, counterparties based on the differential between a fixed price and a variable price for a fixed quantity of the applicable commodity without the exchange of underlying volumes. The notional amounts of these financial instruments are based on expected production from existing wells.

The PEP Subject Companies recognize derivative instruments as assets or liabilities in the combined balance sheets, measured at fair value and marked-to-market at the end of each period. Any realized gains and losses on settled derivatives, as well as mark-to-market gains or losses, are aggregated and recorded to loss on derivative instruments, net on the combined statements of operations.

Leases

Prior to January 1, 2022, the PEP Subject Companies applied ASC 840, *Leases* to all agreements considered to be a lease. On January 1, 2022, the PEP Subject Companies adopted Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842) and all subsequent amendments to the ASU (collectively, "ASC 842"), which requires the assets and liabilities that arise from leases to be recognized on the balance sheet. ASC 842 requires the lessee to recognize a lease liability equal to the present value of the lease payments and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term for all leases longer than 12 months.

The PEP Subject Companies has adopted the following practical expedients in ASC 842-10-65-1(f) that, upon adoption of ASC 842, allowed entities to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption, and (3) not reassess initial direct costs for any existing lease. As the PEP Subject Companies only invest in non-operated working interests in oil and gas properties, adoption of the standard did not impact any of the combined financial statements.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Liabilities for environmental remediation or restoration claims resulting from allegations of improper operation of assets are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

Segments

The crude oil and natural gas and production activities of the PEP Subject Companies are solely focused in the U.S. The PEP Subject Companies aggregates its U.S. operating segments into one reporting segment, exploration and development, due to the similarity of these operations.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 requires that a financial asset measured at amortized cost be presented at the net amount expected to be collected. ASU 2016-13 is intended to provide more timely decision-useful information about the expected credit losses on financial instruments. In November 2019, the FASB ASU 2019-19, “Codification Improvements to Topic 326: Financial Instruments – Credit Losses”, which makes amendments to clarify the scope of the guidance, including clarification that receivables arising from operating leases are not within its scope. ASU 2016-13 is effective for annual periods beginning after December 15, 2022. The PEP Subject Companies do not believe ASU 2016-13 will have a material impact on its combined financial statements.

Note 2. Oil and Natural Gas Properties

Capitalized Costs

The following table reflects the aggregate capitalized costs of the PEP Subject Companies:

	December 31, 2022	December 31, 2021
	(in thousands)	
Oil and natural gas properties:		
Proved properties	$ 135,345	$ 113,437
Total oil and natural gas properties	135,345	113,437
Less: Accumulated depreciation, depletion and amortization	(17,519)	(2,760)
Oil and natural gas properties, net	$ 117,826	$ 110,677

There were no proved property impairments for the year ended December 31, 2022 and for the period from commencement through December 31, 2021. Depletion expenses were $14.8 million and $2.8 million for the year ended December 31, 2022 and for the period from commencement through December 31, 2021, respectively.

Driftwood Acquisition

On April 8, 2021, the PEP Subject Companies completed the acquisition of certain non-operated producing and leasehold interests from Driftwood Energy Operating LLC (“Driftwood Acquisition”) located in the Midland Basin, in Upton County, Texas, for cash consideration of approximately $4.7 million, net of closing and post-closing adjustments. The Driftwood Acquisition was accounted for as an asset acquisition. As a result, the cash consideration was allocated to the underlying assets acquired on a relative fair value basis.

MHP Acquisition

On September 30, 2021, the PEP Subject Companies entered into a purchase and sale agreement with Moriah Henry Partners, LLC ("MHP Acquisition") to acquire certain non-operated working interests in oil and natural gas properties in Midland and Upton Counties, Texas, for a total cash consideration of $46.7 million, net of closing and post-closing adjustments. The MHP Acquisition was accounted for as an asset acquisition. As a result, the cash consideration was allocated to the underlying assets acquired on a relative fair value basis.

Determining the fair value of the assets and liabilities acquired requires judgment and certain assumptions to be made, the most significant of these being related to the valuation of the oil and natural gas properties. Significant judgments and assumptions included, among other things, estimates of reserve quantities, estimates of future commodity prices, expected development costs, lease operating costs, reserve risk adjustment factors and an estimate of an applicable market participant discount rate that reflected the risk of the underlying cash flow estimates. The inputs and assumptions related to the oil and natural gas properties were categorized as level 3 in the fair value hierarchy.

The following table represents the allocation of the total acquisition costs to the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Relative fair value of net assets:		
Proved oil and natural gas properties	$	47,024
Total assets acquired	$	47,024
Fair value of liabilities assumed:		
ARO liability acquired		340
Total liabilities assumed	$	340
Net assets acquired	$	46,684

Centennial Acquisition

On December 1, 2021, the PEP Subject Companies entered into a purchase and sale agreement with Centennial Resource Production, LLC and Atlantic Exploration, LLC ("Centennial Acquisition") to acquire certain non-operated working interests in oil and natural gas properties in Midland and Upton Counties, Texas, for a total cash consideration of $40.9 million, net of closing and post-closing adjustments. The Centennial Acquisition was accounted for as an asset acquisition. As a result, the cash consideration was allocated to the underlying assets acquired on a relative fair value basis.

Determining the fair value of the assets and liabilities acquired requires judgment and certain assumptions to be made, the most significant of these being related to the valuation of the oil and natural gas properties. Significant judgments and assumptions included, among other things, estimates of reserve quantities, estimates of future commodity prices, expected development costs, lease operating costs, reserve risk adjustment factors and an estimate of an applicable market participant discount rate that reflected the risk of the underlying cash flow estimates. The inputs and assumptions related to the oil and natural gas properties were categorized as level 3 in the fair value hierarchy.

The following table represents the allocation of the total acquisition costs to the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Relative fair value of net assets:	
Proved oil and natural gas properties	$ 41,141
Total assets acquired	$ 41,141
Fair value of liabilities assumed:	
ARO liability acquired	191
Total liabilities assumed	$ 191
Net assets acquired	$ 40,950

Note 3. Revenue

Disaggregation of Revenue

The PEP Subject Companies disaggregated revenue has two primary sources: crude oil sales and natural gas and NGL sales. The following table presents the disaggregation of crude oil and natural gas and NGL revenue (in thousands):

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Crude oil revenue	$ 67,413	$ 9,341
Natural gas and NGL revenues	15,625	2,344
Total crude oil, natural gas and NGL sales, net	$ 83,038	$ 11,685

Receivable Balances

At January 1, 2022, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was $4.2 million.

Note 4. Asset Retirement Obligations

The following table presents changes in asset retirement obligations of the PEP Subject Companies:

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Asset retirement obligations at beginning of year	$ 624	$ —
Wells acquired/developed	43	612
Liabilities relinquished	(121)	—
Revision of estimated obligation	—	—
Accretion expense on discounted obligation	46	12
Asset retirement obligations at end of year	$ 592	$ 624

Note 5. Derivative Financial Instruments

Derivative Gains and Losses

Cash receipts and payments reflect the gains or losses on derivative contracts which matured during the applicable period, calculated as the difference between the contract price and the market settlement price of matured contracts. The derivative contracts of the PEP Subject Companies are settled based upon reported settlement prices on commodity exchanges, with crude oil derivative settlements based on the New York Mercantile Exchange ("NYMEX") West Texas Intermediate pricing and natural gas derivative settlements based primarily on NYMEX Henry Hub pricing. Non-cash gains and losses represent the change in fair value of derivative instruments which continued to be held at period end and the reversal of previously recognized non-cash gains or losses on derivative contracts that matured during the period.

The following table summarizes the commodity derivative activity of the PEP Subject Companies:

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Cash paid on derivatives	$ 13,320	$ 1,116
Non-cash loss on derivatives	6,570	2,018
Loss on derivatives, net	$ 19,890	$ 3,134

Financial Statement Presentation

All derivative financial instruments are recognized at their current fair value as either assets or liabilities in the combined balance sheets. The PEP Subject Companies determine the current and long-term classification based on the timing of expected future cash flows of individual trades. Amounts related to contracts allowed to be netted upon payment subject to a master netting arrangement with the same counterparty are reported on a net basis in the combined balance sheets. The tables below present a summary of these positions as of December 31, 2022 and 2021, respectively:

	December 31, 2022		
	Gross Fair Value	Amounts Netted	Net Fair Value
		(in thousands)	
Commodity derivative assets:			
Commodity derivative asset, current	$ 1,466	$ (1,466)	$ —
Commodity derivative asset, noncurrent	359	(359)	—
Total commodity derivative assets	$ 1,825	$ (1,825)	$ —
Commodity derivative liabilities:			
Commodity derivative liability, current	$ (5,692)	$ 1,466	$ (4,226)
Commodity derivative liability, noncurrent	(4,721)	359	(4,362)
Total commodity derivative liabilities	$ (10,413)	$ 1,825	$ (8,588)

	December 31, 2021					
	Gross Fair Value		Amounts Netted		Net Fair Value	
			(in thousands)			
Commodity derivative assets:						
Commodity derivative asset, current	$	524	$	(524)	$	—
Commodity derivative asset, noncurrent		576		(576)		—
Total commodity derivative assets	$	1,100	$	(1,100)	$	—
Commodity derivative liabilities:						
Commodity derivative liability, current	$	(1,560)	$	524	$	(1,036)
Commodity derivative liability, noncurrent		(1,558)		576		(982)
Total commodity derivative liabilities	$	(3,118)	$	1,100	$	(2,018)

The Company had the following outstanding commodity derivative instruments as of December 31, 2022:

	December 31, 2022					
	2023		2024		2025	
Crude oil NYMEX swaps						
Volume (Bbls)		435,607		315,443		268,354
Weighted average fixed price	$	67.85	$	64.21	$	67.90
Natural gas NYMEX swaps						
Volume (Mmbtus)		788,409		494,420		—
Weighted average fixed price	$	3.51	$	3.36		—
Propane Mont Belvieu swaps						
Volume (Gallons)		498,279		130,808		—
Weighted average fixed price	$	0.91	$	0.91		—
Crude oil Midland basis swaps						
Volume (Bbls)		443,142		315,443		268,354
Weighted average fixed price	$	(0.19)	$	(0.28)	$	(0.85)
Natural gas Waha basis swaps						
Volume (Mmbtus)		788,409		494,420		—
Weighted average fixed price	$	(0.61)	$	(0.56)		—

Note 6. Fair Value Measurements

The carrying values of cash, accounts receivable, other current assets, accounts payable and accrued expenses included in the accompanying combined balance sheets approximated fair value at December 31, 2022 and 2021 due to their short term nature.The following methods and assumptions were used to estimate the fair values of derivative financial instruments.

