UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A
(Amendment No. 1)

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

Date of report (Date of earliest event reported): December 28, 2023

Mach Natural Resources LP
(Exact name of registrant as specified in its charter)

Delaware	001-41849	93-1757616
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

14201 Wireless Way, Suite 300, Oklahoma City, Oklahoma	73134
(Address of principal executive offices)	(Zip Code)

(405) 252-8100
Registrant's telephone number, including area code

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	Name of exchange on which registered
Common units representing limited partner interests	MNR	New York Stock Exchange

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

Emerging growth company ☒

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

Explanatory Note

This Amendment No. 1 on Form 8-K/A (this "Amendment") is being filed by Mach Natural Resources LP, a Delaware limited partnership (the "Company"), to amend and supplement its Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on December 29, 2023 (the "Original Report"). As previously disclosed in the Original Report, on December 28, 2023, the Company completed the acquisition of certain interests in oil and gas properties, rights and related assets located in Blaine, Caddo, Canadian, Custer, Dewey, Grady, Kingfisher and McClain Counties, Oklahoma from Paloma Partners IV, LLC, a privately-held Delaware limited liability company backed by EnCap Investments L.P., and its affiliated companies.

The Company is filing this Amendment solely to supplement Item 9.01 of the Original Report to file (i) the audited condensed financial statements of Paloma Partners IV Holdings, LLC ("Paloma") as of December 31, 2022 and 2021, and for the years ended December 31, 2022 and 2021, (ii) the unaudited condensed financial statements of Paloma as of September 30, 2023 and for the nine months ended September 30, 2023 and 2022 and (iii) the unaudited pro forma condensed combined financial information of the Company as of September 30, 2023, and for the nine months ended September 30, 2023 and the year ended December 31, 2022. Except for the foregoing, this Amendment does not modify or update any other disclosure contained in the Original Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Paloma

The audited condensed balance sheets of Paloma as of December 31, 2022 and 2021 and the audited condensed statements of operations, statements of members' equity, and statements of cash flows for each of the years ended December 31, 2022 and 2021, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.1, and are incorporated herein by reference.

The unaudited condensed balance sheet of Paloma as of September 30, 2023, and the unaudited condensed statements of operations, statements of members' equity, and statements of cash flows for each of the nine months ended September 30, 2023 and 2022, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.2, and are incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed combined balance sheet of the Company and its subsidiaries as of September 30, 2023, and the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2023 and for the year ended December 31, 2022, are filed herewith and attached hereto as Exhibit 99.3, and are incorporated herein by reference.

(d) Exhibits.

Exhibit No.	**Description**
23.1	Consent of EEPB Company, independent auditor for Paloma.
99.1	Audited Condensed Financial Statements of Paloma Partners IV Holdings, LLC as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021.
99.2	Unaudited Condensed Financial Statements of Paloma Partners IV Holdings, LLC as of September 30, 2023 and for the nine months ended September 30, 2023 and 2022.
99.3	Unaudited Pro Forma Condensed Combined Financial Information of Mach Natural Resources LP as of September 30, 2023, for the nine months ended September 30, 2023, and for the year ended December 31, 2022.
104	Cover Page Interactive Data File (formatted as Inline XBRL).

SIGNATURES

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

Mach Natural Resources LP

By: Mach Natural Resources GP LLC,
its general partner

Dated: March 12, 2024

By: /s/ Tom L. Ward
Name: Tom L. Ward
Title: Chief Executive Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated April 6, 2023, with respect to the consolidated financial statements of Paloma Partners IV Holdings, LLC and Subsidiaries for the years ended December 31, 2022 and December 31, 2021. We consent to the incorporation by reference of the aforementioned report in the Registration Statement (Form S-8 No. 333-275200) of Mach Natural Resources LP.

/s/ EEPB Company

Houston, Texas
March 7, 2024

Exhibit 99.1

Paloma Partners IV Holdings, LLC

and subsidiaries

Consolidated Financial Statements

December 31, 2022 and 2021

C O N T E N T S

eepb
Tax | Audit | Advisory

Independent Auditors' Report

April 6, 2023

To the Members
Paloma Partners IV Holdings, LLC
Houston, Texas

Opinion

We have audited the accompanying financial statements of Paloma Partners IV Holdings, LLC, which comprise the consolidated balance sheets, as of December 31, 2022 and 2021, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paloma Partners IV Holdings, LLC as of December 31, 2022 and 2021, 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. 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 Paloma Partners IV Holdings, LLC 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 Paloma Partners IV Holdings, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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.

In performing an audit in accordance with generally accepted auditing standards, 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 Paloma Partners IV Holdings, LLC'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 Paloma Partners IV Holdings, LLC'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.

