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

FORM 8-K

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

Date of report (Date of earliest event reported): September 20, 2024

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 Act:

Title of each class	Trading Symbol(s)	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. ☐

Item 2.01 Completion of Acquisition or Disposition of Assets.

As previously disclosed in its Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 29, 2024 (the "Announcement Form 8-K"), on July 27, 2024, Vital Energy, Inc. (the "Company") entered into a purchase and sale agreement with Northern Oil and Gas, Inc. ("NOG") and Point Energy Partners Petroleum, LLC, Point Energy Partners Operating, LLC, Point Energy Partners Water, LLC and Point Energy Partners Royalty, LLC (together, the "Seller"), pursuant to which the Company and NOG agreed to purchase Seller's oil and gas properties located in Ward and Winkler Counties, as further described in the Announcement 8-K (the "Point Acquisition").

On September 20, 2024, the Company consummated the Point Acquisition for total cash consideration of $815.2 million paid by the Company after closing adjustments, funded with borrowings under the Company's senior secured credit facility.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of business to be acquired.

The audited consolidated financial statements of Point Energy Partners Operating, LLC, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, are filed as Exhibit 99.1 hereto and incorporated by reference herein.

The unaudited consolidated financial statements of Point Energy Partners Operating, LLC, which comprise the consolidated balance sheets as of June 30, 2024 and December 31, 2023, the related consolidated statements of operations, changes in member's equity, and cash flows for the six-month periods ended June 30, 2024 and 2023, and the related notes to the unaudited consolidated 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 condensed combined balance sheet as of June 30, 2024, the related condensed combined statements of operations for the six-month period ended June 30, 2024 and the year-ended December 31, 2023, and the related notes to the condensed combined financial statements, is filed as Exhibit 99.3 hereto and incorporated by reference herein.

(d) Exhibits.

Exhibit Number	Description
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Netherland, Sewell & Associates, Inc.
99.1	Audited consolidated financial statements of Point Energy Partners Operating, LLC as of and for the years ended December 31, 2023 and 2022.
99.2	Unaudited consolidated financial statements of Point Energy Partners Operating, LLC as of June 30, 2024 and December 31, 2023, and for the six months ended June 30, 2024 and 2023.
99.3	Unaudited pro forma condensed combined financial information of Vital Energy, Inc. as of June 30, 2024 and for the six months ended June 30, 2024 and the year ended December 31, 2023.
99.4	Reserves report of Netherland, Sewell & Associates, Inc. certain oil and gas properties owned by Point Energy Partners Operating, LLC as of December 31, 2023, dated August 21, 2024.
104	Cover Page Interactive Data File (formatted as Inline XBRL).

SIGNATURE

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

VITAL ENERGY, INC.

Date: September 23, 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 Registration Statement Nos. 333-257799, 333-260479, 333-263752, 333-271095, 333-275259, 333-275347, 333-275348, 333-276380, and 333-277079 on Form S-3 and Nos. 333-178828, 333-211610, 333-231593, and 333-256431 on Form S-8 of Vital Energy, Inc. of our report dated April 10, 2024, relating to the financial statements of Point Energy Partners Operating, LLC appearing in this Current Report on Form 8-K dated September 23, 2024.

/s/ Deloitte & Touche LLP

Dallas, Texas
September 23, 2024

Exhibit 23.2

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the inclusion in or incorporation by reference into the Registration Statement Nos. 333-257799, 333-260479, 333-263752, 333-271095, 333-275259, 333-275347, 333-275348, 333-276380, and 333-277079 on Form S-3 and Nos. 333-178828, 333-211610, 333-231593, and 333-256431 on Form S-8 of Vital Energy, Inc. of Vital Energy, Inc. (the “Registration Statements”) of our report, with respect to estimates of oil and gas reserves and future revenue of Point Energy Partners, as of December 31, 2023. We hereby further consent to all references to our firm and such report appearing in this current report on Form 8-K.

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: /s/ *Eric J. Stevens*
Eric J. Stevens, P.E.
President and Chief Operating Officer

Dallas, Texas
September 23, 2024

Exhibit 99.1

Point Energy Partners Operating, LLC

Consolidated Financial Statements as of and
for the Years Ended December 31, 2023 and 2022
and Independent Auditor's Report

POINT ENERGY PARTNERS OPERATING, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers of Point Energy Partners Operating, LLC

Opinion

We have audited the consolidated financial statements of Point Energy Partners Operating, LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplemental information related to oil and natural gas producing activities on pages 20 to 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

/s/ Deloitte & Touche LLP

Dallas, Texas
April 10, 2024

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,063,822	$ 3,376,727
Accounts receivable	26,969,238	28,955,400
Accounts receivable—related party	260,730	342,313
Current derivative assets	7,054,015	196,765
Prepaid and other assets	13,835,586	2,470,792
Total current assets	54,183,391	35,341,997
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost, using the full cost method of accounting proved property	1,023,008,574	592,487,452
Other property and equipment	1,224,459	346,447
Less accumulated depletion and depreciation	(146,464,617)	(92,529,793)
Total property and equipment — net	877,768,416	500,304,106
OTHER NON-CURRENT ASSETS:		
Right of use assets	1,309,427	1,633,634
Linefill Inventory	1,325,520	—
Non-current derivative assets	1,219,074	58,716
TOTAL ASSETS	$ 935,805,828	$537,338,453
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 135,865,253	$ 66,815,666
Accrued expenses	9,809,168	8,146,456
Current derivative liabilities	—	6,079,165
Current operating lease liabilities	804,204	623,435
Royalty payable	25,094,569	5,969,788
Total current liabilities	171,573,194	87,634,510
NONCURRENT LIABILITIES:		
Line-of-credit—net	372,087,003	212,542,457
Non-current derivative liabilities	30,511	712,930
Non-current operating lease liabilities	515,117	1,049,244
Non-current royalty payable	—	5,045,198
Asset retirement obligation	4,805,281	2,860,180
Deferred Income	1,588,265	—
Total non-current liabilities	379,026,177	222,210,009
MEMBER'S EQUITY	385,206,457	227,493,934
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 935,805,828	$537,338,453

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES:		
Oil and natural gas sales	$332,620,097	$280,377,454
Salt water disposal sales	1,775,177	1,268,738
Realized loss on derivatives	(4,173,862)	(36,078,027)
Unrealized gain on derivatives	14,779,192	7,948,564
Total revenues	345,000,604	253,516,729
OPERATING COSTS AND EXPENSES:		
Depletion and depreciation expense	72,933,077	51,657,130
Lease operating	51,980,536	31,296,222
Workover costs	25,686,825	17,330,912
Production and ad valorem tax	16,560,232	12,127,206
General and administrative	7,699,088	5,169,405
Accretion expense	273,492	182,682
Total operating costs and expenses	175,133,250	117,763,557
OPERATING INCOME	169,867,354	135,753,172
OTHER INCOME (EXPENSE):		
Interest expense	(27,275,703)	(14,202,113)
Other income	69,399	450
Right of use asset lease expense—operating leases	29,151	(39,045)
Total other income (expense)	(27,177,153)	(14,240,708)
State income tax expense	—	—
NET INCOME	$142,690,201	$121,512,464

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Contributed Capital	Retained Earnings (Deficit)	Total
BALANCE—December 31, 2021	$84,393,570	$ 21,587,900	$105,981,470
Net income	—	121,512,464	121,512,464
BALANCE—December 31, 2022	84,393,570	143,100,364	227,493,934
Contributions	15,022,322	—	15,022,322
Net income	—	142,690,201	142,690,201
BALANCE—December 31, 2023	$99,415,892	$285,790,565	$385,206,457

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 142,690,201	$ 121,512,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation expense	72,933,077	51,657,130
Accretion expense	273,491	182,682
Amortization of debt issuance costs	1,821,979	1,710,793
Unrealized (gain) loss on derivative contracts	(14,779,192)	(7,948,564)
Non-cash lease expense	(29,151)	39,045
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,985,865	(14,413,538)
Decrease (increase) in accounts receivable—related party	81,878	430,907
Decrease in prepaids and other assets	(2,150,377)	(1,988,115)
Increase (decrease) in accounts payable	(1,463,319)	(900,884)
Increase in accrued expenses	(3,023,141)	2,074,435
Increase in royalty payable	14,093,189	7,608,800
Net cash provided by operating activities	212,434,500	159,965,155
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of oil and natural gas properties	(483,227,026)	(267,080,003)
Proceeds from sale of oil and natural gas properties	101,350,000	11,390,450
Purchase of other property and equipment	(615,268)	(85,589)
Net cash used in investing activities	(382,492,294)	(255,775,142)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	(3,461,050)	(3,673,704)
Proceeds from line-of-credit	252,183,617	155,000,000
Payments on line-of-credit	(91,000,000)	(60,000,000)
Proceeds from capital contributions	15,022,322	—
Net cash provided by financing activities	172,744,889	91,326,296
NET CHANGE IN CASH	2,687,095	(4,483,691)
CASH—Beginning of year	3,376,727	7,860,418
CASH—End of year	$ 6,063,822	$ 3,376,727
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additions and revisions to asset retirement obligations	$ 1,671,610	$ 1,557,001
Oil and gas property purchases included in accounts payable	$ 121,872,602	$ 16,082,817
Accrued oil and natural gas properties	$ 9,000,000	$ 318,585

The notes to consolidated financial statements are an integral part of these statements.

1. ORGANIZATION

Nature of Operations—Point Energy Partners Operating, LLC (the Company), was formed on May 31, 2018. The primary purpose of the Company is for the acquisition, exploration, development and production of oil and natural gas properties located in Texas and New Mexico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Point Energy Partners Royalty GP, LLC, Point Energy Partners Water, LLC, and Point Energy Partners, Royalty, LLC. All intercompany transactions have been eliminated.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period.

The Company's most significant estimates relate to estimates for depletion on its oil and natural gas properties, asset retirement obligations and fair value of derivatives. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Company considers all highly liquid instruments with an original maturity of three months or less at the time of issuance to be cash equivalents.

Accounts Receivable—Accounts receivable are stated at the amount the Company expects to collect. The Company's receivables are derived from oil and natural gas sales earned from its net revenue interests. The ability to collect is dependent upon the general economic conditions of the oil and natural gas industry. The Company has not provided an allowance for doubtful accounts based on management's expectations that all receivables at period end will be fully collectible.

Prepaid Expenses—Prepaids are advanced payments for services and are expensed over the useful lives of the agreement and are included in prepaid and other assets.

Inventory—Inventory consists of well equipment and drilling materials that is held for use in the development of oil and gas properties. Inventories are valued at the lower of cost and net realizable value. Inventory is periodically evaluated for potential impairment based on the expected future use of the inventory held. No impairment expense was recorded for the years ended December 31, 2023 and 2022. Well equipment and drilling materials purchased in advance totaled $9,638,063 and $0 as of December 31, 2023 and 2022, respectively and is recorded in prepaid and other assets on the consolidated balance sheet.

Oil and Natural Gas Properties—The company applies the full cost method of accounting for oil and natural gas properties. Accordingly, all costs incurred in the acquisition, exploration, and development of oil and natural gas reserves are capitalized.

Depreciation, depletion and amortization of proved oil and natural gas properties are computed on the units-of-production method, using estimates of the underlying proved reserves. Capitalized costs of unproved properties and major development projects are excluded from amortization until proved reserves associated with the properties can be determined or until impairment occurs. The Company recorded $72,751,957 in depletion expense related to oil and natural gas properties for the year ended December 31, 2023 and $51,619,134 for the year ended December 31, 2022 which is included in depletion and depreciation expense on the consolidated statements of operations. During the year ended December 31, 2023, the Company sold certain oil & gas properties and received proceeds totaling $101 million. The sales of these royalty interests did not result in a substantial change; therefore all proceeds were recorded as a reduction to the full cost pool within oil and gas properties.