Level 2 Fair Value Measurements

Commodity derivatives – The fair value of commodity derivatives is estimated using observable market data and assumptions with adjustments based on widely accepted valuation techniques. A discounted cash flow analysis on the expected cash flows of each derivative reflects the contractual terms of the derivative, including period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities and credit risk.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain amounts of the PEP Subject Companies are reported at fair value on a nonrecurring basis in the consolidated financial statements. The following methods and assumptions were used to estimate the fair values of these amounts.

Asset retirement obligations – The fair value of asset retirement obligations is estimated using discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation, estimated plugging and abandonment costs, timing of remediation, the credit-adjusted risk-free rate and inflation rate. Significant unobservable inputs (level 3) utilized in the determination of asset retirement obligations include estimated plugging and abandonment costs of approximately $0.1 million per well, the timing of remediation, which is estimated based on the aggregate average useful life, and the credit adjusted risk free rate, which was estimated at approximately 9.0% at December 31, 2022.

Acquisition date fair value – The assets and liabilities of acquisitions are recorded at their respective fair values as of the date of closing and added to those of the PEP Subject Companies. Determining the fair value of the assets acquired and liabilities assumed requires judgment and certain assumptions to be made. These inputs and assumptions related to the oil and natural gas properties were categorized as level 3 in the fair value hierarchy. Please see "—Note 2. Oil and Natural Gas Properties" for further information regarding acquisition activity and significant assumptions and judgements made regarding the estimated acquisition date fair values.

Note 7. Supplemental Disclosures to Combined Financial Statements

Accounts payable and accrued liabilities consisted of the following at the dates indicated:

	December 31, 2022	December 31, 2021
	(in thousands)	
Accrued oil and natural gas capital expenditures	$ 0	$ 2,953
Accrued lease operating expenses	1,278	774
Severance and ad valorem taxes	257	219
Accrued interest	7	140
Accrued general and administrative	76	70
Accounts payable and accrued liabilities	$ 1,618	$ 4,156

Accounts Receivable

Components of accounts receivable include the following:

	December 31, 2022	December 31, 2021
	(in thousands)	
Crude oil, natural gas and NGL Sales	$ 4,968	$ 4,234
Gross accounts receivable	4,968	4,234
Allowance for doubtful accounts	—	—
Accounts receivable, net	$ 4,968	$ 4,234

Supplemental Cash Flows

The following table provides certain supplemental cash flow information for the periods indicated:

	For the Year Ended December 31, 2022	For the Period from January 22, 2021 (Commencement) through December 31, 2021
	(in thousands)	
Supplemental disclosure of cash flow information:		
Interest paid	$ 485	$ 615
Supplemental Disclosure of Non-Cash Information:		
Additions to oil and natural gas properties included in accounts payable and accrued liabilities	$ —	$ 2,953
Revisions and additions to asset retirement obligations, net	$ 43	$ 612

Note 8. Commitments and Contingencies

Environmental Remediation

Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the operations and the cost of crude oil and natural gas exploration, development, and production operations of the PEP Subject Companies. The PEP Subject Companies does not anticipate that it will be required in the near future to expend significant amounts for compliance with such federal, state and local laws and regulations and therefore no amounts have been accrued for such purposes.

Litigation

The PEP Subject Companies are involved in various legal proceedings including, but not limited to, commercial disputes, claims from royalty and surface owners, property damage claims, personal injury claims, regulatory compliance matters, disputes with tax authorities and other matters. While the outcome of these legal matters cannot be predicted with certainty, the PEP Subject Companies does not expect them to have a material effect on its financial condition, results of operations or cash flows.

Note 9. Transactions with Affiliates

Certain costs for corporate and shared service functions incurred by the Parent that are directly linked to the operations of the PEP Subject Companies have been allocated to these combined financial statements. For the year ended December 31, 2022 and for the period from Commencement through December 31, 2021, the PEP Subject Companies incurred general and administrative expenses allocated from the Parent for certain operational and administrative functions of $5.1 million and $2.7 million, respectively. These expenses are included within "general and administrative" on the combined statements of operations.

The Parent of the PEP Subject Companies has two credit facilities, the proceeds of which are utilized by the PEP Subject Companies to fund its operations, its drilling and exploration activities and its acquisition activities. The amounts incurred by the Parent on behalf of the PEP Subject Companies which remain outstanding and payable to the Parent was $50.8 million at December 31, 2021. There were no amounts outstanding and payable to the Parent at December 31, 2022. These amounts due to the Parent are shown on the combined balance sheets as "due to affiliate, short-term" and "due to affiliate, long-term." In addition, the Parent incurs interest expenses associated with these credit facilities. The interest expense incurred by the Parent on behalf of the PEP Subject Companies has been included within the combined statements of operations within "interest expense, net" and totaled $0.5 million and

$0.8 million for the year ended December 31, 2022 and the period from Commencement through December 31, 2021, respectively.

Certain entities included in the PEP Subject Companies have a centralized cash management with the Parent. Cash amounts associated with the PEP Subject Companies held by the Parent are shown as "due from affiliate" on the combined balance sheets. Amounts due from affiliate were $4.2 million and $2.5 million at December 31, 2022 and 2021, respectively.

Note 10. Concentrations of Credit Risk

Currently, the PEP Subject Companies operate exclusively within the United States and its revenues and operating profit are derived from the oil and gas industry. As a non-operator, 100% of the PEP Subject Company's wells are operated by third-party operating partners. As such, PEP Subject Companies are highly dependent on the success of these third-party operators. If the third-party operators are not successful in activities relating to the PEP Subject Companies leasehold interests, the PEP Subject Company's financial condition could be adversely affected.

For the periods ending December 31, 2022 and 2021, one operator made up 98% and 99% of the total operating revenues, respectively. The operator also made up 100% of the total oil and natural gas accounts receivable in the periods.

Note 11. Subsequent Events

In preparing the accompanying combined financial statements of the PEP Subject Companies, management has evaluated all subsequent events and transactions for potential recognition or disclosure through December 22, 2023, the date the combined financial statements of PEP Subject Companies were available for issuance and concluded that no such material events have occurred.

Note 12. Supplemental Oil and Natural Gas Information (Unaudited)

Estimated Quantities of Proved Oil and Natural Gas Reserves

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

As of December 31, 2022 and 2021, all the Company's oil and natural gas reserves are attributable to properties within the U.S.

A summary of the PEP Subject Companies change in quantities of proved crude oil and natural gas for the year ended December 31, 2022 and for the period from Commencement through December 31, 2021 are as follows:

	Crude Oil (Bbls)	Natural Gas (Mcf)	NGLs (Bbls)	Total (Boe)
Proved reserves at commencement	—	—	—	—
Revisions	—	—	—	—
Extensions	925,409	3,963,092	—	1,585,924
Acquisition of reserves	4,703,888	16,661,303	—	7,480,772
Divestiture of reserves	—	—	—	—
Production	(125,924)	(347,021)	—	(183,761)
Proved reserves at December 31, 2021	5,503,373	20,277,374	—	8,882,935
Proved developed reserves				
Beginning of year	—	—	—	—
End of year	4,668,465	16,900,011	—	7,485,134
Proved undeveloped reserves				
Beginning of year	—	—	—	—
End of year	834,906	3,377,361	—	1,397,800

	Crude Oil (Bbls)	Natural Gas (Mcf)	NGLs (Bbls)	Total (Boe)
Proved reserves at December 31, 2021	5,503,373	20,277,374	—	8,882,935
Revisions	284,467	1,409,516	—	519,386
Extensions	1,191,928	6,151,351	—	2,217,153
Acquisition of reserves	139,220	384,753	—	203,346
Divestiture of reserves	—	—	—	—
Production	(698,280)	(2,069,086)	—	(1,043,128)
Proved reserves at December 31, 2022	6,420,708	26,153,908	—	10,779,692
Proved developed reserves				
Beginning of year	4,668,465	16,900,011	—	7,485,134
End of year	5,458,135	22,485,118	—	9,205,655
Proved undeveloped reserves				
Beginning of year	834,906	3,377,361	—	1,397,800
End of year	962,572	3,668,794	—	1,574,038

Revisions represent changes in previous reserves estimates, either upward or downward, resulting from new information normally obtained from development drilling and production history or resulting from a change in economic factors, such as commodity prices, operating costs or development costs.

During the year ended December 31, 2022, the PEP Subject Companies had extensions of 2,217,153 Boe resulting from adding 6 new PUD locations for a total of 1,167,333 Boe and 6 new PDP locations for a total of 1,049,820 Boe.