EEPB

Houston, TX

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,661,479	$ 14,529,475
Accounts receivable	77,233,722	59,633,207
Prepaid drilling costs	1,654,901	1,655,979
Other	291,585	290,586
Derivative asset	2,602,714	477,031
TOTAL CURRENT ASSETS	104,444,401	76,586,278
OIL AND GAS ASSETS, net	868,891,784	698,750,958
TOTAL ASSETS	$ 973,336,185	$ 775,337,236
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 43,280,187	$ 20,451,622
Revenue payable and accrued expenses	52,920,119	44,817,371
Prepayments	7,119,184	2,995,790
Derivative liability	12,173,518	17,773,242
TOTAL CURRENT LIABILITIES	115,493,008	86,038,025
OTHER LIABILITIES		
Long term debt	175,000,000	105,000,000
Asset retirement obligation	6,250,485	4,958,163

Derivative liability	-	3,479,940
TOTAL LIABILITIES	296,743,493	199,476,128
MEMBERS' EQUITY	676,592,692	575,861,108
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 973,336,185	$ 775,337,236

The accompanying notes are an integral part of the financial statements.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUE		
Crude oil	$ 199,735,447	$ 91,045,027
Natural gas	122,830,271	81,726,401
Natural gas liquids	93,150,926	58,552,025
Realized gain (loss) on derivatives	(66,674,101)	(35,407,572)
TOTAL OPERATING REVENUE	349,042,543	195,915,881
OPERATING EXPENSES		
Lease operating expense	18,374,861	13,493,806
Processing and other fees	26,241,659	24,259,244
Production taxes	23,858,551	11,362,930
General and administrative	1,878,484	826,591
Overhead reimbursement	10,931,516	7,770,169
Depletion, depreciation and accretion	74,344,466	55,834,255
Geological and geophysical	-	689,326
TOTAL OPERATING EXPENSES	155,629,537	114,236,321
OPERATING INCOME	193,413,006	81,679,560
OTHER INCOME (EXPENSE)		
Unrealized gain (loss) on derivatives	11,205,347	(19,038,985)
Realized gain (loss) on sale and disposal of assets	30,000	(45,378,093)
Interest expense	(6,012,677)	(7,996,089)
Other income	2,191,868	139,050
TOTAL OTHER INCOME (EXPENSE)	7,414,538	(72,274,117)
NET INCOME	$ 200,827,544	$ 9,405,443

The accompanying notes are an integral part of the financial statements.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	EnCap Energy Capital Fund IX, L.P.	Macquarie Americas Corp.	Paloma Resources, LLC	Total
Members' equity, January 1, 2021	$ 537,823,048	$ 18,266,977	$ 5,480,046	$ 561,570,071
Contributions	4,350,000	500,000	150,000	5,000,000
Distributions	(102,557)	(9,115)	(2,734)	(114,406)
Net income	8,338,965	820,367	246,111	9,405,443
Members' equity, December 31, 2021	550,409,456	19,578,229	5,873,423	575,861,108
Distributions	(89,680,058)	(8,012,232)	(2,403,669)	(100,095,960)
Net income	179,929,596	16,075,343	4,822,602	200,827,544
Members' equity, December 31, 2022	$ 640,658,994	$ 27,641,340	$ 8,292,356	$ 676,592,692

The accompanying notes are an integral part of the financial statements.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 200,827,544	$ 9,405,443

(Gain) loss on sale and disposal of assets	-	45,378,093
Depletion, depreciation and accretion	74,344,466	55,834,255
Unrealized (gain) loss on derivatives	(11,205,347)	19,038,985
Change in operating assets and liabilities:		
Accounts receivable	(17,600,515)	(26,289,911)
Other assets	(999)	(170,820)
Accounts payable	22,828,565	13,074,613
Revenue payable and accrued expense	12,226,142	26,769,961
NET CASH PROVIDED BY OPERATING ACTIVITIES:	281,419,856	143,040,619
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in prepaid drilling costs	1,078	801,566
Acquisition and development of oil and gas properties	(243,192,970)	(69,393,075)
Proceeds from divestiture of oil and gas assets	-	11,054,777
NET CASH USED IN INVESTING ACTIVITIES	(243,191,892)	(57,536,732)
CASH FLOWS FROM FINANCING ACTIVITIES		
Member capital contributions	-	5,000,000
Member capital distributions	(100,095,960)	(114,406)
Repayment of loans	70,000,000	(90,500,000)
NET CASH USED IN FINANCING ACTIVITIES	(30,095,960)	(85,614,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,132,004	(110,519)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,529,475	14,639,994
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 22,661,479	$ 14,529,475
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 6,012,677	$ 7,996,089

The accompanying notes are an integral part of the financial statements.

NOTE 1: ORGANIZATION

Paloma Partners IV Holdings, LLC, a Delaware Limited Liability Company, was formed on September 15, 2016. Effective January 1, 2017, the members of Paloma Partners IV, LLC assigned 100% of their membership interests in exchange for a 100% membership interest in Paloma Partners IV Holdings, LLC.

The Company is engaged in the acquisition, exploration, and development of properties for the production of oil and natural gas from underground reservoirs. The Companies' properties are located primarily in Oklahoma.

As an LLC, the amount of loss at risk for each individual member is limited to the amount of capital contributed to the LLC, and unless otherwise noted, the individual member's liability for indebtedness of an LLC is limited to the member's actual capital contribution.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Paloma Partners IV Holdings, LLC and its wholly-owned subsidiaries: Paloma Partners IV, LLC, Paloma Partners IV TMS, LLC ("TMS"), Excalibur Resources, LLC ("EXR") and Travis Peak Resources, LLC ("TPR") and its majority owned subsidiary Chickasaw Royalty, LLC ("Chickasaw") (collectively the "Company") and have been prepared in accordance with U.S. generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

The financial statements are based on a number of significant estimates, including the oil and gas reserve quantities, which are the basis for the calculations of depletion, amortization, and impairment of oil and gas properties. The reserve quantities are determined by an independent petroleum engineering firm. However, management emphasizes that estimated reserve quantities are inherently imprecise and that estimates of more recent discoveries are more imprecise than those for properties with long production histories. Accordingly, the estimates are expected to change as future information becomes available.