In February 2023, the Company entered into an agreement for the acquisition of certain oil and gas properties and related assets. The net final purchase price totaled $80 million with $73 million allocated to proved developed producing properties and $7 million to midstream related assets.

In determining impairments for oil and natural gas properties, the capitalized costs are subject to a "ceiling test," which generally limits unamortized capitalized costs to the discounted future net revenues from proved reserves, based on the average of the last day prices of the previous twelve months and operating conditions, plus the lower of cost or fair market value of unproved properties. Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas, in which case the gain or loss is recognized in income. No impairment expense was recorded for the years ended December 31, 2023 and 2022.

Other Property and Equipment—Property and equipment are stated at cost. Expenditures for maintenance and repairs which do not extend the life of the related assets are charged to expense as incurred. Upon retirement or sale of the assets, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of operations for the period.

The estimated useful lives and cost of other property and equipment by asset type as of December 31, 2023 and 2022 are as follows:

	Useful Life	2023	2022
Office furniture and equipment	7 years	$ 663,013	$ 184,339
Buildings and improvements	5 years	561,446	162,108
		$ 1,224,459	$ 346,447

The Company recorded $181,120 in depreciation expense for year ended December 31, 2023 and $37,996 for the year ended December 31, 2022 which is included in depletion and depreciation expense on the consolidated statements of operations.

Asset Retirement Obligations—Asset retirement obligations (ARO) are recorded under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410 which requires the fair value of a liability related to the retirement of long-lived assets to be recorded at the time a legal obligation is incurred, if the liability can be reasonably estimated.

A liability is recorded when the fair value of the asset retirement obligation can be reasonably estimated and recognized in the period incurred. A liability is incurred when a well is drilled and completed. The liability amounts are based on future retirement cost estimates and incorporate many assumptions, such as expected economic recoveries of oil and natural gas, time to abandonment, future inflation rates and the adjusted risk-free rate of interest.

The retirement obligation is recorded at its estimated present value of the asset's inception with an offsetting increase to proven oil and natural gas properties on the balance sheet. After recording these amounts, accretion of the discount of the estimated liability is recorded as an expense over the life of the asset.

The asset retirement obligation as of December 31, 2023 and 2022 consisted of the following:

	2023	2022
Asset retirement obligation — beginning of period	$2,860,180	$1,120,497
Additions during the period	1,653,998	1,165,066
Wells sold	—	—
Revisions of estimates	21,434	391,935
Accretion of discount	269,669	182,682
Asset retirement obligation — end of period	$4,805,281	$2,860,180

Derivatives—The Company utilizes certain derivative financial instruments to reduce the effects of volatility of future oil and natural gas prices. The Company generally utilizes over-the-counter instruments, which are subject to more credit risk than exchange-traded futures contracts. Management does not believe this risk is significant as it only uses highly rated counterparties, however, it generally does not require collateral. The Company is party to master netting arrangements for transactions that occur on the same date which may reduce the Company's maximum loss due to credit risk. In addition, the derivatives used by the Company are subject to risk from changes in prices of the underlying commodity.

The Company recognizes all derivatives in the balance sheet at fair value on a net basis. Derivatives that do not qualify or have not been designated for hedge accounting must be adjusted to fair value through income. Cash flows from derivative activity are classified in the same category as the cash flows from the sales of oil and gas and the change in fair value is reported separately as change in fair value of derivatives on the statement of operations. The derivatives were not designated or accounted for as hedges. See Note 4 for additional disclosures regarding derivative contracts.

Revenue Recognition—The Company recognizes revenues from the sales of oil and natural gas to its purchasers in the Company's statements of operations.

The Company enters into contracts with purchasers to sell its oil and natural gas production. Revenue on these contracts is recognized in accordance with the five-step revenue recognition model prescribed in ASC 606. Specifically, revenue is recognized when the Company's performance obligations under these contracts are satisfied, which generally occurs with the transfer of control of the oil and natural gas to the purchaser. Control is generally considered transferred when the following criteria are met: (i) transfer of physical custody, (ii) transfer of title, (iii) transfer of risk of loss, and (iv) relinquishment of any repurchase rights or other similar rights. Given the nature of the products sold, revenue is recognized at a point in time based on the amount of consideration the Company expects to receive in accordance with the price specified in the contract. Consideration under the oil and natural gas marketing contracts is typically received from the purchaser one to two months after production.

Oil Contracts—The Company's oil marketing contracts transfer physical custody and title at or near the wellhead, which is generally when control of the oil has been transferred to the purchaser. Oil produced is sold under contracts using market-based pricing which is then adjusted for the differentials based upon delivery location and oil quality. To the extent the differentials are incurred after the transfer of control of the oil, the differentials are included in oil sales on the statements of operations as they represent part of the transaction price of the contract. If the differentials, or other related costs, are incurred prior to the transfer of control of the oil, those costs are included in lease operating expenses on the Company's statements of operations as they represent payment for services performed outside of the contract with the purchaser.

Natural Gas Contracts—The majority of the Company's natural gas is sold at the lease location, which is generally when control of the natural gas has been transferred to the purchaser. The natural gas is sold under (i) percentage of proceeds processing contracts, (ii) fee-based contracts or (iii) a hybrid of percentage of proceeds and fee-based contracts. Under the majority of the Company's contracts, the purchaser gathers the natural gas in the field where it is produced and transports it to natural gas processing plants where natural gas liquid products are extracted. The natural gas liquid products and remaining residue gas are then sold by the purchaser. Under the percentage of proceeds and hybrid percentage of proceeds and fee-based contracts, the Company receives a percentage of the value for the extracted liquids and the residue gas. Under the fee-based contracts, the Company receives natural gas liquids and residue gas value, less the fee component, or is invoiced the fee component. To the extent control of the natural gas transfers upstream of the transportation and processing activities, revenue is recognized as the net amount received from the purchaser. To the extent that control transfers downstream of the transportation and processing activities, revenue is recognized on a gross basis, and the related costs are classified in gathering, processing and transportation within lease operating expenses on the Company's statements of operations. Marketing and Transportation fees of $9,179,869 and $5,990,672 were recognized in net natural gas and liquids sales during the years ended December 31, 2023 and 2022, respectively.

Salt Water Disposal Contracts—The Company's salt water disposal contracts transfer physical custody and title at delivery points which are near the customers' producing oil and gas properties, which is generally when control of the produced water has transferred to the Company for services to be performed under the contract. The salt water disposal services are performed under contracts using fee-based pricing. Revenue is recognized for each unit of produced salt water that is gathered and disposed at the price per unit specified in the contract.

Disaggregated revenue from contracts with customers consist of the following at December 31:

	2023	**2022**
Oil sales	$308,084,473	$244,166,814
Natural gas sales	9,002,068	19,585,782
Natural gas liquid sales	24,713,425	22,615,530
Marketing and transportation	(9,179,869)	(5,990,672)
Net oil, natural gas and natural gas liquids sales	332,620,097	280,377,454
Salt water disposal sales	1,775,177	1,268,738
Net sales	$334,395,274	$281,646,192

The Company had receivables from contracts with customers of $19,461,188 as of December 31, 2023, $27,182,293 as of December 31, 2022, respectively.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with ASC 606. The exemption, as described in ASC 606-10-50-14(a), 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.

Concentration of Credit Risk—The Company regularly maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Company’s accounts receivable consists primarily of amounts due from oil and natural gas purchasers. Certain purchasers are affected by periodic downturns in the oil and natural gas industry. The Company believes the credit-related losses due to economic fluctuations will not be significant to the Company’s results of operations.

Fair Value of Financial Instruments—Financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, derivatives and debt. The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the highly liquid nature of these short-term instruments. The carrying amount of debt approximates fair value based upon the floating interest rates payable on the Credit Agreement. Derivatives are recorded at fair value as discussed below.

Income Taxes—The Company is a limited liability company for federal income tax purposes and does not incur income taxes. Instead, its earnings and losses are included in the separate tax returns of its members. The consolidated financial statements do not reflect a provision for federal income taxes.

Under the centralized partnership audit rules effective for tax years beginning after 2017, the Internal Revenue Service (IRS) assesses and collects underpayments of tax from the Company instead of from each partner. The Company may be able to pass the adjustments through to its members by making a push-out election or, if eligible, by electing out of the centralized partnership audit rules.

The Company is subject to the Texas Margin Tax. For the year ended December 31, 2023 and 2022, the Company incurred margin tax expense of $0 and $0, respectively.

The Company recognizes in its consolidated financial statements the financial effect of a tax position, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to the Company’s status as a pass-through entity for federal income taxes and state filing requirements have been reviewed, and management is of the opinion that material positions taken by the Company would more likely than not be sustained by examination.

Accordingly, the Company has not recorded an income tax liability for uncertain tax benefits. As of December 31, 2023, the Company's tax year of 2020 and thereafter, remains subject to examination per Internal Revenue Service and the state of Texas guidelines.

Fair Value Measurements—Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels defined are as follows:

Level 1 Inputs: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Observable market-based inputs or unobservable inputs that are corroborated by market data. These are inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as the reporting date.

Level 3 Inputs: Unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

Valuation techniques that maximize the use of observable inputs are favored. Assets and liabilities are classified in their entirety based on the lowest priority level of input to the fair value measurement requires judgement and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

The company's derivative contracts are carried at fair value under ASC Topic 820, Fair Value Measurements and Disclosures. The fair value is based upon independently sourced market parameters. The fair value is estimated using forward-looking price cures and discounted cash flows that are observable or that can be corroborated by observable market data, and therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

	December 31, 2023			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$8,273,089	$ —	$8,273,089
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$ (30,511)	$ —	$ (30,511)

	December 31, 2022			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$ 255,481	$ —	$ 255,481

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$(6,792,095)	$ —	$(6,792,095)

The Company's oil and natural gas commodity contracts are included on the consolidated balance sheet in current derivative assets, non-current derivative assets, current derivative liabilities and long-term derivative liabilities.

Leases—In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, including subsequent related ASU amendments, that supersedes Accounting Standards Codification (ASC) 840 Leases and replaces it with ASC 842 Leases. The Company follows this accounting guidance for its leasing arrangements.

3. CREDIT AGREEMENT

On June 7, 2018, the Company entered into a five-year Credit Agreement (the Credit Agreement) with a third party. On January 31, 2020, the Credit Agreement was amended, and the administrative agent was changed to another third party. In June of 2022 the Credit Agreement was amended and restated and will mature on June 30, 2025 with a maximum credit amount of $500 million. In December 2022 the Credit Agreement was amended to increase the aggregated elected commitment amount to $236,377,907. Additionally, the Company amended its credit agreement to increase the borrowing base in March, July and November 2023 to $300 million, $250 million and $425 million, respectively. The Credit Agreement is guaranteed by the collateral as defined by in the amended and restated Guaranty Agreement dated June 30, 2022, which includes a pledge of substantially all of the Company's assets. In connection with entering into the Credit Agreement, for the year ending December 31, 2023 and 2022, the Company incurred debt issuance costs of $3,461,050 and $3,644,302, and amortizes the debt issuance costs monthly. Amortization expense recorded for the year ended December 31, 2023 and 2022 was $1,821,979 and $1,681,391, respectively, and is included in interest expense on the consolidated statement of operations.

Amounts outstanding under the Credit Agreement bear interest at the Company's option of the Alternate Base Rate, plus applicable margin or the SOFR, plus applicable margin. Under the Alternate Base Rate and SOFR Option, interest will be at the Applicable Base Rate plus the applicable interest margin.