During the period from Commencement through December 31, 2021, the PEP Subject Companies extensions of 1,585,924 Boe resulted primarily from adding 5 new PUD locations for a total of 1,397,799 BOE. Additionally, the PEP Subject Companies had acquisitions of 7,480,772 Boe from the Driftwood Acquisition, the MHP Acquisition and the Centennial Acquisition.

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows does not purport to be, nor should it be interpreted to present, the fair value of the oil and natural gas reserves of the property. An estimate of fair value would take into account, among other things, the recovery of reserves not presently classified as proved, the value of proved properties and consideration of expected future economic and operating conditions.

Proved reserves were estimated in accordance with guidelines established by the SEC, which require that reserve estimates be prepared under existing economic and operating conditions based upon the 12-month unweighted average of the first day of the month spot prices prior to the end of the reporting period. These prices as of December 31, 2022 were $93.67 per barrel of oil and $6.36 per MMBtu of natural gas. The estimated realized prices used in computing the PEP Subject Companies reserves as of December 31, 2022 were as follows: (i) $92.73 per barrel of oil, and (ii) $8.02 per Mcf of natural gas.

All realized prices are held flat over the forecast period for all reserve categories in calculating the discounted future net cash flows. Any effect from PEP Subject Company's commodity hedges is excluded. In accordance with SEC regulations, the proved reserves were anticipated to be economically producible from the "as of date" forward based on existing economic conditions, including prices and costs at which economic producibility from a reservoir was determined. These costs, held flat over the forecast period, include development costs, operating costs, ad valorem and production taxes and abandonment costs after salvage. Future income tax expenses would have been computed using the appropriate year-end statutory tax rates applied to the future pretax net cash flows from proved oil and natural gas reserves, less the tax basis of the oil and natural gas properties of PEP Subject Companies. The estimated future net cash flows are then discounted at a rate of 10.0%.

The standardized measure of discounted future net cash flows relating to proved reserves is presented in the table below:

	As of December 31, 2022	As of December 31, 2021
	(in thousands)	
Future cash inflows	$ 805,213	$ 450,404
Future production costs	(302,756)	(168,172)
Future development costs	(31,994)	(18,439)
Future income tax expense (1)	(4,227)	(2,365)
Future net cash flows	466,236	261,428
10% annual discount for estimated timing of cash flows	(209,159)	(116,543)
Standardized measure of discounted future net cash flows	$ 257,077	$ 144,885

(1) – The PEP Subject Companies is not a taxpaying entity for Federal income tax purposes due to its LLC corporate structure.

The changes in standardized measure of future net cash flows related to estimated proved oil and natural gas reserves for the year ended December 31, 2022 and for the period from Commencement through December 31, 2021 is as follows:

	December 31, 2022	December 31, 2021
	(in thousands)	
Balance, beginning of period	$ 144,885	$ —
Net change in prices and production costs	81,523	—
Net change in future development costs	(948)	—
Oil & natural gas net revenue	(60,281)	(8,132)
Extensions	48,779	19,735
Acquisition of reserves	4,760	134,427
Revisions of previous quantity estimates	20,409	—
Previously estimated development costs incurred	5,320	—
Net change in taxes	(839)	(1,250)
Accretion of discount	14,614	—
Changes in timing and other	(1,145)	105
Standardized measure of discounted future net cash flows	$ 257,077	$ 144,885

PEP SUBJECT COMPANIES

Condensed Combined Unaudited Interim Financial Statements
September 30, 2023 and 2022

PEP SUBJECT COMPANIES

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PEP SUBJECT COMPANIES

Condensed Combined Unaudited Balance Sheets

	As of September 30, 2023	As of December 31, 2022
	(in thousands)	
Assets		
Current assets:		
Cash	$ 3,511	$ 6,132
Due from affiliate	1,858	4,225
Accounts receivable, net	4,402	4,968
Drilling advances	—	53
Total current assets	9,771	15,378
Oil and natural gas property and equipment, based on full-cost method of accounting, net	117,673	117,826
Total assets	$ 127,444	$ 133,204
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,060	$ 1,618
Derivative financial instruments	6,671	4,226
Total current liabilities	7,731	5,844
Due to affiliate, long-term	3,674	—
Derivative financial instruments	3,458	4,362
Asset retirement obligations	591	592
Total liabilities	15,454	10,798
Members' equity	111,990	122,406
Total liabilities and members' equity	$ 127,444	$ 133,204

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

PEP SUBJECT COMPANIES

Condensed Combined Unaudited Statements of Operations

	Nine Months Ended September 30,	
	2023	**2022**
	(in thousands)	
Revenues:		
Crude oil, natural gas, and NGL sales, net	$ 33,760	$ 66,415
Loss on derivatives, net	(3,822)	(14,720)
Total revenues, net	29,938	51,695
Operating expenses:		
Lease operating and workover	14,813	13,345
Severance taxes	1,693	3,436
Depletion, depreciation, and amortization	8,836	12,349
Accretion	34	35
General and administrative	2,481	4,345
Total operating expenses	27,857	33,510
Operating income	2,081	18,185
Other expense:		
Interest expense	192	465
Total other expense	192	465
Net income	$ 1,889	$ 17,720

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

PEP SUBJECT COMPANIES

Condensed Combined Unaudited Statements of Changes in Members' Equity

	Members' Equity
	(in thousands)
Balance – January 1, 2022	$ 64,176
Contributions from parent, net	40,761
Net income	17,720
Balance – September 30, 2022	$ 122,657

	Members' Equity
	(in thousands)
Balance – January 1, 2023	$ 122,406
Distributions to parent, net	(12,305)
Net income	1,889
Balance – September 30, 2023	$ 111,990

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

PEP SUBJECT COMPANIES

Condensed Combined Unaudited Statements of Cash Flows

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 1,889	$ 17,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, and amortization	8,836	12,349
Accretion	34	35
Loss on derivatives, net	3,822	14,720
Cash settlements on commodity derivatives	(2,281)	(11,651)
Changes in operating assets and liabilities:		
Accounts receivable and due from affiliate	2,933	(4,153)
Drilling advances	53	4,044
Accounts payable and accrued liabilities	(598)	(2,328)
Net cash provided by operating activities	14,688	30,736
Cash flows from investing activities:		
Additions to oil and natural gas properties	(8,678)	(18,418)
Acquisition of oil and natural gas properties	—	(3,308)
Net cash used in investing activities	(8,678)	(21,726)
Cash flows from financing activities:		
(Distributions) contributions (to) from parent, net	(12,305)	40,761
Proceeds from affiliate debt	5,487	12,238
Payments on affiliate debt	(1,813)	(60,517)
Net cash used in financing activities	(8,631)	(7,518)
Net increase in cash and cash equivalents	(2,621)	1,492
Cash and cash equivalents - Beginning of period	6,132	240
Cash and cash equivalents- End of period	$ 3,511	$ 1,732

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

Note 1. Organization

Description of the Company

PEP HPP Dropkick SPV LLC (“Dropkick”) was formed on January 22, 2021, as a wholly owned subsidiary of PEP Asset Management Ultimate GP LLC (the “Parent”).

PEP PEOF Dropkick SPV LLC (“Dropkick II”) was formed on April 8, 2021, as a wholly owned subsidiary of the Parent.

HPP Acorn SPV LLC (“Acorn”) was formed on August 27, 2021, as a wholly owned subsidiary of the Parent.

PEP HPP Jubilee SPV LLC (“Jubilee”) was formed on October 21, 2021, as a wholly owned subsidiary of the Parent.

The combined historical financial statements of Dropkick, Acorn, Jubilee and Dropkick II along with the respective allocations of general and administrative expenses from the Parent are hereafter collectively referred to as the “PEP Subject Companies.” The PEP Subject Companies invests in non-operated working interests in oil and gas properties primarily located in the Midland and Delaware Basins, in Texas, United States (“U.S.”).

Basis of Presentation of Condensed Combined Unaudited Interim Financial Statements

These condensed combined unaudited interim financial statements have been prepared on a combined basis and derived from the historical results of operations, assets and liabilities the PEP Subject Companies along with allocations of general and administrative expenses from the Parent to each of these entities. For more details on these allocated general and administrative expenses, please see “— Note 9. Transactions with Affiliates.” The condensed combined unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The historical costs and expenses reflected in the condensed combined unaudited interim financial statements of the PEP Subject Companies include an allocation for certain corporate and shared service functions historically provided by Parent, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology, and other shared services. These expenses have been allocated to PEP Subject Companies pro-rata on the cost basis of each investment by the Parent, which is considered to be a reasonable reflection of the historical utilization levels of these services. The PEP Subject Companies believe the assumptions underlying its condensed combined unaudited interim financial statements, including the assumptions regarding the allocation of general corporate expenses from the Parent, are reasonable.

All significant intercompany accounts and transactions between the entities included in the PEP Subject Companies have been eliminated in the accompanying condensed combined unaudited interim financial statements.

Use of Estimates

The preparation of the condensed combined unaudited interim financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ significantly from these estimates, and changes in these estimates are recorded when known. Significant items subject to such estimates and assumptions include proved oil and natural gas reserves and derivative financial instruments.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”* (“ASU 2016-13”). ASU 2016-13 requires that a financial asset measured at amortized cost be presented at the net amount expected to be collected. ASU 2016-13 is intended to provide more timely decision-useful information about the expected credit losses on financial instruments. In November 2019, the FASB ASU 2019-19, “*Codification Improvements to Topic 326: Financial Instruments – Credit Losses*”, which makes amendments to clarify the scope of the guidance, including clarification that receivables arising from operating leases are not within its scope. The amended guidance was effective for PEP Subject Companies on January 1, 2023.