Cash and Cash Equivalents

Investments in highly-liquid securities with original maturities of three months or less are considered to be cash equivalents. As of and during the years ended December 31, 2022 and 2021, the Company maintained cash deposits with financial institutions in excess of the federally insured limits. The Company believes the credit risk in these deposits is minimal.

Receivables

Trade and other receivables are recorded at their outstanding balances adjusted for an allowance for doubtful accounts. The allowance for doubtful accounts is determined by analyzing the payment history and credit worthiness of each debtor. Receivable balances are charged off when they are considered uncollectible by management. Recoveries of receivables previously charged off are recorded as income when received. No allowance for doubtful accounts was considered necessary at December 31, 2022 and 2021.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and natural gas producing activities. Costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells, and related asset retirement costs, are capitalized. With respect to amounts paid by the Company for its carry obligation, they are recorded to oil and natural gas properties in cost categories incurred as tangible and intangible drilling costs and completion costs and production equipment and facilities.

Additionally, interest costs are capitalized to oil and natural gas properties during the period that unevaluated leasehold costs and costs of wells in progress are undergoing development and preparation for their intended use until reserves have been identified. Costs to drill exploratory wells that do not find proved reserves are expensed when it is determined that the wells are uneconomical and will not be completed. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted on a field level (common reservoir) using the unit-of-production method using proved developed oil and natural gas reserves.

Unproved property costs, costs of wells in progress and related capitalized interest costs are excluded from the base subject to depletion until the related costs are considered developed or until proved reserves are found. Oil and natural gas leasehold costs are depleted using the unit-of-production method based on total proved oil and natural gas reserves.

Upon sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations. Upon sale of a partial unit of proved property, the proceeds are credited to accumulated depletion.

Upon sale of an entire interest in an unproved property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Proved oil and natural gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, which is generally performed at the field level. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. If the net costs are in excess of the undiscounted future net cash flows then the fair value is determined using the discounted future net cash flows as the new carrying value with any excess net cost recorded as an impairment with a corresponding amount recorded to accumulated depletion, depreciation and amortization. At December 31, 2022 and 2021, no impairment of proved oil and natural gas properties is required.

Unproved oil and natural gas properties are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. The Company had approximately $0 and $6,000,000 of unproved properties as of December 31, 2022 and 2021, respectively. No impairments were recorded during the year ended December 31, 2022 and 2021.

Asset Retirement Obligation

The Company records an asset retirement obligation for the abandonment of oil and natural gas producing properties. The asset retirement obligation is recorded at its estimated fair value on the date that the obligation is incurred and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows which consider an estimate of the cost to plug and abandon wells (excluding salvage), future inflation rates and is discounted at the credit adjusted risk-free interest rate.

Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to mitigate the impacts of commodity price fluctuations, protect returns on investments and achieve a more predictable cash flow. FASB ASC, Topic 815, Derivatives and Hedging, (“ASC 815”), requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its estimated fair value.

ASC 815 requires that changes in the derivative's estimated fair value be recognized in earnings unless specific hedge accounting criteria are met, or exemptions for normal purchases and normal sales as permitted by ASC 815 exist. The Company does not designate its derivative financial instruments as hedging instruments and, as a result, recognizes the change in a derivative's estimated fair value in earnings as a component of other income or expense. The Company's derivative financial instruments are not held for trading purposes.

Income Taxes

The Company reports as a partnership for federal income tax purposes and its taxable income or loss is passed through to its members and reported on their respective tax returns. Accordingly, no provision for federal income taxes has been recorded in these financial statements.

The Company follows the provisions of the Income Taxes Topic of FASB ASC 740 related to uncertain tax positions. The Company recognized no liability for unrecognized tax benefits and has no tax position as of December 31, 2022 and 2021, for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest and penalties related to uncertain tax positions in the statement of operations as interest expense and general and administrative expense, respectively. The Company is open to audit under the statute of limitations from 2019 and beyond.

The Company had no material state income tax expense during the years ended December 31, 2022 and 2021.

Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue Recognition

Sales of oil, natural gas and natural gas liquids are recognized at the point control of the product is transferred to the customer. Virtually all of the pricing provisions in the Company's contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas and the prevailing supply and demand conditions. As a result, the price of the oil, natural gas and natural gas liquids fluctuates to remain competitive with other available oil, natural gas and natural gas liquids supplies.

Oil sales

The Company's oil sales contracts are generally structured where it delivers oil to the purchaser at a contractually agreed-upon delivery point at which the purchaser takes custody, title and risk of loss of the product. Under this arrangement, the Company or a third party transports the product to the delivery point and receives a specified index price from the purchaser with no deduction. In this scenario, the Company recognizes revenue when control transfers to the purchaser at the delivery point based on the price received from the purchaser.

Oil revenues are recorded net of any third-party transportation fees and other applicable differentials in the Company's consolidated statements of operations.