The Company had borrowings outstanding of $375 million and $215 million on the Credit Agreement as of December 31, 2023 and 2022. Outstanding letters of credit included in line-of-credit, net, is $0 as of December 31, 2023 and 2022.

Availability under the Credit Agreement is subject to a borrowing base determined in the lenders' discretion consistent with normal and customary oil and natural gas lending practices. The borrowing base shall be re-determined twice annually. The borrowing base may also be re-determined upon the occurrence of certain events. The borrowing base on the Credit Agreement was approximately $425 million and $250 million at December 31, 2023 and 2022.

The Credit Agreement contains negative covenants that limit the Company's ability, among other things, to incur additional indebtedness, sell assets, enter into certain hedging contracts, change the nature of its business or operations, merge, consolidate, or make investments. In addition, the Company is required to maintain a current ratio (as defined in the credit agreement) of no less than 1.0 to 1.0, a net leverage ratio (as defined in the credit agreement) of no greater than 3.0 to 1.0.

At December 31, 2023 the Company was not compliant with certain negative covenants. In April 2024, the Company received a waiver on non-compliant covenants at and for the year-ended December 31, 2023.

Cash paid for interest for the years ended December 31, 2023 and 2022 was $27,222,405 and $12,389,528, respectively.

4. COMMODITY DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to commodity and interest rate volatility, support the Company's capital budget and expenditure plans and support the economics associated with acquisitions by stabilizing cash flows.

The Company does not enter into derivative instruments for speculative or trading purposes. The Company accounts for derivatives in accordance with FASB ASC Topic 815, Accounting for Derivative Instruments and Hedging Activity. Currently, the Company does not designate its derivative instruments to qualify for hedge accounting. Accordingly, the Company reflects changes in the fair value of its derivative instrument of operations as they occur.

Commodity derivative instruments may take the form of collars, swaps or other derivatives indexed to WTI, NYMEX or other commodity price indexes.

Such derivative instruments will not exceed anticipated production volumes, are expected to have a reasonable correlation between price movements in the futures market and spot markets where the Company's production is sold, and are authorized by the Board of Directors. Derivatives expected to be realized as related production occurs, but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated. The Company's crude oil derivative positions consist of puts and calls. The periods covered, notional amounts, fixed price and related commodity pricing index of the Company's outstanding oil and natural gas derivative contracts as of December 31, 2023 and 2022 are set forth in the table below:

2023

Crude Oil

Period	Transaction Type	Volume BBLs	Contract Price ($)
2024	Collar	2,202,000	$60.64-$85.00
2024	Swap	1,355,000	$75.06
2025	Collar	1,323,000	$56.50-$82.26
2025	Swap	174,000	$67.08

Natural Gas

Period	Transaction Type	Volume MMBTU	Contract Price ($)
2024	Collar	5,110,000	$2.76-$4.48
2024	Swap	271,500	$3.62
2025	Collar	2,123,000	$2.98-$4.73
2025	Swap	257,000	$4.37

2022

Crude Oil

Period	Transaction Type	Volume BBLs	Contract Price ($)
2023–2024	Swap	200,000	$63.15–$64.8
2023–2024	Put	(1,352,500)	$55.00–$80.00
2023–2024	Call	363,000	$65.10–$116.25
2023–2024	Collar	116,000	$65.10–$85.1

Natural Gas

Period	Transaction Type	Volume MMBTU	Contract Price ($)
2023–2024	Put	(1,501,000)	$2.50–$3.75
2023–2024	Call	1,319,000	$2.97–$9.01
2023–2024	Collar	593,000	$3.00–$6.48

Unrealized gain (loss) on derivative instruments for the year ended December 31, 2023 and 2022 was $14,779,192 and $7,948,564.

5. MEMBER’S EQUITY

The Company is owned by its member, Point Energy Partners Petroleum, LLC, and its investment members (collectively, members). According to the Limited Liability Company (LLC) agreement (LLC Agreement), members of the Company committed to $101.3 million in capital contributions. As of December 31, 2023 and 2022 the members had contributed $99,415,893 and $84,393,570, respectively, under this agreement. Earnings and losses of the Company are allocated to the members as set forth in the LLC Agreement, which are not necessarily consistent with each member's ownership interest. Distributions will be made at the proportion relative to ownership percentage interests, except in the case of an exit event. In the case of an exit event payments are made to shareholders based on the Limited Liability Company agreement.

Certain members of Point Energy Partners Petroleum, LLC granted profits interests in form of Class B Units to employees of Point Energy Management, LLC who are working for the benefit of the Company. Class B unitholders are entitled to participate in distributions pursuant to a waterfall calculation as specified within the applicable amended and restated LLC agreements.

These units are subject to a time vesting schedule of three to four years whereby 25% or 33% vest on each anniversary of the grant date. Outstanding unvested units also vest upon a liquidity event which management believes is currently not probable of occurrence. If the holder's employment terminates for cause or the holder leaves for any reason, vested and unvested units are forfeited. If the holder's employment is terminated by the employer without cause, then any unvested units held by the holder are forfeited.

The Class B Units are accounted for as a profit-sharing arrangement with distributions charged to compensation expense and an associated liability recorded at the date a payment becomes probable and reasonably estimable. No compensation expense has been recorded to date for these units.

6. LEASES

The Company leases its operating and office facilities under long-term, non-cancelable operating lease agreements. These leases expire at various dates through 2028 and provide for renewal options, which the Company has evaluated whether it is reasonably certain to renew. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, and operating lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend the lease and are included when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

The Company made the following significant assumptions and judgments in identifying leases, allocating consideration, and determining the lease term and the discount rate:

- Useful life of the leased asset
- Fair value of the leased asset

None of the Company's lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. The depreciable life of related leasehold improvements is based on the shorter of the useful life or the lease term. The Company has no finance leases, and no lease agreements in which it is named as a lessor. The Company performs interim reviews of its long-lived assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable, and the Company did not recognize an impairment expense associated with operating lease assets during 2023 or 2022.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. However, by electing by class of underlying asset the available practical expedient, the Company has elected to account for the lease and non-lease components as a single lease component, which may cause variability in future lease payments as the amount of non-lease components is revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance that are passed on from the lessor, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The components of lease expense, cash flow information, and other information for the years-ended December 31, 2023 and 2022 were as follows:

	2023	2022
Operating lease cost (included in general and administrative expenses in the Company's consolidated statements of operations	$ 317,961	$ 306,758
Operating lease cost (included in lease operating expenses in the Company's consolidated statements of operations	308,718	65,406
Operating lease assets obtained in exchange for lease liabilities	1,969,930	1,969,930
Weighted average remaining lease term—operating leases (years)	3.0	3.1
Weighted average discount rate—operating leases	8.0%	8.0%

The supplemental balance sheet information related to leases for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Long-term right of use assets	$1,309,427	$1,633,634
Short-term operating lease liabilities	$ 804,204	$ 623,435
Long-term operating lease liabilities	515,117	1,049,244
Total operating lease liabilities	$1,319,321	$1,672,679

Maturities of the Company's lease liabilities are as follows:

Year Ending December 31, 2023	
2024	$ 650,913
2025	423,195
2026	352,452
2027	360,197
2028	214,256
Less: imputed interest	(681,692)
	$1,319,321

7. RELATED PARTY TRANSACTIONS

Point Energy Management, LLC (PEM), an entity under certain common ownership, provides for management, operational, general and administrative, and other similar services necessary and sufficient or appropriate to conduct the affairs of the Company. The Company provides reimbursement of actual direct and indirect expenses in connection with the services of operating the Company provided by employees of PEM. During the years ended December 31, 2023 and 2022, the Company reimbursed approximately $3,900,000 and $2,600,000 of included with general and administrative expense on the consolidated statement of operations.

At December 31, 2023 and 2022 the Company had receivables PEM of $183,136 and $218,679 from PEM, for reimbursement of operating costs. The Company also had receivables from Point Energy Permian, LLC, an entity under certain common ownership for reimbursement of operating costs at December 31, 2023 and 2022 of $75,740 and $122,075.

8. COMMITMENTS AND CONTINGENCIES

The Company is party to ongoing legal proceedings in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, the Company does not believe the results of these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental cleanup of well sites or other environmental restoration procedures as they relate to the drilling of oil and gas wells and the operation thereof. The Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could fall upon the Company. No claim has been made, nor is the Company aware of any liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations relating thereto.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events that occurred after December 31, 2023, through April 10, 2024 the date which the consolidated financial statements were available to be issued.

In April 2024 the Company amended its credit agreement dated June 30, 2022 with a letter agreement whereby as of December 31, 2023 the required maintenance of a current ratio of not less than 1.00 for the last day of the fiscal quarter ended December 31, 2023 was waived solely with respect to such test date. Additionally, effective as of March 31, 2024, the 1.0 current ratio test was amended for the last day of the fiscal quarter ending March 31, 2024, whereby the Borrower will instead not permit such current ratio as of such date to be less than 0.50 to 1.00.

In addition, in April 2024 the Company amended its credit agreement to increase the borrowing base to $500 million.

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Supplemental oil, NGL and natural gas disclosures (unaudited)

Costs incurred in oil and natural gas property acquisition, exploration and development activities

The following table presents costs incurred in the acquisition, exploration and development of oil and natural gas properties, with asset retirement obligations included in evaluated property acquisition costs and development costs, for the periods presented:

(in thousands)	Years ended December 31, 2023	2022
Property acquistion costs:		
Evaluated	$ 103,049	$ 25,979
Unevaluated		
Exploration costs		
Development costs	443,836	258,969
Total oil and natural gas properties costs incurred	$ 546,886	$ 284,948

Aggregate capitalized oil, NGL and natural gas costs

The following table presents the aggregate capitalized costs related to oil, NGL and natural gas production activities with applicable accumulated depletion and impairment as of the dates presented:

(in thousands)	Years ended December 31, 2023	2022
Gross capitalized costs:		
Evaluated	$1,023,009	$592,487
Unevaluated properties not being depleted		
Total gross capitalized costs	1,023,009	592,487
Less accumulated depletion and impairment	(146,228)	(92,474)
Net capitalized costs	$ 876,781	$500,014

There are zero unevaluated property costs not being depleted as of December 31, 2023 and 2022.

Results of operations of oil, NGL and natural gas producing activities

The following table presents the results of operations of oil, NGL and natural gas producing activities (excluding corporate overhead and interest costs) for the periods presented:

(in thousands)	Years ended December 31, 2023	2022
Revenues:		
Oil, NGL and natural gas sales	$ 341,800	$ 286,368
Production costs:		
Lease operating	51,981	31,296
Production and ad valorem taxes	16,560	12,127
Oil transportation and marketing expenses	2,337	1,545
Gas gathering, processing and transportation expenses	6,787	4,412
Total production costs	$ 77,665	$ 49,381
Other costs:		
Depletion	72,752	51,619
Accretion of asset retirement obligation	270	183
Income tax expense	—	—
Total other costs	73,022	51,802
Results of operations	$ 191,113	$ 185,185

Net proved oil, NGL and natural gas reserves

Netherland, Sewell & Associates, Inc. the Company’s independent reserve engineers, estimated 100% of the Company’s proved reserves as of December 31, 2023, 2022 and 2021. In accordance with SEC regulations, the reserves as of December 31, 2023, 2022 and 2021 were estimated using the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, certain transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the delivery point. The Company’s reserves are reported in three streams: oil, NGL and natural gas.

The SEC has defined proved reserves as the estimated quantities of oil, NGL and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The process of estimating oil, NGL and natural gas reserves is complex, requiring significant decisions in the evaluation of available geological, geophysical, engineering and economic data. The data for a given property may also change substantially over time as a result of numerous factors, including additional development activity, evolving production history and a continual reassessment of the viability of production under changing economic conditions. As a result, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various properties increase the likelihood of significant changes in these estimates. If such changes are material, they could significantly affect future amortization of capitalized costs and result in impairment of assets that may be material.