PEP Subject Companies determine its allowance for each type of receivable based on the length of time the receivable is past due, its previous loss history, and customers current ability to pay its obligation. PEP Subject Companies also bases its allowance for each type of receivable on its respective credit risks. PEP Subject Companies write off specific receivables if they become uncollectible. Once an allowance is recorded, any subsequent payments received on such receivables are credited to the allowance for credit losses. To date, PEP Subject Companies have an immaterial pattern of credit losses and therefore have no allowance as of September 30, 2023, or December 31, 2022. PEP Subject Companies will continually monitor the creditworthiness of its counterparties by reviewing credit ratings, financial statements, and payment history. The adoption of ASU 2016-13 did not result in a material impact to the financial position, cash flows, or results of operations of PEP Subject Companies.

Note 2. Oil and Natural Gas Properties

Capitalized Costs

The following table reflects the aggregate capitalized costs of the PEP Subject Companies:

	September 30, 2023	December 31, 2022
	(in thousands)	
Oil and natural gas properties:		
Proved properties	$ 144,028	$ 135,345
Total oil and natural gas properties	144,028	135,345
Less: Accumulated depreciation, depletion and amortization	(26,355)	(17,519)
Oil and natural gas property and equipment, based on full-cost method of accounting, net	$ 117,673	$ 117,826

There were no proved property impairments for the nine months ended September 30, 2023 and 2022. Depletion expenses were $8.8 million and $12.3 million for the nine months ended September 30, 2023 and 2022, respectively.

Note 3. Revenue

Disaggregation of Revenue

The PEP Subject Companies disaggregated revenue has two primary sources: crude oil sales and natural gas and Natural Gas Liquids (“NGL”) sales. The following table presents the disaggregation of crude oil and natural gas and NGL revenue (in thousands):

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Crude oil revenue	$ 28,856	$ 53,777
Natural gas and NGL revenues	4,904	12,638
Total crude oil, natural gas and NGL sales, net	$ 33,760	$ 66,415

Receivable Balances

At January 1, 2023 and 2022, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was $5.0 million and $4.2 million, respectively.

Note 4. Asset Retirement Obligations

The following table presents changes in asset retirement obligations of the PEP Subject Companies:

	For the Nine Months Ended September 30, 2023	For the Year Ended December 31, 2022
	(in thousands)	
Asset retirement obligations at beginning of year	$ 592	$ 624
Wells acquired/developed	—	43
Liabilities relinquished	(35)	(121)
Accretion expense on discounted obligation	34	46
Asset retirement obligations at end of period	$ 591	$ 592

Note 5. Derivative Financial Instruments

Derivative Gains and Losses

Cash receipts and payments reflect the gains or losses on derivative contracts which matured during the applicable period, calculated as the difference between the contract price and the market settlement price of matured contracts. The derivative contracts of the PEP Subject Companies are settled based upon reported settlement prices on commodity exchanges, with crude oil derivative settlements based on the New York Mercantile Exchange ("NYMEX") West Texas Intermediate pricing and natural gas derivative settlements based primarily on NYMEX Henry Hub pricing. Non-cash gains and losses represent the change in fair value of derivative instruments which continued to be held at period end and the reversal of previously recognized non-cash gains or losses on derivative contracts that matured during the period.

The following table summarizes the commodity derivative activity of the PEP Subject Companies:

	For the Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Cash paid on derivatives	$ (2,281)	$ (11,651)
Non-cash loss on derivatives	(1,541)	(3,069)
Loss on derivatives, net	$ (3,822)	$ (14,720)

Financial Statement Presentation

All derivative financial instruments are recognized at their current fair value as either assets or liabilities in the condensed combined unaudited balance sheets. The PEP Subject Companies determine the current and long-term classification based on the timing of expected future cash flows of individual trades. Amounts related to contracts allowed to be netted upon payment subject to a master netting arrangement with the same counterparty are reported on a net basis in the condensed combined unaudited balance sheets. The tables below present a summary of these positions as of September 30, 2023 and December 31, 2022, respectively:

	September 30, 2023		
	Gross Fair Value	Amounts Netted	Net Fair Value
	(in thousands)		
Commodity derivative assets:			
Commodity derivative asset, current	$ 410	$ (410)	$ —
Commodity derivative asset, noncurrent	24	(24)	—
Total commodity derivative assets	$ 434	$ (434)	$ —
Commodity derivative liabilities:			
Commodity derivative liability, current	$ (7,081)	$ 410	$ (6,671)
Commodity derivative liability, noncurrent	(3,482)	24	(3,458)
Total commodity derivative liabilities	$ (10,563)	$ 434	$ (10,129)

	December 31, 2022		
	Gross Fair Value	Amounts Netted	Net Fair Value
	(in thousands)		
Commodity derivative assets:			
Commodity derivative asset, current	$ 1,466	$ (1,466)	$ —
Commodity derivative asset, noncurrent	359	(359)	—
Total commodity derivative assets	$ 1,825	$ (1,825)	$ —
Commodity derivative liabilities:			
Commodity derivative liability, current	$ (5,692)	$ 1,466	$ (4,226)
Commodity derivative liability, noncurrent	(4,721)	359	(4,362)
Total commodity derivative liabilities	$ (10,413)	$ 1,825	$ (8,588)

The Company had the following outstanding commodity derivative instruments as of September 30, 2023:

	September 30, 2023		
	2023	2024	2025
Crude oil NYMEX swaps			
Volume (Bbls)	133,576	315,443	268,354
Weighted average fixed price	$ 67.30	$ 64.21	$ 67.90
Natural gas NYMEX swaps			
Volume (Mmbtus)	177,398	494,420	—
Weighted average fixed price	$ 3.51	$ 3.36	—
Propane Mont Belvieu swaps			
Volume (Gallons)	144,082	130,808	—
Weighted average fixed price	$ 0.91	$ 0.91	—
Crude oil Midland basis swaps			
Volume (Bbls)	101,465	315,443	268,354
Weighted average fixed price	$ (0.22)	$ (0.28)	$ (0.85)
Natural gas Waha basis swaps			
Volume (Mmbtus)	177,398	494,420	—
Weighted average fixed price	$ (0.61)	$ (0.56)	—

Note 6. Fair Value Measurements

The carrying values of cash, accounts receivable, other current assets, accounts payable and accrued expenses included in the accompanying condensed combined unaudited balance sheets approximated fair value at September 30, 2023 and December 31, 2022, due to their short term nature. The following methods and assumptions were used to estimate the fair values of derivative financial instruments.

Level 2 Fair Value Measurements

Commodity derivatives – The fair value of commodity derivatives is estimated using observable market data and assumptions with adjustments based on widely accepted valuation techniques. A discounted cash flow analysis on the expected cash flows of each derivative reflects the contractual terms of the derivative, including period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities and credit risk.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain amounts of the PEP Subject Companies are reported at fair value on a nonrecurring basis in the condensed combined unaudited interim financial statements. The following methods and assumptions were used to estimate the fair values of these amounts.

Asset retirement obligations – The fair value of asset retirement obligations is estimated using discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation, estimated plugging and abandonment costs, timing of remediation, the credit-adjusted risk-free rate and inflation rate. Significant unobservable inputs (level 3) utilized in the determination of asset retirement obligations include estimated plugging and abandonment costs of approximately $0.1 million per well, the timing of remediation, which is estimated based on the aggregate average useful life, and the credit adjusted risk free rate, which was estimated at approximately 9.0% at September 30, 2023.

Note 7. Supplemental Disclosures to Condensed Combined Unaudited Interim Financial Statements

Accounts payable and accrued liabilities consisted of the following at the dates indicated:

	September 30, 2023	December 31, 2022
	(in thousands)	
Accrued oil and natural gas capital expenditures	$ 40	—
Accrued lease operating expenses	748	1,278
Severance and ad valorem taxes	224	257
Accrued interest	27	7
Accrued general and administrative	21	76
Accounts payable and accrued liabilities	$ 1,060	$ 1,618

Accounts Receivable

Components of accounts receivable include the following:

	September 30, 2023	December 31, 2022
	(in thousands)	
Crude oil, natural gas and NGL Sales	$ 4,402	$ 4,968
Gross accounts receivable	4,402	4,968
Allowance for credit losses	—	—
Accounts receivable, net	$ 4,402	$ 4,968

Supplemental Cash Flows

The following table provides certain supplemental cash flow information for the periods indicated:

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Supplemental disclosure of cash flow information:		
Interest paid	$ 165	$ 465
Supplemental Disclosure of Non-Cash Information:		
Additions to oil and natural gas properties included in accounts payable and accrued liabilities	$ 40	$ 72

Note 8. Commitments and Contingencies

Environmental Remediation

Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the operations and the cost of crude oil and natural gas exploration, development, and production operations of the PEP Subject Companies. The PEP Subject Companies does not anticipate that it will be required in the near future to expend significant amounts for compliance with such federal, state and local laws and regulations and therefore no amounts have been accrued for such purposes.

Litigation

The PEP Subject Companies are involved in various legal proceedings including, but not limited to, commercial disputes, claims from royalty and surface owners, property damage claims, personal injury claims, regulatory compliance matters, disputes with tax authorities and other matters. While the outcome of these legal matters cannot be predicted with certainty, the PEP Subject Companies does not expect them to have a material effect on its financial condition, results of operations or cash flows.

Note 9. Transactions with Affiliates

Certain costs for corporate and shared service functions incurred by the Parent that are directly linked to the operations of the PEP Subject Companies have been allocated to these condensed combined unaudited interim financial statements. For the nine months ended September 30, 2023 and 2022, the PEP Subject Companies incurred general and administrative expenses allocated from the Parent for certain operational and administrative functions of $2.5 million and $4.3 million, respectively. These expenses are included within “general and administrative” on the condensed combined unaudited statements of operations.