Natural gas and natural gas liquids sales

Under the Company's natural gas processing contracts, it delivers natural gas to a midstream processing entity at the wellhead, battery facilities or the inlet of the midstream processing entity's system. The midstream processing entity gathers and processes the natural gas and remits proceeds to the Company for the resulting sales of natural gas liquids and residue gas. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction. For those contracts where the Company has concluded it is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation, gathering, processing, treating and compression fees presented as an expense in its consolidated statements of operations.

In certain natural gas processing agreements, the Company may elect to take its residue gas and/or natural gas liquids in-kind at the tailgate of the midstream entity's processing plant and subsequently market the product. Through the marketing process, the Company delivers product to the ultimate third-party purchaser at a contractually agreed-upon delivery point and receives a specified index price from the purchaser.

Non-operated crude oil and natural gas sales

The Company's proportionate share of production from non-operated properties is generally marketed at the discretion of the operators. For non-operated properties, the Company receives a net payment from the operator representing its proportionate share of sales proceeds which is net of costs incurred by the operator, if any. Such non-operated revenues are recognized at the gross amount of proceeds to be received by the Company during the month in which production occurs and it is probable the Company will collect the consideration it is entitled to receive. Proceeds are generally received by the Company within one to two months after the month in which production occurs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair Value of Financial Instruments

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing and asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Lease Accounting

Effective January 1, 2022, the Company adopted ASC 842 using the modified retrospective approach whereby the Company recognizes leases on its balance sheet by recording a right-of-use asset and lease liability. The Company applied certain practical expedients that were allowed in the adoption of ASC 842, including not reassessing existing contracts for lease arrangements, not reassessing existing lease classification, and not recording a right-of-use asset or lease liability for leases of twelve months or less.

The adoption did not have a material effect on the Company’s beginning retained earnings or income statement but did have a material impact on the way leases are recorded and presented on the balance sheet and disclosed on the financial statement footnotes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Company evaluates new contracts at inception to determine if the contract conveys the right to control the use of an identified asset for a period of time in exchange for periodic payments. A lease exists if the Company obtains substantially all of the economic benefits of an asset, and the Company has the right to direct the use of that asset. When a lease exists, the Company records a right-of-use asset that represents the right to use the asset over the lease term and a lease liability that represents the obligation to make payments over the lease term. Lease liabilities are recorded at the sum of future lease payments discounted by the collateralized rate the Company could obtain to lease a similar asset over a similar period, and right-of-use asset over a similar period, and right-of-use assets are recorded equal to the corresponding lease liability, plus any prepaid, or direct costs incurred to enter the lease, less the cost of any incentives received from the lessor.

Reclassification

Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income.

NOTE 3: MEMBERS’ EQUITY

The Company is a Delaware Limited Liability Company formed on September 15, 2016 by EnCap Energy Capital Fund IX, L.P. (“EnCap”), Macquarie Americas Corp. and Paloma Resources, LLC (collectively, the “Members”). Net income (loss) of the Company is allocated to the Members in accordance with the terms set forth in the Limited Liability Company Agreement, as amended. The Company Agreement allows for preferred returns to certain Members until internal rate of return and return of investment hurdles are met. The Members have committed to a maximum of $656,722,320 in contributions to the Company. As of December 31, 2022, a total of $524,972,321 had been contributed by the Members.

NOTE 4: OIL AND GAS PROPERTIES

Oil and gas properties as of December 31, 2022 and 2021 consist of the following:

	2022	2021
Proved oil and gas properties	$ 1,402,046,001	$ 1,151,682,114
Unproved properties	-	6,000,000
	1,402,046,001	1,157,682,114
Less: accumulated depreciation, depletion and impairment	(533,154,217)	(458,936,348)
Oil and gas properties, net	$ 868,891,784	$ 698,750,958

Depletion for the years ended December 31, 2022 and 2021 was $74,344,466 and $55,271,802.

NOTE 5: OIL AND GAS ASSET DISPOSITIONS

During 2021, the Company sold certain oil and gas properties for proceeds of approximately $11,100,000. The Company recognized a net loss of approximately $45,000,000 on the sale.

NOTE 6: RELATED PARTY TRANSACTIONS

The Company and its subsidiaries have entered into administrative services agreements with certain Members whereby the Members act as the administrative agents of to supervise, administer and manage the business affairs and operations of the Company. All of the Company's general and administrative expenses were incurred under these collective agreements. During the years ended December 31, 2022 and 2021, the Company incurred expenses under these agreements in the amounts of $10,931,516 and $7,770,169 respectively.

NOTE 7: LONG-TERM DEBT

On October 18, 2017, the Company entered into a Credit Agreement which provides access to loans and letters of credit. Per the terms of the Credit Agreement the initial borrowing base is $50,000,000, subject to semi-annual redeterminations, with an aggregate maximum borrowing base of $500,000,000. As of December 31, 2022, the borrowing base was $400,000,000, while the amount available to the Company was $225,000,000. The Company may request to borrow in the form of ABR loans or Eurodollar loans. ABR loans bear interest at the Alternate Base Rate plus an Applicable Margin. Eurodollar loans bear interest at the Adjusted LIBOR Rate plus the Applicable Margin.