The following table reflects the changes in estimated proved reserve quantities of oil, NGL and natural gas for the years ended December 31, 2023 and 2022, all of which are located within the U.S.:

	Oil (MBbl)	NGL (MBbl)	Natural Gas (MMcf)	MBOE
Proved developed and undeveloped reserves:				
As of December 31, 2021	34,973	9,354	55,829	53,631
Revisions of previous quantity estimates	(1,033)	(138)	(10,903)	(2,988)
Extensions, discoveries and other additions	12,750	5,587	24,677	22,449
Acquisitions of reserves in place	3,460	1,148	5,078	5,454
Divestitures of reserves in place	(536)	(201)	(1,080)	(917)
Other Adjustments	896	277	1,515	1,426
Production	(1,853)	(473)	(2,946)	(2,817)
As of December 31, 2022	48,656	15,553	72,169	76,238
Revisions of previous quantity estimates	149	(1,886)	(6,870)	(2,882)
Extensions, discoveries and other additions	21,444	7,273	32,715	34,169
Acquisitions of reserves in place	14,390	3,751	18,068	21,152
Divestitures of reserves in place	(2,879)	(1,000)	(4,848)	(4,686)
Other Adjustments	(1,324)	(446)	(2,308)	(2,155)
Production	(2,869)	(861)	(4,354)	(4,455)
As of December 31, 2023	77,568	22,384	104,571	117,380
Proved developed reserves				
December 31, 2021	7,212	2,434	11,723	11,600
December 31, 2022	12,934	4,446	23,118	21,233
December 31, 2023	27,325	8,306	41,233	42,504
Proved undeveloped reserves				
December 31, 2021	27,760	6,921	44,106	42,032
December 31, 2022	35,723	11,107	49,051	55,005
December 31, 2023	50,243	14,078	63,338	74,877

Standardized Measure of Discounted Future Net Cash Flows

ASC 932 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines which are briefly discussed below.

Future cash inflows and future production and development costs, as of December 31, 2023 and 2022 were determined by applying the SEC pricing rule of the average of the first-day-of-the-month over the prior 12 months and the year- end costs to the estimated quantity to be produced. Estimates are made of quantities of proved reserves expected to be produced based on continuation of the economic conditions applied for that year. Any effect from the Company’s commodity hedges is excluded while estimates for abandonment are included, Actual future prices realized and costs could be lower or higher than the prices and costs used in computing the standardized measure of discounted future net cash flows. The Company has no estimated future tax expense as income taxes are calculated at the partner level and the Company itself remits no income tax. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor. These assumptions used are prescribed by the FASB and do not necessarily reflect our expectations of actual revenue nor the reserves present worth. The Company states that these are solely estimates of proved reserve quantities, whereby future schedules may be revised and the 10% discount rate is arbitrary.

The following table presents the standardized measure of discounted future net cash flows relating to proved oil, NGL and natural gas reserves for the periods presented:

(in thousands)	Years ended December 31, 2023	2022
Future cash inflows	$ 6,746,779	$ 5,554,963
Future production costs	(1,752,840)	1,016,397
Future development costs	(643,076)	571,896
Future income tax expense	—	—
Future net cash flows	4,350,864	3,966,670
10% discount for estimated timing of cash flows	(1,975,729)	(1,950,529)
Standardized measure of discounted future net cash flows	$ 2,375,135	$ 2,016,141

The following table presents the changes in the standardized measure of discounted future net cash flows relating to proved oil, NGL and natural gas reserves for the periods presented. Production costs includes severance and ad valorem taxes.

(in thousands)	Years ended December 31, 2023	2022
Standardized measure of discounted future net cash flows, beginning of year	$2,016,141	$ 892,287
Changes in the year resulting from:		
Sales, less production costs	(52,947)	(44,700)
Revisions of previous quantity estimates	(29,502)	(64,020)
Extensions, discoveries and other additions	591,150	556,483
Net change in prices and production costs	(670,946)	594,642
Changes in estimated future development costs	73,122	(89,964)
Acquisitions of reserves in place	378,839	127,837
Divestitures of reserves in place	(106,529)	(24,576)
Accretion of discount	201,614	89,229
Net change in income taxes	—	—
Timing differences and other	(25,807)	(21,075)
Standardized measure of discounted future net cash flows, end of year	$2,375,135	$2,016,141

Exhibit 99.2

POINT ENERGY PARTNERS OPERATING, LLC

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POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

AS OF JUNE 30, 2024 AND DECEMBER 31, 2023

	2024	2023
ASSETS		
CURRENT ASSETS:		
Cash	$ 14,279,966	$ 6,063,822
Accounts receivable	31,970,873	26,969,238
Accounts receivable—related party	2,741	260,730
Current derivative assets	—	7,054,015
Prepaid and other assets	13,562,105	13,835,586
Total current assets	59,815,685	54,183,391
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost, using the full cost method of accounting proved property	1,304,510,125	1,023,008,574
Other property and equipment	1,269,427	1,224,459
Less accumulated depletion and depreciation	(220,283,299)	(146,464,617)
Total property and equipment—net	1,085,496,253	877,768,416
OTHER NON-CURRENT ASSETS:		
Right of use assets	1,491,374	1,309,427
Linefill Inventory	1,036,524	1,325,520
Non-current derivative assets	48,122	1,219,074
TOTAL ASSETS	$1,147,887,958	$ 935,805,828
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 105,041,019	$ 135,865,253
Accrued expenses	14,813,801	9,809,168
Current derivative liabilities	9,314,212	—
Current operating lease liabilities	482,213	804,204
Royalty payable	42,929,002	25,094,569
Line-of-credit-net	476,317,504	—
Total current liabilities	648,897,751	171,573,194
NONCURRENT LIABILITIES:		
Line-of-credit—net	—	372,087,003
Non-current derivative liabilities	2,281,001	30,511
Non-current operating lease liabilities	948,019	515,117
Asset retirement obligation	4,980,669	4,805,281
Deferred Income	1,295,524	1,588,265
Total non-current liabilities	9,505,213	379,026,177
MEMBER'S EQUITY	489,484,994	385,206,457
TOTAL LIABILITIES AND MEMBER'S EQUITY	$1,147,887,958	$ 935,805,828

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

	2024	2023
REVENUES:		
Oil and natural gas sales	$302,828,657	$114,389,287
Salt water disposal sales	1,305,792	615,918
Realized gain (loss) on derivatives	(3,121,965)	(488,508)
Unrealized gain (loss) on derivatives	(19,789,669)	8,622,745
Total revenues	281,222,815	123,139,442
OPERATING COSTS AND EXPENSES:		
Depletion and depreciation expense	73,818,683	30,775,582
Lease operating	44,540,752	20,582,599
Workover costs	16,794,688	13,146,811
Production and ad valorem tax	14,218,696	5,833,990
General and administrative	4,865,585	3,411,481
Accretion expense	177,387	173,515
Total operating costs and expenses	154,415,791	73,923,978
OPERATING INCOME	126,807,024	49,215,464
OTHER INCOME (EXPENSE):		
Interest expense	(22,797,583)	(11,682,473)
Other income	198,060	—
Right of use asset lease expense—operating leases	71,036	5,549
Total other income (expense)	(22,528,487)	(11,676,924)
STATE INCOME TAX EXPENSE	—	—
NET INCOME	$104,278,537	$ 37,538,540

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

	Contributed Capital	Retained Earnings (Deficit)	Total
BALANCE—December 31, 2022	$84,393,570	$143,100,364	$227,493,934
Capital contributions	15,022,322	—	15,022,322
Net income	—	37,538,540	37,538,540
BALANCE—June 30, 2023	99,415,892	180,638,904	280,054,796
BALANCE—December 31, 2023	99,415,892	285,790,565	385,206,457
Net income	—	104,278,537	104,278,537
BALANCE—June 30, 2024	$99,415,892	$390,069,102	$489,484,994

The notes to consolidated financial statements are an integral part of these statements.

POINT ENERGY PARTNERS OPERATING, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 104,278,537	$ 37,538,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation expense	73,818,683	30,775,582
Accretion expense	177,387	173,515
Amortization of debt issuance costs	1,669,419	705,410
Unrealized (gain) loss on derivative contracts	19,789,669	(8,622,745)
Noncash lease expense	(71,036)	(5,549)
Changes in operating assets and liabilities:		
Accounts receivable	(5,001,635)	4,469,186
Accounts receivable—related party	257,989	52,078
Prepaids and other assets	540,583	56,156
Accounts payable	21,553,773	(8,218,318)
Accrued expenses	5,674,633	(231,360)
Royalty payable	17,834,433	5,259,767
Net cash provided by operating activities	240,522,435	61,952,262
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of oil and natural gas properties	(334,818,661)	(224,069,373)
Proceeds from sale of oil and natural gas properties	—	101,350,000
Purchase of other property and equipment	(48,713)	(283,353)
Net cash used in investing activities	(334,867,374)	(123,002,726)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	(1,736,965)	(1,553,749)
Proceeds from line-of-credit	115,000,000	136,000,000
Payments on line-of-credit	(10,701,952)	(91,000,000)
Proceeds from capital contributions	—	15,022,316
Net cash provided by financing activities	102,561,083	58,468,567
NET CHANGE IN CASH	8,216,144	(2,581,897)
CASH—Beginning of period	6,063,822	3,376,727
CASH—End of period	$ 14,279,966	$ 794,830
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additions and revisions to asset retirement obligations	$ (1,999)	$ 1,330,025
Oil and gas property purchases included in accounts payable	$ 69,494,595	$ 83,729,815
Accrued oil and natural gas properties	$ 8,330,000	$ 9,700,000

The notes to consolidated financial statements are an integral part of these statements.

1. ORGANIZATION

Nature of Operations—Point Energy Partners Operating, LLC (the Company), was formed on May 31, 2018. The primary purpose of the Company is for the acquisition, exploration, development and production of oil and natural gas properties located in Texas and New Mexico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation— The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Point Energy Partners Royalty GP, LLC, Point Energy Partners Water, LLC, and Point Energy Partners, Royalty, LLC. All intercompany transactions have been eliminated.

Basis of Presentation—These consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the SEC. They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to SEC rules and regulations, although the Company believes the disclosures are adequate to make the information presented not misleading. These interim financial statements should be read in conjunction with the Company’s annual financial statements for the years ended December 31, 2023 and 2022, which contains a summary of the Company’s significant accounting policies and other disclosures.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period.

The Company's most significant estimates relate to estimates for depletion on its oil and natural gas properties, asset retirement obligations and fair value of derivatives. Actual results could differ from those estimates.

Prepaid and Other Assets— Well equipment and drilling materials purchased in advance totaled $9,905,165 and $9,638,063 as of June 30, 2024 and December 31, 2023, respectively and is recorded in prepaid and other assets on the consolidated balance sheet.

Oil and Natural Gas Properties—The company applies the full cost method of accounting for oil and natural gas properties. Accordingly, all costs incurred in the acquisition, exploration, and development of oil and natural gas reserves are capitalized.

Depreciation, depletion and amortization of proved oil and natural gas properties are computed on the units-of-production method, using estimates of the underlying proved reserves. Capitalized costs of unproved properties and major development projects are excluded from amortization until proved reserves associated with the properties can be determined or until impairment occurs. The Company recorded $73,417,427 in depletion expense related to oil and natural gas properties for the six months ended June 30, 2024, and $30,701,052 for the six months ended June 30, 2023, which is included in depletion and depreciation expense on the consolidated statements of operations.