The Parent of the PEP Subject Companies had two credit facilities, the proceeds of which were utilized by the PEP Subject Companies to fund its operations, its drilling and exploration activities and its acquisition activities. As of September 30, 2023, there was an outstanding amount payable to the Parent of $3.7 million. There was no outstanding balance as of December 31, 2022. This amount due to the Parent are shown on the combined balance sheets as “due to affiliate, long-term.” In addition, the Parent incurs interest expenses associated with these credit facilities. The interest expense incurred by the Parent on behalf of the PEP Subject Companies has been included within the condensed combined unaudited statements of operations within “interest expense, net” and totaled $0.2 and $0.5 million for the nine months ended September 30, 2023 and 2022, respectively.

Certain entities included in the PEP Subject Companies have a centralized cash management with the Parent. Cash amounts associated with the PEP Subject Companies held by the Parent are shown as “due from affiliate” on the condensed combined unaudited balance sheets. Amounts due from affiliate were $1.9 million and $4.2 million at September 30, 2023 and December 31, 2022, respectively.

Note 10. Concentrations of Credit Risk

Currently, the PEP Subject Companies operate exclusively within the United States and its revenues and operating profit are derived from the oil and gas industry. As a non-operator, 100% of the PEP Subject Company’s wells are operated by third-party operating partners. As such, PEP Subject Companies are highly dependent on the success of these third-party operators. If the third-party operators are not successful in activities relating to the PEP Subject Companies leasehold interests, the PEP Subject Company’s financial condition could be adversely affected.

For the periods ending September 30, 2023 and 2022, one operator made up 98% of the total operating revenues. The operator also made up 100% of the total oil and natural gas accounts receivable in the periods.

Note 11. Subsequent Events

In preparing the accompanying condensed combined unaudited interim financial statements of the PEP Subject Companies, management has evaluated all subsequent events and transactions for potential recognition or disclosure through January 2, 2024, the date the condensed combined unaudited interim financial statements of PEP Subject Companies were available for issuance and concluded that no such material events have occurred.

Vital Energy, Inc.
Unaudited pro forma condensed combined financial information

On February 2, 2024, Vital Energy, Inc., a Delaware corporation ("Vital" or the "Company"), as buyer, signed and closed a purchase and sale agreement (the "PEP Purchase Agreement") with PEP Henry Production Partners LP, PEP HPP Jubilee SPV LP, PEP PEOF Dropkick SPV, LLC, PEP HPP Dropkick SPV LP, and HPP Acorn SPV LP, (collectively, the "PEP Properties Sellers"), which represents the purchase of additional working interest in properties associated with the Henry Acquisition, as defined below (the "PEP Acquisition"). The purchase will increase Vital's working interest in 67 wells by an average of 63%. Total consideration payable to the PEP Properties Seller is $78.4 million at February 2, 2024, consisting of 878,690 shares of Vital's common stock and 980,272 shares of Vital's Preferred Stock, both after closing adjustments and subject to post-closing adjustments. No liabilities, other than the recording of associated asset retirement obligations, will be assumed. The Company entered into the PEP Purchase Agreement as a result of the PEP Companies Seller's exercise of its tag rights triggered by the execution of the Henry Acquisition on September 13, 2023.

The PEP Acquisition has been assumed to be an asset acquisition for purposes of these unaudited pro forma condensed combined financial statements under ASC 805. The fair value of the consideration paid by Vital and the allocation of that amount to the underlying assets acquired is recorded on a relative fair value basis. Additionally, costs directly related to the PEP Acquisition are capitalized as a component of the purchase price. The unaudited pro forma condensed combined financial statements presented herein have been prepared to reflect the transaction accounting adjustments to Vital's historical condensed consolidated financial information in order to account for the PEP Acquisition.

<u>Previously Completed Acquisitions</u>

Vital recently completed the following acquisitions, which will collectively be referred to as the "Previous Acquisitions":

- **Grey Rock Acquisition**: As previously disclosed in its Current Report on Form 8-K/A filed on December 22, 2023 with the SEC, on December 21, 2023, Vital completed the purchase of additional working interest in certain properties associated with the Henry Acquisition from Granite Ridge Holdings LLC, GREP IV-A Permian LLC, and GREP IV-B LLC, who exercised tag rights triggered by the execution of the Henry Purchase Agreement on September 13, 2023. Vital's working interest in 45 wells by an average of 24%. Aggregate consideration was $62.9 million, comprised of 0.63 million shares of Vital's common stock and 0.85 million shares of Vital's Preferred Stock, both subject to closing and post-closing adjustments.
- **Tall City Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on November 6, 2023 with the SEC, on November 6, 2023, Vital completed the acquisition of certain oil and natural gas properties located in the Delaware Basin from Tall City Property Holdings III LLC and Tall City Operations III LLC. Total consideration paid was $350.3 million, after closing adjustments, subject to post-closing adjustments, consisting of $279.5 million in cash and 1.40 million shares of common stock of Vital, both after closing adjustments, subject to post-closing adjustments. In addition, Vital assumed suspended revenue obligations of $32.7 million and asset retirement obligations of $2.7 million, both based upon estimated fair value as of November 6, 2023.
- **Henry Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on November 6, 2023 with the SEC, on November 5, 2023, Vital completed the acquisition of approximately 93.0% of the working interests in certain oil and natural gas properties located in Midland and Delaware basins from Henry Energy LP, Henry Resources LLC and Moriah Henry Partners LLC (the "Henry Acquisition"). Aggregate consideration of $432.9 million consisted of 2.15 million shares of Vital's common stock of Vital 6.13 million shares of Vital's Preferred Stock, both after closing adjustments, subject to post-closing adjustments. In addition, Vital assumed drilling advance liabilities of $6.7 million, revenues in suspense of $24.4 million and asset retirement obligations of $1.5 million, all based upon estimated fair value as of November 5, 2023.
- **Maple Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on November 6, 2023 with the SEC, on October 31, 2023, Vital completed the acquisition of certain oil and natural gas properties from Maple Energy Holdings, LLC . Total consideration paid was $168.7 million, after closing adjustments, subject to post-closing adjustments, consisting of 3.37 million shares of common stock of Vital. In addition, Vital assumed suspended revenue obligations of $3.3 million and asset retirement obligations of $1.9 million, both based upon estimated fair value as of October 31, 2023.
- **Forge Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on June 30, 2023 with the SEC, on June 30, 2023, Vital and Northern Oil and Gas, Inc. ("NOG") completed the acquisition of the assets of Forge Energy II Delaware, LLC. Vital and NOG jointly acquired Forge's oil and natural gas properties located in the Delaware Basin in Ward, Reeves and Pecos Counties. Vital acquired an undivided 70% interest in Forge's oil and natural gas

properties and NOG acquired the remaining undivided 30% interest in Forge's oil and natural gas properties. Aggregate consideration, excluding the undivided 30.0% interest acquired by NOG, was $398.2 million, comprised of $391.6 million in cash after closing price adjustments and $6.6 million in transaction related expenses.

- **Driftwood Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on April 3, 2023 with the SEC, on April 3, 2023, Vital completed the acquisition of interests in oil and natural gas leases and related property located in the Midland Basin from Driftwood Energy Operating, LLC. Aggregate consideration of approximately $117.0 million in cash, after closing price adjustments, 1.58 million shares of Vital's common stock and $4.2 million in transaction related expenses.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2023 gives effect to the PEP Acquisition, Henry Acquisition, Maple Acquisition, Tall City Acquisition, and Grey Rock Acquisition as if they had been completed on September 30, 2023. The Forge Acquisition and Driftwood Acquisition were completed prior to September 30, 2023 and therefore are reflected in the historical unaudited condensed consolidated balance sheet of Vital at September 30, 2023.

The Unaudited Pro Forma Condensed Combined Statements of Operations for the nine months ended September 30, 2023 and the year ended December 31, 2022 give effect to the PEP Acquisition and the Previous Acquisitions as if they had been completed on January 1, 2022. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Vital would have been had the PEP Acquisition and the Previous Acquisitions and related financing occurred on the dates noted above, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. Future results may vary significantly from the results reflected because of various factors. For income tax purposes, the PEP Acquisition and the Previous Acquisitions will each be treated as an asset purchase such that the tax bases in the assets and liabilities will generally reflect the allocated fair value at closing. In Vital's opinion, all adjustments that are necessary to present fairly the unaudited pro forma condensed combined financial information have been made.