The Applicable Margin ranges between 3% and 4% depending on the Company's borrowing base utilization and type of the loan. During 2022 and 2021, the interest rate was approximately 5.9% and 3.72%, respectively. Interest is payable in arrears on each interest payment date and termination date, as defined. The Credit Agreement also allows the Company to request letters of credit for itself or any of the Company's subsidiaries. The loan matures on June 30, 2024 and is secured by substantially all oil and gas assets. The Company is subject to certain financial loan covenants and as of December 31, 2022, the Company believes it is in compliance with these covenants.

NOTE 8: ASSET RETIREMENT OBLIGATION

The Company has asset retirement obligations associated with its future abandonment of oil and gas properties. Under ASC 410-20, Accounting for Asset Retirement Obligations, obligations associated with the retirement of long-lived assets are recorded when there is a legal obligation to incur such costs.

The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. The following table summarizes the Company's asset retirement obligation activity.

The following are changes in the asset retirement liability for the year endedDecember 31, 2022 and 2021:

	2022	2021
Beginning obligation	$ 4,958,163	$ 4,395,710
Accretion/Change in Estimate	1,292,322	562,453
Ending obligation	$ 6,250,485	$ 4,958,163

NOTE 9: FAIR VALUE MEASUREMENTS

The Company enters into fixed commodity swap contracts to hedge against future crude oil and natural gas prices. These derivative swaps reduce the Company's exposure to unfavorable changes in crude oil and natural gas prices, which are subject to significant and often volatile fluctuation. The contracts allow the Company to predict with greater certainty the effective prices to be received by the Company.

The following methods and assumptions were used to estimate the fair value of each class of assets listed below:

Derivatives: The fair values of the Company's derivative instruments are based on a pricing model that uses market data obtained from reputable independent sources and are considered Level 2 inputs, including (a) quoted forward prices for oil and gas, (b) discount rates, (c) volatility factors, and (d) current market and contractual prices, as well as other relevant economic measures. The estimates of fair value are also compared to the values provided by the counterparty for reasonableness and are adjusted for the counterparties' credit quality for derivative assets and the Company's credit quality for derivative liabilities. To date, adjustments for credit quality have not had a material impact on the fair market values.

NOTE 9: FAIR VALUE MEASUREMENTS *(Continued)*

The following table summarizes the valuation of financial instruments by ASC 820-10 pricing levels as of December 31, 2022:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at December 31, 2022
Oil and gas derivatives	$ -	$ (9,570,804)	$ -	$ (9,570,804)
Total	$ -	$ (9,570,804)	$ -	$ (9,570,804)

The following table summarizes the valuation of financial instruments by ASC 820-10 pricing levels as of December 31, 2021:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at December 31, 2021
Oil and gas derivatives	$ -	$ (20,776,151)	$ -	$ (20,776,151)

Total	$ -	$ (20,776,151)	$ -	$ (20,776,151)

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various derivative financial instruments to manage price risk. Related gains and losses due to changes in the derivatives' fair values are recognized in earnings.

The following positions were outstanding at December 31, 2022:

Commodity	Quantity remaining	Quantity type	Price range	Price index	Contract terms	Estimated fair value
Oil	1,627,304	bbls	$ 52.50-96.15	WTI	2022-2023	$ (4,170,674)
Gas	22,659,908	mmbtu	$ 2.49-9.14	Henry Hub	2022-2023	$ (5,400,130)

At December 31, 2021, the Company's open positions were as follows:

Commodity	Quantity remaining	Quantity type	Price range	Price index	Contract term	Estimated fair value
Oil	2,481,704	bbls	$ 36.75-78.90	WTI	2022-2023	$ (10,160,681)
Gas	22,668,375	mmbtu	$ 2.50-4.47	Henry Hub	2022-2023	$ (10,615,469)

For the years ended December 31, 2022 and 2021, the Company recognized realized and unrealized gains and (losses) of $(66,674,101) and $11,205,347 and ($35,407,572) and $(19,038,985), respectively.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has determined that fair value approximates carrying value for cash, accounts receivable, accounts payable, and notes payable given the short-term nature of these instruments.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Gas gathering, processing and purchase agreements

The Company has entered into certain gas gathering, processing and purchase agreements whereby the counterparties will gather, process and/or purchase and resell all gas produced from certain wells. Fees charged will be subject to periodic increases subject to certain ceiling amounts. The agreements are effective up to a term of 10 years and will remain in effect from month to month thereafter unless terminated in accordance with the agreements.

Litigation

From time to time, the Company is involved in various claims and lawsuits, both for and against the Company, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to the Company's financial position, results of operations, or cash flow.

Environmental Issues

The Company is engaged in crude oil and natural 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 crude oil and natural gas wells and the operation thereof. In connection with the acquisition of existing or previously drilled well bores, 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 Company would be responsible for curing such a violation which occurred during the time which the Company owned the property.

As of December 31, 2022 and 2021, no claim has been made, nor are we aware of any liability that exists, which would be material to the financial statements, as it relates to any environmental cleanup, restoration, or the violation of any rules or regulations relating thereto.