As discussed in Note 6, during the six months ended June 30, 2023, the Company sold certain royalty interests for consideration totaling $50,350,000. The sales of these royalty interests did not result in a substantial change, therefore all proceeds were netted against the full cost pool within oil and gas properties.

Asset Retirement Obligations—The following table describes the changes to the Company's asset retirement obligations liability for the six months ended June 30, 2024 and 2023:

	2024	2023
Asset retirement obligations—beginning of period	$4,805,281	$2,860,180
Additions during the period	15,604	1,289,631
Wells sold		
Revisions of estimates	(22,707)	40,394
Accretion of discount	182,491	173,515
Asset retirement obligation—end of period	$4,980,669	$4,363,720

Revenue Recognition—Disaggregated revenue from contracts with customers consist of the following for the six months ended June 30, 2024 and 2023:

	2024	2023
Oil sales	$290,109,713	$104,199,218
Natural gas sales	849,521	3,527,734
Natural gas liquid sales	20,834,758	10,181,406
Marketing and transportation	(8,965,335)	(3,519,071)
Net oil, natural gas and natural gas liquids sales	302,828,657	114,389,287
Salt water disposal sales	1,305,792	615,918
Net sales	$304,134,449	$115,005,205

The Company had receivables from contracts with customers of $25,482,710 as of June 30, 2024, and $19,461,188 as of December 31, 2023, respectively.

Fair Value of Financial Instruments—Financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, derivatives and debt. The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the highly liquid nature of these short-term instruments. The carrying amount of debt approximates fair value based upon the floating interest rates payable on the Credit Agreement. Derivatives are recorded at fair value as discussed below.

Fair Value Measurements—The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2024, and December 31, 2023:

	June 30, 2024			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$ 48,122	$ —	$ 48,122
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$(11,595,213)	$ —	$(11,595,213)

	December 31, 2023			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$ 8,273,089	$ —	$ 8,273,089
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Oil and natural gas commodity contracts	$ —	$ (30,511)	$ —	$ (30,511)

The Company's oil and natural gas commodity contracts are included on the consolidated balance sheet in current derivative assets, non-current derivative assets, current derivative liabilities and long-term derivative liabilities.

3. CREDIT AGREEMENT

The Company has a five-year Credit Agreement (the Credit Agreement) with a third party that matures on June 30, 2025 with a maximum credit amount of $500 million. As of March 31, 2024, the Credit Agreement had a borrowing base totaling $425 million. In April 2024, the Company amended its Credit Agreement to increase the borrowing base to $500 million.

The Company had borrowings outstanding of $480 million and $375 million on the Credit Agreement as of June 30, 2024, and December 31, 2023, respectively. Outstanding letters of credit included in line-of-credit, net, was $0 as of June 30, 2024, and December 31, 2023.

The Credit Agreement is guaranteed by the collateral as defined by in the amended and restated Guaranty Agreement dated June 30, 2022, which includes a pledge of substantially all of the Company's assets. Amortization expense of the debt issuance costs for this facility totaled $1,669,419 and $705,410 for the six months ended June 30, 2024 and 2023, respectively, and is included in interest expense on the consolidated statements of operations.

Amounts outstanding under the Credit Agreement bear interest at the Company's option of the Alternate Base Rate, plus applicable margin or the SOFR, plus applicable margin. Under the Alternate Base Rate and SOFR Option, interest will be at the Applicable Base Rate plus the applicable interest margin. The average interest rate on borrowings under the Credit Agreement as of June 30, 2024 was 9.43%.

Availability under the Credit Agreement is subject to a borrowing base determined in the lenders' discretion consistent with normal and customary oil and natural gas lending practices. The borrowing base shall be re-determined twice annually. The borrowing base may also be re-determined upon the occurrence of certain events.

The Credit Agreement contains negative covenants that limit the Company's ability, among other things, to incur additional indebtedness, sell assets, enter into certain hedging contracts, change the nature of its business or operations, merge, consolidate, or make investments. In addition, the Company is required to maintain a current ratio (as defined in the credit agreement) of no less than 1.0 to 1.0, a net leverage ratio (as defined in the credit agreement) of no greater than 3.0 to 1.0.

In April 2024 the Company amended its Credit Agreement with a letter agreement whereby as of December 31, 2023 the required maintenance of a current ratio of not less than 1.00 for the last day of the fiscal quarter ended December 31, 2023 was waived solely with respect to such test date. Additionally, effective as of March 31, 2024, the 1.0 current ratio test was amended for the last day of the fiscal quarter ending March 31, 2024, whereby the Borrower will instead not permit such current ratio as of such date to be less than 0.50 to 1.00.

At June 30, 2024 the Company was not compliant with certain negative covenants. In August 2024, the Company received a waiver of non-compliant covenants at and for the period ended June 30, 2024. See Note 9.

The Company paid off all outstanding borrowings under the Credit Agreement in connection with the sale of its oil and gas properties. See Note 9.

Cash paid for interest for the six months ended June 30, 2024 and 2023, was $17,477,540 and $10,910,347, respectively.

4. COMMODITY DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to commodity and interest rate volatility, support the Company's capital budget and expenditure plans and support the economics associated with acquisitions by stabilizing cash flows.

The Company does not enter into derivative instruments for speculative or trading purposes. The Company accounts for derivatives in accordance with FASB ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activity*. Currently, the Company does not designate its derivative instruments to qualify for hedge accounting. Accordingly, the Company reflects changes in the fair value of its derivative instrument of operations as they occur.

Commodity derivative instruments may take the form of collars, swaps or other derivatives indexed to WTI, NYMEX or other commodity price indexes.

Such derivative instruments will not exceed anticipated production volumes, are expected to have a reasonable correlation between price movements in the futures market and spot markets where the Company's production is sold, and are authorized by the Board of Directors. Derivatives expected to be realized as related production occurs, but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated. The Company's crude oil derivative positions consist of puts and calls. The periods covered, notional amounts, fixed price and related commodity pricing index of the Company's outstanding crude oil and natural gas derivative contracts as of June 30, 2024, and December 31, 2023, are set forth in the table below:

June 30, 2024
Crude Oil

Period	Transaction Type	Volume BBLs	Contract Price ($)
2024	Collar	1,621,000	$60.37-$83.97
2024	Swap	825,000	$77.73
2025	Collar	2,390,000	$57.18-$83.32
2025	Swap	174,000	$67.08
2026	Collar	448,000	$55.90-$80.64

Natural Gas

Period	Transaction Type	Volume MMBTU	Contract Price ($)
2024	Collar	3,536,000	$2.53-$3.69
2024	Swap	48,500	$3.59
2025	Collar	3,638,000	$2.91-$4.62
2025	Swap	257,000	$4.37
2026	Collar	690,000	$3.30-$5.62

December 31, 2023
Crude Oil

Period	Transaction Type	Volume BBLs	Contract Price ($)
2024	Collar	2,202,000	$60.64-$85.00
2024	Swap	1,355,000	$75.06
2025	Collar	1,323,000	$56.50-$82.26
2025	Swap	174,000	$67.08

Natural Gas

Period	Transaction Type	Volume MMBTU	Contract Price ($)
2024	Collar	5,110,000	$2.76-$4.48
2024	Swap	271,500	$3.62
2025	Collar	2,123,500	$2.98-$4.73

Unrealized gain (loss) on derivative instruments for the six months ended June 30, 2024 and 2023, was $(19,789,669) and $8,622,745 respectively.

5. MEMBER'S EQUITY

The Company is owned by its member, Point Energy Partners Petroleum, LLC, and its investment members (collectively, members). Earnings and losses of the Company are allocated to the members as set forth in the LLC Agreement, which are not necessarily consistent with each member's ownership interest. Distributions will be made at the proportion relative to ownership percentage interests, except in the case of an exit event. In the case of an exit event payments are made to shareholders based on the Limited Liability Company agreement.

Certain members of Point Energy Partners Petroleum, LLC granted profits interests in the form of Class B Units to employees of Point Energy Management, LLC who are working for the benefit of the Company. Class B unitholders are entitled to participate in distributions pursuant to a waterfall calculation as specified within the applicable amended and restated LLC agreements.

These units are subject to a time vesting schedule of three to four years whereby 25% or 33% vest on each anniversary of the grant date. Outstanding unvested units also vest upon a liquidity event which management believes is currently not probable of occurrence. If the holder's employment terminates for cause or the holder leaves for any reason, vested and unvested units are forfeited. If the holder's employment is terminated by the employer without cause, then any unvested units held by the holder are forfeited.

The Class B Units are accounted for as a profit-sharing arrangement with distributions charged to compensation expense and an associated liability recorded at the date a payment becomes probable and reasonably estimable. No compensation expense has been recorded to date for these units.

During the six months ended June 30, 2024, and 2023, the Company received capital contributions from its members totaling $0 and $15,022,316, respectively.

6. ACQUISITIONS AND DIVESTITURES

In February 2023, the Company entered into various agreements for the sale of the Company's royalty interest in certain oil and gas assets which closed in March of 2023 and the Company received proceeds from the sale of $50,350,000.

In February 2023, the Company entered into an agreement for the acquisition of oil and gas assets for a net final purchase price totaling $80 million with $73 million allocated to proved developed producing properties and $7 million to midstream related assets.

The Company entered into an agreement for the sale of the Company's royalty interest in certain oil and gas assets which closed in June of 2023 and the Company received proceeds from the sale of $51,000,000 at closing.

7. RELATED PARTY TRANSACTIONS

Point Energy Management, LLC (PEM), an entity under certain common ownership, provides for management, operational, general and administrative, and other similar services necessary and sufficient or appropriate to conduct the affairs of the Company. The Company provides reimbursement of actual direct and indirect expenses in connection with the services of operating the Company provided by employees of PEM. During the six months ended June 30, 2024 and 2023, the Company reimbursed $3,807,214 and $1,967,112 of included with general and administrative expense on the consolidated statements of operations.

At June 30, 2024, and December 31, 2023, the Company had receivables of $27 and $183,186 from PEM, for reimbursement of operating costs. The Company also had receivables from Point Energy Permian, LLC, an entity under certain common ownership for reimbursement of operating costs at June 30, 2024, and December 31, 2023, of $861 and $75,740, respectively.

8. COMMITMENTS AND CONTINGENCIES

The Company is party to ongoing legal proceedings in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, the Company does not believe the results of these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental cleanup of well sites or other environmental restoration procedures as they relate to the drilling of oil and gas wells and the operation thereof. The Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could fall upon the Company. No claim has been made, nor is the Company aware of any liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations relating thereto.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events that occurred after June 30, 2024, through September 23, 2024, the date which these consolidated financial statements were available to be issued.

In August 2024 the Company amended its credit agreement dated June 30, 2022 with a letter agreement whereby the parties acknowledged the specified disposition to Vital Energy, Inc., and Northern Oil and Gas, Inc. discussed above, and the lenders (1) consented and agreed with certain specified liquidations of swap agreements, (2) agreed to waive certain required hedging requirements for the October 1, 2024 measurement date, (3) waive the compliance with the current ratio as of June 30, 2024, (3) waive certain required periodic reporting requirements and (4) postponing of the originally scheduled Spring 2024 Redetermination.

On July 27, 2024 the Company entered into a Purchase and Sale Agreement with Vital Energy, Inc. and Northern Oil and Gas, Inc., to sell certain oil and gas properties, rights and related assets, effective as of April 1, 2024 for a purchase price of $1.1 billion subject to certain customary working capital adjustments. The sale of these assets closed on September 20, 2024. The Company used a portion of the proceeds from the sale of these assets to repay and extinguish all of its outstanding indebtedness under the Credit Agreement discussed in Note 3. Additionally, the Company distributed a portion of the net proceeds to its owners at closing.