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

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

- The audited consolidated financial statements and accompanying notes of Vital contained in Vital's Annual Report on Form 10-K for the year ended December 31, 2022;
- The unaudited consolidated financial statements and accompanying condensed notes contained in Vital's Quarterly Reports on Form 10-Q for the quarterly period ended September 30, 2023;
- The audited financial statements and related notes of Forge as of December 31, 2022 and 2021 and for the years then ended, which are incorporated by reference from Exhibit 99.1 to Vital's Current Report on Form 8-K/A filed with the SEC on July 13, 2023;
- The unaudited condensed financial statements and related notes of Forge as of March 31, 2023, and for the three-month periods ended March 31, 2023 and 2022, which are incorporated by reference from Exhibit 99.2 to Vital's Current Report on Form 8-K/A filed with the SEC on July 13, 2023;
- The audited consolidated financial statements and related notes of Driftwood Energy Partners, LLC and its wholly-owned subsidiaries, Driftwood Energy Operating, LLC, Driftwood Energy Management, LLC and Driftwood Energy Intermediate, LLC (collectively, the "Driftwood Entities") as of December 31, 2022 and 2021 and for the years then ended, which are incorporated by reference from Exhibit 99.1 to Vital's Current Report on Form 8-K/A filed with the SEC on June 15, 2023;
- The unaudited consolidated financial statements and related notes of the Driftwood Entities as of March 31, 2023, and for the three-month periods ended March 31, 2023 and 2022, which are incorporated by reference from Exhibit 99.2 to Vital's Current Report on Form 8-K/A filed with the SEC on June 15, 2023;
- The unaudited pro forma condensed combined financial information of Vital as of the year ended December 31, 2022, which is incorporated by reference from Exhibit 99.3 to Vital's Current Report on Form 8-K/A filed with the SEC on June 15, 2023;
- The unaudited pro forma condensed combined financial information of Vital as of the year ended December 31, 2022, which are incorporated by reference from Exhibit 99.1 to Vital's Current Report on Form 8-K/A filed with the SEC on August 22, 2023;
- The unaudited pro forma condensed combined financial information of Vital as of the year ended December 31, 2022, and the nine months ended September 30, 2023, which are incorporated by reference from Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The audited financial statements and related notes of Maple Energy Holdings, LLC ("Maple") as of December 31, 2022 and 2021 and for the years then ended, which are incorporated by reference from Exhibit 99.4 to Vital's Current Report on Form 8-K/A filed with the SEC on September 13, 2023;
- The unaudited financial statements and related notes of Maple as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and 2022, which are incorporated by reference from Exhibit 99.5 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The audited consolidated financial statements and related notes of Henry Energy LP ("Henry") as of December 31, 2022, 2021 and 2020 and for the years then ended, which are incorporated by reference from Exhibit 99.2 to Vital's Current Report on Form 8-K/A filed with the SEC on September 13, 2023;
- The unaudited condensed consolidated financial statements and related notes of Henry as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and 2022, which are incorporated by reference from Exhibit 99.6 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The audited consolidated financial statements and related notes of Tall City Exploration III LLC ("Tall City") Subsidiaries as of December 31, 2022 and 2021 and for the years then ended, which are incorporated by reference from Exhibit 99.6 to Vital's Current Report on Form 8-K/A filed with the SEC on September 13, 2023;

- The unaudited consolidated financial statements and related notes of Tall City as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and 2022, which are incorporated by reference from Exhibit 99.7 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The unaudited statements of revenue and direct operating expenses and related notes of certain properties of Granite Ridge Resources, Inc. operated by Henry Energy LP as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and 2022, and the audited statements of revenues and direct operating expenses and related notes of certain properties of Granite Ridge Resources, Inc. operated by Henry Energy LP as of December 31, 2022 and 2021 and for the years then ended, which are incorporated by reference from Exhibit 99.2 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The unaudited statements of revenues and direct operating expenses and the related notes of GREP IV-A Permian LLC operated by Henry Energy LP for the nine-month period ended September 30, 2023, which are incorporated by reference from Exhibit 99.3 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The unaudited statements of revenues and direct operating expenses and the related notes of GREP IV-B Permian LLC operated by Henry Energy LP for the nine-month period ended September 30, 2023, which are incorporated by reference from Exhibit 99.4 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023;
- The audited combined financial statements and related notes of PEP HPP Jubilee SPV LLC, PEP PEOF Dropkick SPV, LLC, PEP HPP Dropkick SPV LLC, and HPP Acorn SPV LLC (collectively, the "PEP Subject Companies") as of December 31, 2022 and 2021 and for the years then ended, which are included elsewhere in this filing; and
- The unaudited condensed combined financial statements and related notes of the PEP Subject Companies as of September 30, 2023 and for the nine-month periods ended September 30, 2023 and 2022, which are included elsewhere in this filing.

Vital Energy, Inc.
Pro forma condensed combined balance sheets
As of September 30, 2023
(in thousands)
(Unaudited)

	Historical		Transaction accounting adjustments		
	Vital[1]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments	Pro forma combined
Assets					
Current assets:					
Cash and cash equivalents	$ 293,037	$ 3,511	$ (3,511) (a)	$ (1,000) (c)	$ 292,037
Due from affiliate	—	1,858	(1,858) (a)		—
Accounts receivable, net	199,838	4,402	(4,402) (a)		199,838
Derivatives	3,775	—			3,775
Other current assets	20,900	—			20,900
Total current assets	517,550	9,771	(9,771)	(1,000)	516,550
Property and equipment:					
Oil and natural gas properties:					
Evaluated properties – full cost method	11,569,300	—		78,738 (d)	11,649,038
				1,000 (c)	
Unevaluated properties not being depleted – full cost method	227,835	—			227,835
Less: accumulated depletion and impairment	(7,616,830)	—			(7,616,830)
Oil and natural gas property and equipment, based on full-cost method of accounting, net	—	117,673	(117,673) (b)		—
Oil and natural gas properties, net	4,180,305	117,673	(117,673)	79,738	4,260,043
Midstream and other fixed assets, net	142,251	—	—		142,251
Property and equipment, net	4,322,556	117,673	(117,673)	79,738	4,402,294
Derivatives	27,163	—			27,163
Operating lease right-of-use assets	143,634	—			143,634
Deferred income taxes	220,382	—			220,382
Other noncurrent assets, net	23,482	—			23,482
Total assets	$ 5,254,767	$ 127,444	$ (127,444)	$ 78,738	$ 5,333,505
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 106,376	$ 1,060	$ (1,060) (a)		$ 106,376
Accrued capital expenditures	74,149	—			74,149
Undistributed revenue and royalties	225,360	—			225,360
Derivatives	106,767	—			106,767
Derivative financial instrument	—	6,671	(6,671) (a)		—
Drilling advances	6,696	—			6,696
Operating lease liabilities	57,264	—			57,264
Other current liabilities	71,984	—			71,984
Total current liabilities	648,596	7,731	(7,731)	—	648,596

	Historical		Transaction accounting adjustments		
	Vital[1]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments	Pro forma combined
Long-term debt, net	1,926,966	—			1,926,966
Due to affiliate, long-term		3,674	(3,674) (a)		—
Asset retirement obligations	81,553	591	(591) (a)		81,553
Operating lease liabilities	83,501	—	—		83,501
Derivatives	5,885	—			5,885
Derivative financial instrument	—	3,458	(3,458) (a)		—
Other noncurrent liabilities	6,853	—	—		6,853
Total liabilities	2,753,354	15,454	(15,454)	—	2,753,354
Commitments and contingencies					
Stockholders' equity:					
Preferred stock	69	—		10 (e)	79
Common stock	293	—		9 (f)	302
Additional paid-in capital	3,737,814	—		41,674 (e)	3,816,533
				37,045 (f)	
Accumulated deficit	(1,236,763)	—			(1,236,763)
Members' equity	—	111,990	(111,990) (a)		—
Total stockholders' equity	2,501,413	111,990	(111,990)	78,738	2,580,151
Total liabilities and stockholders' equity	$ 5,254,767	$ 127,444	$ (127,444)	$ 78,738	$ 5,333,505

(1) Vital's historical balance sheet, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

Vital Energy, Inc.
Pro forma condensed combined statements of operations
For the nine months ended September 30, 2023
(in thousands, except per share data)
(Unaudited)

	Historical		Transaction accounting adjustments		
	Vital[1]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments	Pro forma combined
Revenues:					
Oil sales	$ 1,459,812	$ —	$ 28,856 (a)		$ 1,488,668
NGL sales	154,862	—	48 (a)		154,910
Natural gas sales	73,667	—	4,856 (a)		78,523
Crude oil, natural gas, and NGL sales, net	—	33,760	(33,760) (a)		—
Loss on derivatives, net	—	(3,822)	3,822 (b)		—
Sales of purchased oil	14,192	—			14,192
Water disposal fees and pipeline income	7,480	—			7,480
Other operating revenues	3,526	—			3,526
Total revenues	1,713,539	29,938	3,822	—	1,747,299
Costs and expenses:					
Lease operating expenses	330,456	—	14,813 (c)		345,269
Lease operating and workover	—	14,813	(14,813) (c)		—
Production and ad valorem taxes	100,437	—	1,693 (d)		102,130
Severance taxes	—	1,693	(1,693) (d)		—
Gathering, processing, and transportation expenses	8,416	—			8,416
Transportation and marketing expenses	32,391	—			32,391
Costs of purchased oil	14,856	—			14,856
General and administrative	94,576	2,481			97,057
Depletion, depreciation and amortization	451,391	8,836	(8,836) (e)	5,853 (h)	457,244
Accretion	—	34	(34) (f)		—
Other operating expenses, net	10,521	—		48 (f)	10,569
Total costs and expenses	1,043,044	27,857	(8,870)	5,901	1,067,932
Gain on disposal of assets, net	540	—	—		540
Operating income (loss)	671,035	2,081	12,692	(5,901)	679,907
Non-operating income (expense):					
Loss on derivatives, net	(134,241)	—	(3,822) (b)		(138,063)
Interest expense	(132,987)	(192)	192 (g)		(132,987)
Other income, net	2,595	—			2,595
Total non-operating income (expense), net:	(264,633)	(192)	(3,630)	—	(268,455)
Income (loss) before income taxes	406,402	1,889	9,062	(5,901)	411,452
Income tax (expense) benefit:					
Current	(2,298)	—		—	(2,298)
Deferred	107,308	—		(6,426) (i)	100,882
Total income tax (expense) benefit	105,010	—		(6,426)	98,584
Net income (loss)	$ 511,412	$ 1,889	$ 9,062	$ (12,327)	$ 510,036
Preferred stock dividends	(5,790)				(6,628)
Income available to common shareholders	505,622				503,408

	Historical		Transaction accounting adjustments			
	Vital[1]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments		Pro forma combined
Net income per common share:						
Basic	$ 20.07					$ 19.31
Diluted	$ 15.85					$ 14.95
Weighted-average common shares outstanding:						
Basic	25,192				(j)	26,071
Diluted	32,257				(j)	34,116