NOTE 13: TMS AND CHICKASAW

The following is a summary of the financial statement balances for the consolidated subsidiaries of TMS and Chickasaw as of and for the year ended December 31, 2022:

	TMS	Chickasaw
Total assets	$ 25,036	$ 5,833,773
Total liabilities	-	58,939
Total equity	25,036	5,774,834
Revenues	-	3,082,553

Expenses	-	(251,226)
Net operating income	-	2,831,327
Nonrecurring other expense	-	(3,465,585)
Net loss	$ -	$ (634,258)

The following is a summary of the financial statement balances for the consolidated subsidiaries of TMS and Chickasaw as of and for the year ended December 31, 2021:

	TMS	Chickasaw
Total assets	$ 25,036	$ 6,462,625
Total liabilities	-	-
Total equity	25,036	6,462,625
Revenues	-	1,256,928
Gain on sale		2,207,776
Expenses	-	(362,404)
Net income	$ -	$ 3,102,300

NOTE 14: SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2023 through April 6, 2023, the date the financial statements were available to be issued. No subsequent events were identified requiring additional recognition or disclosure in the accompanying financial statements.

NOTE 15: SUPPLEMENTARY OIL AND GAS DISCLOSURES (Unaudited)

Supplemental reserve information

The following tables summarize the net ownership interest in the proved crude oil and natural gas reserves, the standardized measure and changes in the standardized measure of discounted future net cash flows of the Company and are based on estimates of proved reserves derived from the reserve reports prepared by independent third-party reserve engineers as of December 31, 2022 and 2021. The standardized measure and changes in the standardized measure presented here exclude income taxes as the tax basis of the Company is not applicable on a going forward basis. The proved oil and gas reserve estimates and other components of the standardized measure were determined in accordance with the authoritative guidance of the Financial Accounting Standards Board and the SEC.

Estimated quantities of crude oil and natural gas reserves

The following table sets forth certain data pertaining to the Company proved, proved developed and proved undeveloped reserves for the year ended December 31, 2022 and 2021.

	Oil (MBbl)	**Gas (MMCF)**	**Liquids (MBbl)**	**Total (MBOE)**
2021				
Proved Reserves				
Beginning balance	17,142	260,613	25,960	86,537
Revision of previous estimates	4,679	63,822	7,594	22,910
Extensions, discoveries and other additions	2,693	32,513	3,391	11,503
Improved recovery	–	–	–	–
Purchase of reserves in-place	1,827	28,584	3,202	9,793
Sale of reserves in-place	(2,079)	(29,408)	(2,255)	(9,236)
Production	(1,559)	(16,534)	(1,700)	(6,015)
Ending balance	22,703	339,590	36,191	115,492
Proved Developed Reserves, December 31	10,354	165,872	17,791	55,790
Proved Undeveloped Reserves, December 31	12,349	173,718	18,400	59,702

NOTE 15: SUPPLEMENTARY OIL AND GAS DISCLOSURES (Unaudited) *(Continued)*

	Oil (MBbl)	**Gas (MMCF)**	**Liquids (MBbl)**	**Total (MBOE)**
2022				
Proved Reserves				
Beginning balance	22,703	339,590	36,191	115,492
Revision of previous estimates	(1,102)	(4,029)	2,050	277
Extensions, discoveries and other additions	2,815	58,535	7,032	19,603
Improved recovery	-	-	-	-
Purchase of reserves in-place	3,728	84,004	10,695	28,424

Sale of reserves in-place	(1,622)	(14,868)	(1,719)	(5,818)
Production	(2,298)	(20,911)	(2,522)	(8,305)
Ending balance	24,225	442,322	51,728	149,673
Proved Developed Reserves, December 31	13,033	201,220	23,111	69,681
Proved Undeveloped Reserves, December 31	11,191	241,101	28,617	79,992

Standardized Measure of Discounted Future Net Cash Flows

The Standardized Measure of Discounted Future Net Cash Flows (excluding income tax expense) relating to proved crude oil and gas reserves is presented below:

	Year Ended December 31, 2022	**Year Ended December 31, 2021**
	(Unaudited)	**(Unaudited)**
	(In thousands)	**(In thousands)**
Future cash inflows	$ 6,289,149	$ 3,154,117
Future production costs	(925,323)	(574,513)
Future development costs	(521,148)	(328,527)
Future net cash flows	4,842,678	2,251,077
Less 10% annual discount to reflect timing of cash flows	(2,508,697)	(1,202,933)
Standard measure of discounted net cash flows	$ 2,333,981	$ 1,048,144

The Standardized Measure of Discounted Future Net Cash Flows (discounted at 10%) from production of proved reserves was developed as follows:

1. An estimate was made of the quantity of proved reserves and the future periods in which they are expected to be produced based on year-end economic conditions.

2. In accordance with SEC guidelines, the engineers' estimates of future net revenues from proved properties and the present value thereof for 2022 and 2021 and subsequent periods are made using the twelve-month average of the first-day-of-the-month reference prices as adjusted for location and quality differentials. These prices are held constant throughout the life of the properties, except where such guidelines permit alternate treatment. The realized sales prices used in the reserve report were $94.14 and $66.55 per barrel of crude oil and $6.357 and $3.598 per MCF of natural gas for 2022 and 2021, respectively.

NOTE 15: SUPPLEMENTARY OIL AND GAS DISCLOSURES (Unaudited) *(Continued)*

3. The future gross revenue streams were reduced by estimated future operating costs and future development and abandonment costs, all of which were based on current costs in effect at December 31, 2022 and 2021 and held constant throughout the life of the properties.

As described in Note 2, these financial statements do not include income tax expense therefore income tax estimates were omitted from the Standardized Measure of Discounted Future Net Cash Flows calculation.