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Vital Energy, Inc.

Unaudited Pro Forma Condensed Combined Financial Information

On July 27, 2024, Vital Energy, Inc., (“Vital Energy” or the “Company”), entered into a purchase and sale agreement with Northern Oil and Gas, Inc. (“NOG”) and Point Energy Partners Petroleum, LLC, Point Energy Partners Operating, LLC, Point Energy Partners Water, LLC and Point Energy Partners Royalty, LLC (together, “Point”), pursuant to which the Company and NOG agreed to purchase Point’s oil and natural gas properties located in Ward and Winkler Counties (the “Point Acquisition”). The Company agreed to purchase 80% of the acquired assets and will operate the assets, and NOG agreed to purchase the remaining 20% of the assets.

On September 20, 2024, Vital Energy, NOG and Point completed the Point Acquisition for an aggregate purchase price of $1.0 billion of cash, after closing adjustments, subject to customary closing adjustments. Total consideration paid by Vital Energy to Point for its portion was $815.2 million in cash, which was funded from borrowings under its senior secured credit facility.

Vital Energy completed the following transactions during the year ended December 31, 2023, collectively known as the “2023 Acquisitions, “ and discussed in more detail in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023:

- **Tall City Acquisition**: As previously disclosed in its Current Report on Form 8-K filed on November 6, 2023 with the United States Securities and Exchange Commission (the “SEC”), on November 6, 2023, Vital Energy 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.
- **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 Energy completed the acquisition of approximately 93% 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.
- **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 Energy completed the acquisition of certain oil and natural gas properties from Maple Energy Holdings, LLC .
- **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 Energy and Northern Oil and Gas, Inc. (“NOG”) completed the acquisition of the assets of Forge Energy II Delaware, LLC. Vital Energy acquired an undivided 70% interest in Forge’s oil and natural gas properties located in the Delaware Basin in Ward, Reeves and Pecos Counties, and NOG acquired the remaining undivided 30% interest.
- **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 Energy completed the acquisition of interests in oil and natural gas leases and related property located in the Midland Basin from Driftwood Energy Operating, LLC.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2024 gives effect to the Point Acquisition as if it had been completed on June 30, 2024. The Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended June 30, 2024 and the year ended December 31, 2023 give effect to the Point Acquisition and the 2023 Acquisitions as if they had been completed on January 1, 2023. 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 Energy would have been had the Point Acquisition and the 2023 Acquisitions and related financing of such acquisitions occurred on the dates noted above, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. Future results may vary significantly from the results reflected because of various factors. In Vital Energy’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 Point Acquisition and the 2023 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 Energy contained in Vital Energy's Annual Report on Form 10-K for the year ended December 31, 2023;
- The unaudited condensed financial statements and accompanying notes contained in Vital Energy's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024;
- The audited consolidated financial statements and related notes of Point as of December 31, 2023 and 2022 and for the years then ended, which are included elsewhere in this filing;
- The unaudited condensed financial statements and related notes of Point as of June 30, 2024, and for the six month periods ended June 30, 2024 and 2023, which are included elsewhere in this filing; and
- The unaudited pro forma condensed combined financial information of Vital Energy for the year ended December 31, 2023, which are incorporated by reference from Exhibit 99.2 to Vital Energy's Annual Report on Form 10-K for the year ended December 31, 2023.

Vital Energy, Inc.
Pro forma condensed combined balance sheets
As of June 30, 2024
(in thousands)
(Unaudited)

	Historical		Transaction accounting adjustments				
	Vital Energy	Point	Conforming and reclass		Acquisition Adjustments		Pro forma combined
Assets							
Current assets:							
Cash and cash equivalents	$ 56,564	$ —	$ —		$ —	(d)	$ 56,564
Cash	—	14,280	$ (14,280)	(a)	—		—
Accounts receivable, net	225,111	—	—		—		225,111
Accounts receivable	—	31,971	(31,971)	(a)	—		—
Accounts receivable - related party	—	3	(3)	(a)	—		—
Derivatives	4,495	—	—		—		4,495
Other current assets	26,356	—	—		14,230	(e)	40,586
Other assets	—	13,562	(13,562)	(a)	—		—
Total current assets	312,526	59,816	(59,816)		14,230		326,756
Property and equipment:							
Oil and natural gas properties, full cost method:							
Evaluated properties	12,317,485	—	—		753,544	(f)	13,071,029
Unevaluated properties not being depleted	193,845	—	—		72,693	(f)	266,538
Less: accumulated depletion and impairment	(8,094,808)	—	—		—		(8,094,808)
Oil and natural gas properties, net	4,416,522	—	—		826,237		5,242,759
Midstream and other fixed assets, net	131,200	—	—		—		131,200
Oil and natural gas properties, at cost, using the full cost method of accounting proved property	—	1,304,510	(1,304,510)	(c)	—		—
Other property and equipment	—	1,269	(1,269)	(c)	—		—
Less accumulated depletion and depreciation	—	(220,283)	220,283	(c)	—		—
Property and equipment, net	4,547,722	1,085,496	(1,085,496)		826,237		5,373,959
Derivatives	36,375	—	—		—		36,375
Non-current derivative assets	—	48	(48)	(a)	—		—
Operating lease right-of-use assets	139,037	—	—		228	(f)	139,265
Right of use assets	—	1,491	(1,491)	(a)	—		—
Deferred income taxes	196,413	—	—		—		196,413
Linefill inventory	—	1,037	(1,037)	(a)	—		—
Other noncurrent assets, net	31,135	—	—		2,400	(h)	33,535
Total assets	$ 5,263,208	$1,147,888	$(1,147,888)		$ 843,095		$ 6,106,303
Liabilities and stockholders' equity							
Current liabilities:							
Accounts payable and accrued liabilities	$ 153,117	$ —	$ —		$ —		$ 153,117
Accounts payable	—	105,041	(105,041)	(a)	—		—
Accrued capital expenditures	91,064	—	—		—		91,064
Accrued expenses	—	14,814	(14,814)	(a)	—		—
Undistributed revenue and royalties	219,292	—	—		5,180	(e)	224,472
Royalty payable	—	42,929	(42,929)	(a)	—		—
Derivatives	16,537	—	—		—		16,537
Current derivative liabilities	—	9,314	(9,314)	(a)	—		—
Operating lease liabilities	78,672	—	—		228	(g)	78,900
Current operating lease liabilities	—	482	(482)	(a)	—		—
Other current liabilities	58,738	—	—		—		58,738
Line-of-credit - net	—	476,318	(476,318)	(a)	—		—
Total current liabilities	617,420	648,898	(648,898)		5,408		622,828

	Historical		Transaction accounting adjustments					
	Vital Energy	Point	Conforming and reclass		Acquisition Adjustments		Pro forma combined
Long-term debt, net	1,662,263	—	—		830,872	(i)	2,493,135
Derivatives	152	—	—		—		152
Asset retirement obligations	84,149	4,981	(4,981)	(a)	4,668	(j)	88,817
Operating lease liabilities	56,947	—	—		—		56,947
Non-current derivative liabilities	—	2,281	(2,281)	(a)	—		—
Derivative financial instrument	—	—	—		—		—
Non-current operating lease liabilities	—	948	(948)	(a)	—		—
Deferred Income	—	1,295	(1,295)	(b)	—		—
Other noncurrent liabilities	6,379	—	—		2,147	(e)	8,526
Total liabilities	2,427,310	658,403	(658,403)		843,095		3,270,405
Commitments and contingencies							
Stockholders' equity:							
Common stock	382	—	—		—		382
Additional paid-in capital	3,814,475	—	—		—		3,814,475
Accumulated deficit	(978,959)	—	—		—		(978,959)
Members' equity	—	489,485	(489,485)	(a)	—		—
Total stockholders' equity	2,835,898	489,485	(489,485)		—		2,835,898
Total liabilities and stockholders' equity	$5,263,208	$1,147,888	$(1,147,888)		$ 843,095		$6,106,303

Vital Energy, Inc.
Pro forma condensed combined statements of operations
For the six months ended June 30, 2024
(in thousands, except per share data)
(Unaudited)

	Historical		Transaction accounting adjustments				
	Vital Energy	Point	Conforming and reclass		Acquisition Adjustments		Pro forma combined
Revenues:							
Oil sales	$ 857,451	$ —	$ 290,110	(a)	$ (58,022)	(e)	$1,089,539
NGL sales	86,945	—	849	(a)	(170)	(e)	87,624
Natural gas sales	12,874	—	20,835	(a)	(4,167)	(e)	29,542
Oil and natural gas sales	—	302,829	(302,829)	(a)	—		—
Salt water disposal sales	—	1,306	(1,306)	(a)	—		—
Realized loss on derivatives	—	(3,122)	3,122	(a)	—		—
Unrealized loss on derivatives	—	(19,790)	19,790	(a)	—		—
Other operating revenues	1,440	—	1,306	(a)	(261)	(e)	2,485
Total revenues	958,710	281,223	31,877		(62,620)		1,209,190
Costs and expenses:							
Lease operating expenses	219,470	44,541	16,794	(a)	(12,267)	(e)	268,538
Workover costs	—	16,794	(16,794)	(a)	—		—
Production and ad valorem taxes	57,693	14,219	—		(2,844)	(e)	69,068
Oil transportation and marketing expenses	22,032	—	5,371	(a)	(1,074)	(e)	26,329
Gas gathering, processing, and transportation expenses	7,464	—	3,594	(a)	(719)		10,339
Costs of purchased oil	—	—	—		—		—
General and administrative	52,929	4,866	—		(973)	(e)	56,822
Depletion, depreciation and amortization	340,405	—	—		76,625	(f)	417,030
Depletion and depreciation expense	—	73,819	(73,819)	(b)	—		
Accretion expense	—	177	(177)	(c)	—		—
Other operating expenses, net	3,611	—	—		257	(c)	3,868
Total costs and expenses	703,604	154,416	(65,031)		59,005		851,994
Gain on disposal of assets, net	166	—	—		—		166
Operating income (loss)	255,272	126,807	96,908		(121,625)		357,362
Non-operating income (expense):							
Loss on derivatives, net	(144,489)	—	(22,912)	(a)	4,582	(e)	(162,819)
Interest expense	(84,111)	(22,797)	22,797	(d)	(31,964)	(g)	(116,075)
Loss on extinguishment of debt, net	(66,115)	—	—		—		(66,115)
Other income, net	4,674	198	71	(a)	(54)	(e)	4,889
Right of use asset lease expense—operating leases	—	71	(71)	(a)	—		—
Total non-operating income (expense), net:	(290,041)	(22,528)	(115)		(27,436)		(340,120)
Income (loss) before income taxes	(34,769)	104,279	96,793		(149,061)		17,242
Income tax benefit (expense)	5,340	—	—		(11,195)	(h)	(5,855)
Net income (loss)	$ (29,429)	$104,279	$ 96,793		$ (160,256)		$ 11,387
Preferred stock dividends	(652)						(652)
Income (loss) available to common shareholders	$ (30,081)						$ 10,735
Net income (loss) per common share:							
Basic	$ (0.84)					(i)	$ 0.30
Diluted	$ (0.84)					(i)	$ 0.31
Weighted-average common shares outstanding:							
Basic	35,973					(i)	35,973
Diluted	35,973					(i)	37,264

Vital Energy, Inc.
Pro forma condensed combined statements of operations
For the year ended ended December 31, 2023
(in thousands, except per share data)
(Unaudited)