(1) Vital's historical statement of operations for the nine months ended September 30, 2023, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

Vital Energy, Inc.
Pro forma condensed combined statements of operations
For the year ended December 31, 2022
(in thousands, except per share data)
(Unaudited)

	Historical		Transaction accounting adjustments		
	Vital[1]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments	Pro forma combined
Revenues:					
Oil sales	$ 2,140,546	$ —	$ 67,413 (a)		$ 2,207,959
NGL sales	336,484	—	111 (a)		336,595
Natural gas sales	280,629	—	15,514 (a)		296,143
Crude oil, natural gas, and NGL sales, net	—	83,038	(83,038) (a)		—
Loss on derivatives, net	—	(19,890)	19,890 (b)		—
Sales of purchased oil	119,408	—			119,408
Water disposal fees and pipeline income	9,703				9,703
Other operating revenues	7,897	—			7,897
Total revenues	2,894,667	63,148	19,890	—	2,977,705
Costs and expenses:					
Lease operating expenses	320,066		18,465 (c)		338,531
Lease operating and workover	—	18,465	(18,465) (c)		—
Production and ad valorem taxes	162,390	—	4,292 (d)		166,682
Severance taxes	—	4,292	(4,292) (d)		—
Transportation and marketing expenses	59,154	—			59,154
Costs of purchased oil	122,118	—			122,118
General and administrative	103,363	5,145			108,508
Organizational restructuring expenses	10,420	—			10,420
Depletion, depreciation and amortization	494,831	14,759	(14,759) (e)	10,377 (h)	505,208
Accretion expense	—	46	(46) (f)		—
Impairment expense	40	—			40
Other operating expenses, net	14,205	—		66 (f)	14,271
Total costs and expenses	1,286,587	42,707	(14,805)	10,443	1,324,932
Loss on disposal of assets, net	(1,079)	—	—	—	(1,079)
Operating income (loss)	1,607,001	20,441	34,695	(10,443)	1,651,694
Non-operating income (expense):					
Loss on derivatives, net	(363,770)	—	(19,890) (b)		(383,660)
Interest expense	(187,557)	(492)	492 (g)		(187,557)
Loss on extinguishment of debt, net	(1,459)	—			(1,459)
Other income, net	1,167	—			1,167
Total non-operating income (expense), net:	(551,619)	(492)	(19,398)	—	(571,509)
Income (loss) before income taxes	1,055,382	19,949	15,297	(10,443)	1,080,185
Income tax (expense) benefit:					
Current	(6,121)	—		— (i)	(6,121)
Deferred	331	—		—	331
Total income tax (expense) benefit	(5,790)	—	—	—	(5,790)
Net income (loss)	$ 1,049,592	$ 19,949	$ 15,297	$ (10,443)	$ 1,074,395
Preferred stock dividends	(7,663)				(8,740)
Income available to common shareholders	$ 1,041,929				$ 1,065,655

	Historical		Transaction accounting adjustments			
	Vital[(1)]	PEP Subject Companies	Conforming and reclass	Acquisition Adjustments		Pro forma combined
Net income per common share:						
Basic	$ 40.39					$ 39.95
Diluted	$ 31.84					$ 30.85
Weighted-average common shares outstanding:						
Basic	25,797				(j)	26,676
Diluted	32,963				(j)	34,822

(1) Vital's historical statement of operations for the year ended December 31, 2022, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

1. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements were prepared based on the historical consolidated financial statements of Vital and the historical consolidated financial statements of the PEP Subject Companies. The PEP Acquisition has been accounted for as an asset acquisition in accordance with ASC 805. The fair value of the consideration paid by Vital and allocation of that amount to the underlying assets acquired, on a relative fair value basis, will be recorded on Vital's books as of the date of the closing of the PEP Acquisition. Additionally, costs directly related to the PEP Acquisition are capitalized as a component of the purchase price. Certain of the PEP Subject Companies' historical amounts have been reclassified to conform to the financial statement presentation of Vital. Additionally, adjustments have been made to PEP Subject Companies' historical financial information to remove certain assets and liabilities retained by them.

The unaudited pro forma condensed combined statements of operations for the nine months Ended September 30, 2023 and the Year Ended December 31, 2022 were prepared assuming the PEP Acquisition occurred on January 1, 2022. The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2023 was prepared as if the PEP Acquisition had occurred on September 30, 2023.

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

2. Consideration and Purchase Price Allocation

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

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

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

Consideration:		
Shares of Vital common stock issued		878,690
Vital common stock price as of February 2, 2024	$	42.17
Common stock consideration	$	37,054
Shares of Vital preferred stock issued		980,272
Vital preferred stock price as of February 2, 2024	$	42.17
Preferred Stock consideration	$	41,338
Fair value of Preferred Stock dividends		346
Fair Value of Preferred Stock		41,684
Direct transaction costs		1,000
Total consideration	$	79,738
Relative fair value of assets acquired:		
Oil and natural gas properties		79,738
Amount attributable to assets acquired	$	79,738

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

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

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

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by Vital. 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 Vital believes provide a reasonable basis for presenting the significant effects of the PEP Acquisition. General descriptions of the pro forma adjustments are provided below.

Unaudited Pro Forma Condensed Combined Balance Sheet

The following adjustments were made in the preparation of the unaudited pro forma condensed combined balance sheet as of September 30, 2023:

(a) Adjustment to remove assets and liabilities not acquired as part of the PEP Acquisition, including historical book equity.
(b) Adjustment to eliminate the historical net book value of the PEP Subject Companies' oil and natural gas properties as of September 30, 2023.
(c) Adjustment for the payment of estimated transaction costs incurred for the PEP Acquisition.
(d) Adjustment to reflect the fair value of the assets acquired.
(e) Adjustment for the issuance of 980,272 shares of Preferred Stock, net of closing adjustments, pursuant to the PEP Purchase Agreement, based on Preferred Stock to be issued multiplied by the fair value per share of Preferred Stock of $42.17, determined as of February 2, 2024, plus the present value of anticipated preferred dividends.
(f) Adjustment to reflect the issuance of 878,690 shares of Vital common stock, net of closing adjustments, pursuant to the PEP Purchase Agreement, based on the February 2, 2024 closing price of Vital of $42.17 per common share.

Unaudited Pro Forma Condensed Combined Statements of Operations

The following adjustments were made in the preparation of the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2023, and the year ended December 31, 2022:

(a) Adjustments to conform PEP Subject Companies' revenue presentation to the presentation of revenues by Vital.
(b) Adjustment to conform PEP Subject Companies' presentation of historical derivative gains and losses to the presentation by Vital.
(c) Adjustment to conform PEP Subject Companies' historical lease operating and workover expense to the presentation by Vital.
(d) Adjustment to conform PEP Subject Companies' historical severance taxes to the presentation by Vital.
(e) Adjustment to remove the historical amount of PEP Subject Companies' depletion, depreciation, and amortization.
(f) Adjustment to remove historical accretion expense of PEP Subject Companies associated with asset retirement obligations and recalculate accretion expense based upon estimated fair value.
(g) Adjustment to remove PEP Subject Companies' historical interest expense.
(h) Represents depreciation, depletion, and amortization expense resulting from the change in basis of property and equipment acquired as a result of the PEP Acquisition. The depletion adjustment was calculated using the unit-of-production method under the full cost method of accounting using estimated proved reserves and production volumes attributable to the acquired assets.
(i) The adjustment pertains to estimated income tax considerations associated with the PEP Acquisition. This entity was previously held within a flow-through structure, making it exempt from federal income taxes. In the 2022 pro forma income statement, Vital maintained a full valuation allowance for federal deferred tax assets. The income tax expense generated from the PEP Acquisition at the effective tax rate of 21.5% was fully offset in 2022 by Vital's existing valuation allowance. For the 2023 pro forma income statement, income tax expenses for the PEP Acquisition is recorded at an effective tax rate of 21.5%. Additionally, the release of the valuation allowance, which occurred in the third quarter 2023 for Vital, was adjusted to account for the impact of the 2022 valuation allowance impact from the PEP Acquisition.

(j) The following table provides reconciliation between basic and diluted net income for the nine months ended September 30, 2023 and year ended December 31, 2022 (in thousands, except per share amounts):

	Three Months Ended September 30, 2023		Year Ended December 31, 2022	
	Historical	Pro-Forma	Historical	Pro-Forma
Net income	$ 511,412	$ 510,036	$ 1,049,592	$ 1,074,395
Less: Preferred dividends	(5,790)	(6,628)	(7,663)	(8,740)
Net income available to common shareholders	505,622	503,408	1,041,929	1,065,655
Weighted-average common shares outstanding:				
Basic	25,192	26,071	25,797	26,676
Dilutive non-vested restricted stock	93	93	183	183
Dilutive non-vested performance awards	1	1	12	12
DIlutive preferred stock	6,971	7,951	6,971	7,951
Diluted	32,257	34,116	32,963	34,822
Net income per share:				
Basic	$ 20.07	$ 19.31	$ 40.39	$ 39.95
Diluted	$ 15.85	$ 14.95	$ 31.84	$ 30.85

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

The following tables set forth information with respect to the historical and pro forma combined estimated oil and natural gas reserves as of December 31, 2022 for Vital and the PEP Subject Companies. The reserve information of Vital and the PEP Subject Companies have been prepared by independent petroleum engineers Ryder Scott Company, L.P. and Cawley, Gillespie & Associates, Inc., respectively. The following unaudited pro forma combined proved reserve information is not necessarily indicative of the results that might have occurred had the PEP Acquisition taken place on January 1, 2022, 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 Vital and the PEP Subject Companies the reserve estimates shown below were determined using the average first day of the month price for each of the preceding 12 months for oil and natural gas for the year ended December 31, 2022.