The principal sources of changes in the Standardized Measure of Discounted Future Net Cash Flows for the year ended December 31, 2022 and 2021, are as follows:

	Year Ended December 31, 2022	**Year Ended December 31, 2021**
	(Unaudited)	**(Unaudited)**
	(In thousands)	**(In thousands)**
Standardized measure – beginning of period	$ 1,048,144	$ 290,528
Revisions to reserves proved in prior periods:		
Net change in sales prices and production costs related to future production	846,653	554,987
Net change in estimated future development costs	(17,327)	4,598
Net change due to revisions in quantity estimates	5,110	215,465
Acquisition of reserves	461,193	75,901
Divestiture of reserves	(43,575)	(9,316)
Previously estimated development costs incurred	79,129	39,187
Net change due to extensions and discoveries, net of estimated future development and production costs	216,960	70,886
Sales of oil and gas produced, net of production costs	(347,242)	(182,207)
Accretion of discount	104,814	29,053
Changes in production rates (timing) and other	(19,878)	(40,938)
Standardized measure – end of period	$ 2,333,981	$ 1,048,144

Paloma Partners IV Holdings, LLC

AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2023

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To Management
Paloma Partners IV Holdings, LLC and Subsidiaries
Houston, Texas

We have reviewed the accompanying consolidated financial statements of Paloma Partners IV Holdings, LLC (a limited liability company) and its subsidiaries, which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of operations and cash flows for the nine months ended September 30, 2023 and 2022 and members' equity for the nine months ended September 30, 2023, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, We do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Paloma Partners IV Holdings, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

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

Report on December 31, 2022 Balance Sheet

The December 31, 2022 balance sheet was audited by us, and we expressed an unmodified opinion in our report dated April 6, 2023. We have not performed any auditing procedures since that date.

EEPB
Houston, Texas
March 7, 2024

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2023 AND DECEMBER 31, 2022

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,415,274	$ 22,661,479
Accounts receivable	61,057,127	77,233,722
Prepaid drilling costs	1,662,069	1,654,901
Other	156,715	291,585
Derivative asset, current	-	2,602,714
TOTAL CURRENT ASSETS	66,291,185	104,444,401
NONCURRENT ASSETS		
Oil and gas assets, net	836,866,813	868,891,784
Derivative asset, noncurrent	1,173,609	-
Right-of-use asset, operating lease	1,916,867	-
TOTAL NONCURRENT ASSETS	839,957,289	868,891,784
TOTAL ASSETS	$ 906,248,474	$ 973,336,185
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 24,093,764	$ 43,280,189
Revenue payable and accrued expense	41,538,911	52,920,119
Prepayments	5,117,423	7,119,184
Derivative liability	3,832,707	12,173,518
Operating lease liability, current portion	479,470	-
TOTAL CURRENT LIABILITIES	75,062,275	115,493,010
OTHER LIABILITIES		
Long term debt	148,637,660	175,000,000
Operating lease liability, net of current portion	1,453,981	-
Asset retirement obligation	5,940,229	6,250,485
TOTAL LIABILITIES	231,094,145	296,743,495
MEMBERS' EQUITY	675,154,329	676,592,690
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 906,248,474	$ 973,336,185

See Independent Accountants' Compilation Report.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

	September 30, 2023	September 30, 2022
OPERATING REVENUE		
Crude oil	$ 149,707,568	$ 154,848,795
Natural gas	51,377,270	92,356,164
Natural gas liquids	61,884,919	75,181,481
Realized gain (loss) on derivatives	8,655,188	(61,787,949)
TOTAL OPERATING REVENUE	271,624,945	260,598,491
OPERATING EXPENSES		
Lease operating expense	16,802,634	10,931,764
Production taxes	13,875,375	18,333,663
Processing and other fees	30,371,026	18,884,099
General and administrative	1,392,206	1,297,185
Overhead reimbursement	7,703,092	5,956,025
Depletion and accretion	56,791,010	58,700,169
TOTAL OPERATING EXPENSES	126,935,343	114,102,905
OPERATING INCOME	144,689,602	146,495,586
OTHER INCOME (EXPENSE)		
Unrealized gain (loss) on derivatives	6,911,706	(4,451,046)
Gain (loss) on sale of assets	(141,439,075)	-
Interest expense	(12,391,810)	(3,255,914)
Other income (expense)	791,216	(3,313,704)
TOTAL OTHER INCOME (EXPENSE)	(146,127,963)	(11,020,664)
NET INCOME (LOSS)	$ (1,438,361)	$ 135,474,922

See Independent Accountants' Compilation Report.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

	EnCap Energy Capital Fund IX, L.P.	Macquarie Americas Corp.	Paloma Resources, LLC	Total
Members' equity, December 31, 2022 (Audited)	$ 640,658,994	$ 27,641,340	$ 8,292,356	$ 676,592,690
Net income	(1,288,687)	(115,134)	(34,540)	(1,438,361)
Members' equity, September 30, 2023 (Unaudited)	$ 639,370,307	$ 27,526,206	$ 8,257,816	$ 675,154,329

See Independent Accountants' Compilation Report.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