	Historical		Transaction accounting adjustments				
	Vital Energy(1)	Point	Conforming and reclass		Acquisition Adjustments		Pro forma combined
Revenues:							
Oil sales	$ 1,819,865	$ —	$ 308,085	(a)	$ (61,617)	(e)	$2,066,333
NGL sales	191,795	—	9,002	(a)	(1,800)	(e)	198,997
Natural gas sales	88,621	—	24,713	(a)	(4,943)	(e)	108,391
Oil and natural gas sales, net	—	332,620	(332,620)	(a)	—		—
Salt water disposal sales	—	1,775	(1,775)	(a)	—		—
Realized loss on derivatives	—	(4,174)	4,174	(a)	—		—
Unrealized gain on derivatives	—	14,779	(14,779)	(a)	—		—
Sales of purchased oil	14,313	—	—		—		14,313
Water disposal fees and pipeline income	7,480	—	—		—		7,480
Other operating revenues	5,731	—	1,775	(a)	(355)	(e)	7,151
Total revenues	2,127,805	345,000	(1,425)		(68,715)		2,402,665
Costs and expenses:							
Lease operating expenses	411,908	51,981	25,687	(a)	(15,534)	(e)	474,042
Workover expenses	—	25,687	(25,687)	(a)	—		—
Production and ad valorem taxes	122,813	16,560	—		(3,312)	(e)	136,061
Oil transportation and marketing expenses	41,284	—	6,207	(a)	(1,241)	(e)	46,250
Gas gathering, processing and transportation expenses	10,058	—	2,973	(a)	(595)	(e)	12,436
Costs of purchased oil	15,065	—	—		—		15,065
General and administrative	126,342	7,699	—		(1,540)	(e)	132,501
Organizational restructuring expenses	1,654	—	—		—		1,654
Depletion, depreciation and amortization	595,429	—	—		103,686	(f)	699,115
Depletion and depreciation expense	—	72,933	(72,933)	(b)	—		—
Accretion expense	—	273	(273)	(c)	—		—
Other operating expenses, net	12,206	—	—		481	(c)	12,687
Total costs and expenses	1,336,759	175,133	(64,026)		81,945		1,529,811
Gain on disposal of assets, net	672	—	—		—		672
Operating income	791,718	169,867	62,601		(150,660)		873,526
Non-operating income (expense):							
Gain (loss) on derivatives, net	$ 94,864		10,605	(c)	(2,121)	(e)	103,348
Interest expense	(185,689)	(27,275)	27,275	(d)	(63,927)	(g)	(249,616)
Loss on extinguishment of debt, net	(4,039)	—	—		—		(4,039)
Other income, net	8,646	69	29	(h)	(20)	(e)	8,724
Right of use asset lease expense—operating leases	$ —	29	(29)	(h)	—		—
Total non-operating income (expense), net	(86,218)	(27,177)	37,880		(66,068)		(141,583)
Income before income taxes	705,500	142,690	100,481		(216,728)		731,943
Income tax benefit (expense)	$ 80,321	—	—		(5,692)	(h)	74,629
Net income	$ 785,821	$142,690	$ 100,481		$ (222,420)		$ 806,572
Preferred stock dividends	(6,197)						(6,197)
Net income available to common stockholders	$ 779,624						$ 800,375

	Historical		Transaction accounting adjustments			
	Vital Energy[1]	Point	Conforming and reclass	Acquisition Adjustments		Pro forma combined
Net income per common share:						
Basic	$ 29.48				(i)	$ 30.26
Diluted	$ 24.44				(i)	$ 25.09
Weighted-average common shares outstanding:						
Basic	26,448				(i)	26,448
Diluted	32,151				(i)	32,151

1. Vital Energy's historical statement of operations for the year ended December 31, 2023, as shown in the table above, includes the effects of pro forma adjustments for the 2023 Acquisitions as presented in Exhibit 99.2 to Vital Energy's Annual Report on Form 10-K for the year ended December 31, 2023, and incorporated by reference into these unaudited pro forma condensed combined financial statements.

Vital Energy, Inc.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements were prepared based on the historical consolidated financial statements of Vital Energy, including the 2023 Acquisitions, and Point in accordance with Article 11 of the SEC's Regulation S-X. Vital Energy is acquiring substantially all the assets of Point. The Point Acquisition has been assumed to be an asset acquisition for purposes of these unaudited pro forma condensed combined financial statements in accordance with Accounting Standards Codification Topic 805 ("ASC 805"). The fair value of the consideration paid by Vital Energy 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 Point Acquisition are capitalized as a component of the purchase price. Certain of the historical amounts for the Point Acquisition have been reclassified to conform to the financial statement presentation of Vital Energy.

The Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended June 30, 2024 and the year ended December 31, 2023 give effect to the Point Acquisition and the 2023 Acquisitions as if they had been completed on January 1, 2023. The Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2024 was prepared as if the Point Acquisition had occurred on June 30, 2024.

The unaudited pro forma condensed combined financial information and related notes are presented for illustrative purposes only. If the Point Acquisition and other transactions contemplated herein had occurred in the past, Vital Energy'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 Vital Energy would have achieved if the Point 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 Vital Energy will have after the contemplation of the Point Acquisition and the other transactions contemplated by the unaudited pro forma condensed combined financial information. For income tax purposes, the Point Acquisition will 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 Energy'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 Point Acquisition is based upon management's estimates and assumptions related to the relative fair value of assets to be acquired and liabilities to be assumed upon closing of the transaction using current available information. 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 Energy are as follows (in thousands, except share amounts and share stock price):

Consideration:	
Cash consideration	$880,000
Closing adjustments	(64,813)
Total cash consideration	$815,187
Direct transaction costs	15,685
Total consideration	$830,872
Relative fair value of assets acquired:	
Oil and natural gas properties, full cost method:	
Evaluated properties	753,544
Unevaluated properties	72,693
Other assets	16,630
Operating right-of-use assets	228
Amount attributable to assets acquired	$843,095
Fair value of liabilities assumed:	
Suspended revenues	5,180
Asset retirement obligations	4,668
Other liabilities	2,147
Operating lease liabilities	228
Amount attributable to liabilities assumed	$ 12,223

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 Energy. 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 Energy believes provide a reasonable basis for presenting the significant effects of the Acquisitions. General descriptions of the pro forma adjustments are provided below.

Unaudited Pro Forma Condensed Combined Balance Sheet

The following adjustments were made in the preparation of the unaudited pro forma condensed combined balance sheet as of June 30, 2024:

(a) Adjustment to remove assets and liabilities not acquired as part of the Point Acquisition as well as associated historical book equity.

(b) Adjustment to conform Point's historical presentation of the assets and liabilities acquired as part of the Point Acquisition to the presentation by Vital Energy.

(c) Adjustment to eliminate the historical book value and accumulated depreciation, depletion and amortization of Point's oil and natural gas properties as of June 30, 2024.

(d) Zero net impact to cash as a result of the Point Acquisition. Borrowings under the senior secured credit facility of $830.9 million were used to fund consideration paid to the seller of $815.2 million and direct transaction costs of $15.7 million.

(e) Adjustment to reflect the fair value of other assets and liabilities assumed in the Point Acquisition.

(f) Adjustment to reflect the fair value of the oil and natural gas properties acquired in the Point Acquisition.

(g) Adjustment to reflect the fair value of the right of use operating leases acquired in the Point Acquisition.

(h) Adjustment to record the fair value of line fill inventory acquired in the Point Acquisition.

(i) Adjustment to record new borrowings under the Company's senior secured credit facility related to the cash consideration used in the Point Acquisition.

(j) Adjustment to reflect the fair value of the asset retirement obligations assumed with the Point Acquisition.

Unaudited Pro Forma Condensed Combined Statements of Operations

The following adjustments were made in the preparation of the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2024, and the year ended December 31, 2023:

(a) Adjustments to conform Point's historical presentation of these line items to the presentation by Vital Energy.

(b) Adjustment to remove the historical amount of Point's depletion and depreciation expense.

(c) Adjustment to remove historical accretion expense of Point associated with asset retirement obligations and recalculate accretion expense based upon estimated fair value.

(d) Adjustment to remove Point's historical interest expense.

(e) Adjustments necessary to remove the historical revenues, gains, expenses and losses associated with the 20% undivided interest acquired by NOG in the oil and natural gas properties of Point.

(f) Represents depreciation, depletion, and amortization expense resulting from the change in basis of property and equipment acquired as a result of the Point 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.

(g) Adjustment to reflect the estimated interest expense in the periods presented with respect to the incremental borrowings on the Company's senior secured credit facility necessary to finance the Point Acquisition. The interest rate utilized as of June 30, 2024, was 7.694% for incremental borrowings. A one-eighth percent increase or decrease in the interest rate would have changed interest expense by $0.5 million and $1.0 million for the six months ended June 30, 2024 and year ended December 31, 2023, respectively.

(h) The adjustment pertains to estimated income tax considerations associated with the Point Acquisition. This entity was previously held within a flow-through structure, making it exempt from federal income taxes. Income tax expense for the Point Acquisition are recorded at an effective tax rate of 21.5%.

(i) The following table provides a reconciliation between basic and diluted net income for the six months ended June 30, 2024 and year ended December 31, 2023 (in thousands, except per share amounts):

	Six Months Ended June 30, 2024		Year Ended December 31, 2023	
	Historical	Pro-Forma	Historical	Pro-Forma
Net income (loss)	$(29,429)	$ 11,387	$785,821	$806,572
Less: Preferred dividends	(652)	(652)	(6,197)	(6,197)
Net income (loss) available to common shareholders	(30,081)	10,735	779,624	800,375
Weighted-average common shares outstanding:				
Basic	35,973	35,973	26,448	26,448
Dilutive non-vested restricted stock	—	112	106	106
Dilutive non-vested performance awards	—	10	2	2
Dilutive preferred stock	—	1,169	5,595	5,595
Diluted	35,973	37,264	32,151	32,151
Net income (loss) per share:				
Basic	$ (0.84)	$ 0.30	$ 29.48	$ 30.26
Diluted	$ (0.84)	$ 0.31	$ 24.44	$ 25.09

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

The following table sets forth information with respect to the historical and pro forma combined estimated oil and natural gas reserves as of December 31, 2023 for Vital Energy and Point. The reserve information of Vital Energy and Point have been prepared by independent petroleum engineers Ryder Scott Company, L.P. and Netherland, Sewell & 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 Point Acquisition taken place on January 1, 2023, nor is it intended to be a projection of future results. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Periodic revisions or removals of estimated reserves and future cash flows may be necessary as a result of a number of factors, including reservoir performance, new drilling, crude oil and natural gas prices, changes in costs, technological advances, new geological or geophysical data, changes in business strategies, or other economic factors. Accordingly, proved reserve estimates may differ significantly from the quantities of crude oil and natural gas ultimately recovered. For Vital Energy and Point, 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, 2023.

Estimated oil and natural gas reserves

	As of December 31, 2023			
	Vital Energy	Point	Transaction Adjustment[1]	Pro forma combined
Estimated proved developed reserves:				
Oil (MBbl)	104,993	27,325	(5,465)	126,853
Natural gas (MMcf)	555,472	41,233	(8,247)	588,458
Natural gas liquids (MBbl)	89,449	8,306	(1,661)	96,094
Total equivalent reserves (Mboe)[2]	287,021	42,504	(8,501)	321,023
Estimated proved undeveloped reserves:				
Oil (MBbl)	54,790	50,243	(10,049)	94,984
Natural gas (MMcf)	186,710	63,338	(12,668)	237,380
Natural gas liquids (MBbl)	31,954	14,078	(2,816)	43,216
Total equivalent reserves (Mboe)[2]	117,862	74,877	(14,976)	177,763
Estimated proved reserves:				
Oil (MBbl)	159,783	77,568	(15,514)	221,837
Natural gas (MMcf)	742,182	104,571	(20,915)	825,838
Natural gas liquids (MBbl)	121,403	22,384	(4,477)	139,310
Total equivalent reserves (Mboe)[2]	404,883	117,380	(23,477)	498,786

(1) Adjustment necessary to remove the historical reserves associated with the 20% undivided interest acquired by NOG in the oil and natural gas properties of Point.