Estimated oil and natural gas reserves

	As of December 31, 2022		
	Vital(1)	PEP Subject Companies	Pro forma combined
Estimated proved developed reserves:			
Oil (MBbl)	127,550	5,458	133,008
Natural gas (MMcf)	653,871	22,485	676,356
Natural gas liquids (MBbl)	100,530	—	100,530
Total equivalent reserves (Mboe)(2)	337,059	9,206	346,265
Estimated proved undeveloped reserves:			
Oil (MBbl)	148,608	963	149,571
Natural gas (MMcf)	411,119	3,669	414,788
Natural gas liquids (MBbl)	75,473	—	75,473
Total equivalent reserves (Mboe)(2)	292,603	1,575	294,178
Estimated proved reserves:			
Oil (MBbl)	276,158	6,421	282,579
Natural gas (MMcf)	1,064,990	26,154	1,091,144
Natural gas liquids (MBbl)	176,003	—	176,003
Total equivalent reserves (Mboe)(2)	629,661	10,780	640,441

(1) Vital's historical estimated oil and natural gas reserves as of December 31, 2022, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

(2) BOE is calculated using a conversion rate of six Mcf per one Bbl.

The following table presents the standardized measure of discounted future net cash flows relating to the proved crude oil and natural gas reserves of Vital and of the properties acquired in the PEP Acquisition on a pro forma combined basis as of December 31, 2022. The pro forma combined standardized measure shown below represents estimates only and should not be construed as the market value of either PEP's crude oil and natural gas reserves or the acquired crude oil and natural gas reserves attributable to the PEP Acquisition.

Standardized measure of discounted future cash flows

(in thousands)

	As of December 31, 2022			
	Vital[1]	PEP Subject Companies	Tax Adjustment	Pro forma combined
Oil and gas producing activities:				
Future cash inflows	$ 37,335,461	$ 805,213	$ —	$ 38,140,674
Future production costs	(9,962,368)	(302,756)	—	(10,265,124)
Future development costs	(3,931,676)	(31,994)	—	(3,963,670)
Future income tax expense	(3,987,305)	(4,227)	(81,165)	(4,072,697)
Future net cash flows	19,454,112	466,236	(81,165)	19,839,183
10% discount for estimated timing of cash flows	(10,026,612)	(209,159)	34,971	(10,200,800)
Standardized measure of discounted future net cash flows	$ 9,427,500	$ 257,077	$ (46,194)	$ 9,638,383

(1) Vital's historical standardized measure of discounted future cash flows as of December 31, 2022, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

The following table sets forth the changes in the standardized measure of discounted future net cash flows attributable to estimated net proved crude oil and natural gas reserves of Vital and the PEP Subject Companies

on a pro forma combined basis for the year ending December 31, 2022:

Changes in standardized measure of discounted future net cash flows

(in thousands)

	As of December 31, 2022			
	Vital[(1)]	PEP Subject Companies	Tax Adjustment	Pro forma combined
Standardized measure of discounted future net cash flows, beginning of year	$ 7,274,233	$ 144,885	$ (21,906)	$ 7,397,212
Changes in the year resulting from:				
Sales, less production costs	(2,229,770)	(60,281)	—	(2,290,051)
Revisions of previous quantity estimates	(1,403,121)	20,409	—	(1,382,712)
Extensions, discoveries and other additions	1,442,244	48,779	—	1,491,023
Net change in prices and production costs	4,739,394	81,523	—	4,820,917
Changes in estimated future development costs	(435,938)	(948)	—	(436,886)
Previously estimated development incurred capital expenditures during the period	628,981	5,320	—	634,301
Acquisitions of reserves in place	62,672	4,760	—	67,432
Divestitures of reserves in place	(201,774)	—	—	(201,774)
Accretion of discount	825,835	14,614	—	840,449
Net change in income taxes	(862,899)	(839)	(24,288)	(888,026)
Timing differences and other	(412,357)	(1,145)	—	(413,502)
Standardized measure of discounted future net cash flows, end of year	$ 9,427,500	$ 257,077	$ (46,194)	$ 9,638,383

(1) Vital's historical changes in standardized measure of discounted future net cash flows as of December 31, 2022, as shown in the table above, includes the effects of pro forma adjustments for the Previous Acquisitions as presented in Exhibit 99.8 to Vital's Current Report on Form 8-K/A filed with the SEC on December 22, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

CAWLEY, GILLESPIE & ASSOCIATES, INC.
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November 7, 2023

Mr. Jacob Smith, CFA
Associate
Pickering Energy Partners
100 Waugh Drive, Suite 600
Houston, Texas 77007

Re: Evaluation Summary – SEC Pricing
Pickering Energy Partners Interests
Vital Energy Divestiture Properties
Various Counties, Texas
Proved Reserves
As of December 31, 2022

Dear Mr. Smith:

As requested, we are submitting our estimates of proved reserves and our forecasts of the resulting economics attributable to the Pickering Energy Partners interests in certain properties being acquired by Vital Energy Inc. in the Permian Basin in Texas. It is our understanding that the proved reserves estimated in this report constitute 100 percent of all proved reserves being divested by Pickering Energy Partners in these properties.

This report, completed on November 7, 2023, utilized an effective date of December 31, 2022 and was prepared using constant prices and costs and conforms to Item 1202(a)(8) of Regulation S-K and the other rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). This report has been prepared for use in filings with the SEC. In our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

Composite reserve estimates and economic forecasts for the reserves are summarized below:

		Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Proved
Net Reserves					
Oil	– Mbbl	5,328.8	129.4	962.6	6,420.7
Gas	– MMcf	22,306.1	179.1	3,668.8	26,153.9
Revenue					
Oil	– M$	494,155.7	11,995.2	89,262.5	595,413.4
Gas	– M$	178,353.7	1,589.7	29,856.6	209,800.1
Severance and Ad Valorem Taxes	– M$	48,835.7	929.3	8,600.8	58,365.8
Operating Expenses	– M$	216,779.1	8,388.9	19,222.4	244,390.4
Investments	– M$	3,216.9	1,041.7	27,735.4	31,994.0
Operating Income (BFIT)	– M$	403,677.6	3,225.0	63,560.5	470,463.3
Discounted @ 10%	– M$	232,075.5	2,915.4	24,175.8	259,166.8

In accordance with the SEC guidelines, the operating income (BFIT) has been discounted at an annual rate of 10% to determine its "present worth". The discounted value shown above should not be construed to represent an estimate of the fair market value by Cawley, Gillespie & Associates, Inc.

The annual average Henry Hub spot market gas price of $6.36 per MMBtu and the annual average WTI Cushing spot oil price of $93.67 per barrel were used in this report. In accordance with the Securities and Exchange Commission guidelines, these prices are determined as an unweighted arithmetic average of the first-day-of-the-month price for 12 months prior to the effective date of the evaluation. Oil and gas prices were held constant for the life of the properties. Deductions were applied to the net gas volumes for fuel and shrinkage. The adjusted volume-weighted average product prices over the life of the properties are $92.73 per barrel of oil and $8.02 per Mcf of gas

Basis differentials were applied to the above oil and gas prices based on 12-month average values by prospect. Operating expenses were based on 12-month average values by prospect by well type. Severance tax rates were specified based on published rates. Ad valorem tax rates were scheduled based on historical data. Neither expenses nor investments were escalated. Net plugging costs were scheduled as $80,000 per well.

The proved reserves classifications conform to criteria of the SEC. The estimates of reserves in this report have been prepared in accordance with the definitions and disclosure guidelines set forth in the SEC Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). The reserves and economics are predicated on the regulatory agency classifications, rules, policies, laws, taxes and royalties in effect on the effective date except as noted herein. In evaluating the information at our disposal concerning this report, we have excluded from our consideration all matters as to which the controlling interpretation may be legal or accounting, rather than engineering and geoscience. Therefore, the possible effects of changes in legislation or other Federal or State restrictive actions have not been considered. An on-site field inspection of the properties has not been performed. The mechanical operation or conditions of the wells and their related facilities have not been examined nor have the wells been tested by Cawley, Gillespie & Associates, Inc. Possible environmental liability related to the properties has not been investigated nor considered.

The reserves were estimated using a combination of the production performance and analogy methods, in each case as we considered to be appropriate and necessary to establish the conclusions set forth herein. All reserve estimates represent our best judgment based on data available at the time of preparation and assumptions as to future economic and regulatory conditions. It should be realized that the reserves actually recovered, the revenue derived therefrom and the actual cost incurred could be more or less than the estimated amounts.

The reserve estimates were based on interpretations of factual data furnished by Henry Resources and Pickering Energy Partners. Ownership interests were supplied by Henry Resources and/or Pickering Energy Partners and were accepted as furnished. To some extent, information from public records has been used to check and/or supplement these data. The basic engineering and geological data were utilized subject to third party reservations and qualifications. Nothing has come to our attention, however, that would cause us to believe that we are not justified in relying on such data. An on-site inspection of these properties has not been made nor have the wells been tested by Cawley, Gillespie & Associates, Inc.

Cawley, Gillespie & Associates, Inc. is independent with respect to Pickering Energy Partners as provided in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information promulgated by the Society of Petroleum Engineers ("SPE Standards"). Neither Cawley, Gillespie & Associates, Inc. nor any of its employees has any interest in the subject properties. Neither the employment to make this study nor the compensation is contingent on the results of our work or the future production rates for the subject properties.

Our work papers and related data are available for inspection and review by authorized parties.

Respectfully submitted,

/s/ J. Zane Meekins
J. Zane Meekins, P.E.
Executive Vice President

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