(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 oil and natural gas reserves of Vital Energy and of the properties acquired in the Point Acquisition on a pro forma combined basis as of December 31, 2023. The pro forma combined standardized measure shown below represents estimates only and should not be construed as the market value of the acquired oil and natural gas reserves attributable to the Point Acquisition.

Standardized measure of discounted future cash flows
(in thousands)

	As of December 31, 2023				
	Vital Energy	Point	Transaction Adjustment[1]	Tax Adjustment	Pro forma combined
Oil and natural gas producing activities:					
Future cash inflows	$15,570,267	$ 6,746,779	$(1,349,356)		$20,967,690
Future production costs	(5,543,237)	(1,752,840)	350,568		(6,945,509)
Future development costs	(1,904,597)	(643,076)	128,615		(2,419,057)
Future income tax expense	(669,158)	—	—	(584,599)	(1,253,757)
Future net cash flows	7,453,275	4,350,864	(870,173)	(584,599)	10,349,367
10% discount for estimated timing of cash flows	(3,302,437)	(1,975,729)	395,146	259,645	(4,623,375)
Standardized measure of discounted future net cash flows	$ 4,150,838	$ 2,375,135	$ (475,027)	$(324,954)	$ 5,725,992

(1) Adjustment necessary to remove the historical reserves associated with the 20% undivided interest acquired by NOG in the oil and natural gas properties of Point.

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 Energy and the oil and natural gas properties acquired in the Point Acquisition on a pro forma combined basis for the year ending December 31, 2023:

Changes in standardized measure of discounted future net cash flows
(in thousands)

	Year ended December 31, 2023				
	Vital Energy	**Point**	**Transaction Adjustment[1]**	**Tax Adjustment**	**Pro forma combined**
Standardized measure of discounted future net cash flows, beginning of year	$ 4,754,576	$2,016,141	$ (403,228)	$(268,154)	$ 6,099,335
Changes in the year resulting from:					
Sales, less production costs	(1,136,735)	(52,947)	10,589		(1,179,093)
Revisions of previous quantity estimates	(964,416)	(29,502)	5,900		(988,018)
Extensions, discoveries and other additions	125,875	591,150	(118,230)		598,795
Net change in prices and production costs	(2,560,883)	(670,946)	134,189		(3,097,640)
Changes in estimated future development costs	137,310	73,122	(14,624)		195,808
Previously estimated development incurred capital expenditures during the period	368,688	—	—		368,688
Acquisitions of reserves in place	2,211,370	378,839	(75,768)		2,514,441
Divestitures of reserves in place	—	(106,529)	21,306		(85,223)
Accretion of discount	624,819	201,614	(40,323)		786,110
Net change in income taxes	371,962	—	—	(56,800)	315,162
Timing differences and other	218,272	(25,807)	5,162		197,627
Standardized measure of discounted future net cash flows, end of year	$ 4,150,838	$2,375,135	$ (475,027)	$(324,954)	$ 5,725,992

(1) Adjustment necessary to remove the historical reserves associated with the 20% undivided interest acquired by NOG in the oil and natural gas properties of Point.

Exhibit Letter

NETHERLAND, SEWELL & ASSOCIATES, INC.
WORLDWIDE PETROLEUM CONSULTANTS
ENGINEERING • GEOLOGY • GEOPHYSICS • PETROPHYSICS

August 21, 2024

Mr. Bryan Moody
Point Energy Partners Operating, LLC
640 Taylor Street, Suite 1850
Fort Worth, Texas 76102

Dear Mr. Moody:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2023, to the Point Energy Partners Operating, LLC (PEP) interest in certain oil and gas properties located in Ward and Winkler Counties, Texas, as listed in the accompanying tabulations. We completed our evaluation on or about the date of this letter. It is our understanding that the proved reserves estimated in this report constitute all of all proved reserves owned by PEP. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and conform to the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, except that future income taxes are excluded for all properties and, as requested, per-well overhead expenses are excluded for the operated properties. Definitions are presented immediately following this letter.

We estimate the net reserves and future net revenue to the PEP interest in these properties, as of December 31, 2023, to be:

	Net Reserves			Future Net Revenue (M$)	
Category	Oil (MBBL)	NGL (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Proved Developed Producing	26,890.8	8,243.7	40,837.3	1,560,973.6	969,985.9
Proved Developed Non-Producing	434.3	62.5	395.7	11,869.3	7,653.3
Proved Undeveloped – Waiting On Completion	10,723.0	3,203.5	14,415.6	651,093.6	387,002.5
Proved Undeveloped – Not Drilled	39,519.7	10,874.3	48,922.5	2,126,927.2	1,010,493.4
Total Proved	77,567.8	22,384.0	104,571.1	4,350,863.7	2,375,135.1

The oil volumes shown include crude oil and condensate. Oil and natural gas liquids (NGL) volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. The estimates of reserves and future revenue included herein have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated. As requested, probable and possible reserves that exist for these properties have not been included.

Gross revenue is PEP's share of the gross (100 percent) revenue from the properties prior to any deductions. Additionally, gross revenue for each reserves category is inclusive of separate economic projections that account for PEP's revenue generated from certain operated wells and future undeveloped locations associated with the Parker midstream facility system. The estimated condensate reserves and revenue from the Parker system are modeled using a condensate yield applied to projected gas volumes from associated producing wells and forecasted undeveloped locations; revenue is based on recent history of compressed gas and recovered condensate volumes from the midstream operating statement, as provided by PEP. Future net revenue is after deductions for PEP's

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share of production taxes, ad valorem taxes, capital costs, abandonment costs, and operating expenses but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2023. For oil and NGL volumes, the average West Texas Intermediate spot price of $78.21 per barrel is adjusted for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of $2.637 per MMBTU is adjusted for energy content, transportation fees, and market differentials; for certain properties, gas prices are negative after adjustments. The average adjusted product prices weighted by production over the remaining lives of the properties are $79.38 per barrel of oil, $23.75 per barrel of NGL, and $0.555 per MCF of gas.

Operating costs used in this report are based on operating expense records of PEP. For the nonoperated properties, these costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels. As requested, operating costs for the operated properties include only direct lease- and field-level costs. Operating costs have been divided into field-level costs, per-well costs, and per-unit-of-production costs. As requested, the field-level costs are allocated by month among the proved reserves categories. For all properties, headquarters general and administrative overhead expenses of PEP are not included. Operating costs are not escalated for inflation.

Capital costs used in this report were provided by PEP and are based on authorizations for expenditure and actual costs from recent activity. Capital costs are included as required for workovers, new development wells, and production equipment. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. Abandonment costs used in this report are PEP’s estimates of the costs to abandon the wells, net of any salvage value. Capital costs and abandonment costs are not escalated for inflation.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the PEP interest. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on PEP receiving its net revenue interest share of estimated future gross production. Additionally, we have made no specific investigation of any firm transportation contracts that may be in place for these properties; our estimates of future revenue include the effects of such contracts only to the extent that the associated fees are accounted for in the historical field- and lease-level accounting statements.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by PEP, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received for the reserves, and costs incurred in recovering such reserves may vary from assumptions made while preparing this report.

For the purposes of this report, we used technical and economic data including, but not limited to, geologic maps, well test data, production data, historical price and cost information, and property ownership interests. The reserves in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis and analogy, that we considered to be appropriate and necessary to categorize and estimate reserves in accordance with SEC definitions and regulations. A substantial portion of these reserves are for undeveloped locations; such reserves are based on analogy to properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from PEP, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. (NSAI) and were accepted as accurate. Supporting work data are on file in our office. We have not examined the titles to the properties or independently confirmed the actual degree or type of interest owned. The technical persons primarily responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards. Robert C. Barg, a Licensed Professional Engineer in the State of Texas, has been practicing consulting petroleum engineering at NSAI since 1989 and has over 6 years of prior industry experience. William J. Knights, a Licensed Professional Geoscientist in the State of Texas, has been practicing consulting petroleum geoscience at NSAI since 1991 and has over 10 years of prior industry experience. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.
Texas Registered Engineering Firm F-2699

By: /s/ Richard B. Talley, Jr.
Richard B. Talley, Jr., P.E.
Chairman and Chief Executive Officer

By: /s/ Robert C. Barg
Robert C. Barg, P.E. 71658
Senior Vice President

Date Signed: August 21, 2024

By: /s/ William J. Knights
William J. Knights, P.G. 1532
Vice President

Date Signed: August 21, 2024

RCB:LMS

NETHERLAND, SEWELL & ASSOCIATES, INC.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, and (3) the SEC's Compliance and Disclosure Interpretations.

(1) *Acquisition of properties.* Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) *Analogous reservoir*. Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

(i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
(ii) Same environment of deposition;
(iii) Similar geological structure; and
(iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) *Bitumen*. Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) *Condensate*. Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) *Deterministic estimate*. The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) *Developed oil and gas reserves*. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

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

Supplemental definitions from the 2018 Petroleum Resources Management System:

Developed Producing Reserves – Expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves – Shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

(7) *Development costs.* Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
(ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
(iv) Provide improved recovery systems.

(8) *Development project*. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) *Development well*. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) *Economically producible*. The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) *Estimated ultimate recovery (EUR)*. Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) *Exploration costs*. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

(i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or “G&G” costs.
(ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
(iii) Dry hole contributions and bottom hole contributions.
(iv) Costs of drilling and equipping exploratory wells.
(v) Costs of drilling exploratory-type stratigraphic test wells.

(13) *Exploratory well*. An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) *Extension well*. An extension well is a well drilled to extend the limits of a known reservoir.

(15) *Field*. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural feature” and “stratigraphic condition” are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) *Oil and gas producing activities*.

(i) Oil and gas producing activities include:

(A) The search for crude oil, including condensate and natural gas liquids, or natural gas (“oil and gas”) in their natural states and original locations;
(B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
(C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:
(1) Lifting the oil and gas to the surface; and
(2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and

(D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a “terminal point”, which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term *saleable hydrocarbons* means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

(A) Transporting, refining, or marketing oil and gas;
(B) Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
(C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
(D) Production of geothermal steam.

(17) *Possible reserves.* Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

(i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.
(ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
(iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
(iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
(v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
(vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

(18) *Probable reserves.* Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

(i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

(iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) *Probabilistic estimate.* The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) *Production costs*.

(i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:

(A) Costs of labor to operate the wells and related equipment and facilities.
(B) Repairs and maintenance.
(C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.
(D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.
(E) Severance taxes.

(ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) *Proved area.* The part of a property to which proved reserves have been specifically attributed.

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

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

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

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

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

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

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

(23) *Proved properties.* Properties with proved reserves.

(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) *Reliable technology.* Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) *Reserves.* Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas:

932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:

a. *Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)*
b. *Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).*

The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.

932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:

a. *Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.*
b. *Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.*
c. *Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.*
d. *Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.*

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

e. Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.
f. Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.

(27) *Reservoir.* A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(28) *Resources.* Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) *Service well.* A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) *Stratigraphic test well.* A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as “exploratory type” if not drilled in a known area or “development type” if drilled in a known area.

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

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

From the SEC’s Compliance and Disclosure Interpretations (October 26, 2009):

Although several types of projects — such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations — by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.

Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:

- *The company’s level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);*
- *The company’s historical record at completing development of comparable long-term projects;*
- *The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;*
- *The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and*
- *The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).*

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) *Unproved properties.* Properties with no proved reserves.