	September 30, 2023	September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,438,361)	$ 135,474,922
Depletion, depreciation and accretion	56,791,010	58,700,169
(Gain) loss on sale and disposal of assets	141,439,075	-
Amortization of debt issuance costs	204,205	-
Unrealized (gain)/loss on derivatives	(6,911,706)	4,451,046
Increase (decrease) in cash related to changes in assets:		
Accounts receivable	16,176,595	(19,913,298)
Prepaid and other assets	127,702	1,646,342
Increase (decrease) in cash related to changes in current liabilities:		
Accounts payable	(19,186,425)	20,407,653
Revenue payable and accrued expense	(13,382,969)	21,404,469
Right-of-use liability, operating leases	16,584	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	173,835,710	222,171,303
CASH FLOWS FROM INVESTING ACTIVITIES		

Increase (decrease) in prepaid drilling costs	-	-
Proceeds from divestiture of oil and gas assets	29,633,567	-
Additions to oil and gas assets, net	(196,148,937)	(154,854,099)
NET CASH USED IN INVESTING ACTIVITIES	(166,515,370)	(154,854,099)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayments) from loans, net	(26,566,545)	35,000,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(26,566,545)	(65,000,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,246,205)	2,317,204
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	22,661,479	14,529,475
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,415,274	$ 16,846,679
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 12,187,605	$ 3,255,914

See Independent Accountants' Compilation Report.

PALOMA PARTNERS IV HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 (REVIEWED) AND DECMBER 31, 2022 (AUDITED)

NOTE 1: ORGANIZATION

Paloma Partners IV Holdings, LLC, a Delaware Limited Liability Company, was formed on September 15, 2016. Effective January 1, 2017, the members of Paloma Partners IV, LLC assigned 100% of their membership interests in exchange for a 100% membership interest in Paloma Partners IV Holdings, LLC.

The Company is engaged in the acquisition, exploration, and development of properties for the production of oil and natural gas from underground reservoirs. The Companies' properties are located primarily in Oklahoma.

As an LLC, the amount of loss at risk for each individual member is limited to the amount of capital contributed to the LLC, and unless otherwise noted, the individual member's liability for indebtedness of an LLC is limited to the member's actual capital contribution.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Paloma Partners IV Holdings, LLC and its wholly-owned subsidiaries: Paloma Partners IV, LLC, Paloma Partners IV TMS, LLC ("TMS"), Excalibur Resources, LLC ("EXR") and Travis Peak Resources, LLC ("TPR") and its majority owned subsidiary Chickasaw Royalty, LLC ("Chickasaw") (collectively the "Company") and have been prepared in accordance with U.S. generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

The financial statements are based on a number of significant estimates, including the oil and gas reserve quantities, which are the basis for the calculations of depletion, amortization, and impairment of oil and gas properties. The reserve quantities are determined by an independent petroleum engineering firm. However, management emphasizes that estimated reserve quantities are inherently imprecise and that estimates of more recent discoveries are more imprecise than those for properties with long production histories. Accordingly, the estimates are expected to change as future information becomes available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and Cash Equivalents

Investments in highly-liquid securities with original maturities of three months or less are considered to be cash equivalents. As of and during the years ended December 31, 2023 and 2022, the Company maintained cash deposits with financial institutions in excess of the federally insured limits. The Company believes the credit risk in these deposits is minimal.

Receivables

Trade and other receivables are recorded at their outstanding balances adjusted for an allowance for doubtful accounts. The allowance for doubtful accounts is determined by analyzing the payment history and credit worthiness of each debtor. Receivable balances are charged off when they are considered uncollectible by management. Recoveries of receivables previously charged off are recorded as income when received. No allowance for doubtful accounts was considered necessary at December 31, 2023 and 2022.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and natural gas producing activities. Costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells, and related asset retirement costs, are capitalized. With respect to amounts paid by the Company for its carry obligation, they are recorded to oil and natural gas properties in cost categories incurred as tangible and intangible drilling costs and completion costs and production equipment and facilities.

Additionally, interest costs are capitalized to oil and natural gas properties during the period that unevaluated leasehold costs and costs of wells in progress are undergoing development and preparation for their intended use until reserves have been identified. Costs to drill exploratory wells that do not find proved reserves are expensed when it is determined that the wells are uneconomical and will not be completed. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred.

Capitalized costs of producing oil and natural gas properties, after considering estimated residual salvage values, are depreciated and depleted on a field level (common reservoir) using the unit-of-production method using proved developed oil and natural gas reserves.

Unproved property costs, costs of wells in progress and related capitalized interest costs are excluded from the base subject to depletion until the related costs are considered developed or until proved reserves are found. Oil and natural gas leasehold costs are depleted using the unit-of-production method based on total proved oil and natural gas reserves.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Upon sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized in the statement of operations. Upon sale of a partial unit of proved property, the proceeds are credited to accumulated depletion.

Upon sale of an entire interest in an unproved property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Proved oil and natural gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, which is generally performed at the field level. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. If the net costs are in excess of the undiscounted future net cash flows then the fair value is determined using the discounted future net cash flows as the new carrying value with any excess net cost recorded as an impairment with a corresponding amount recorded to accumulated depletion, depreciation and amortization. At December 31, 2023 and 2022, no impairment of proved oil and natural gas properties is required.

Unproved oil and natural gas properties are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. The Company had approximately $0 of unproved properties as of September 30, 2023 and December 31, 2022, respectively. No impairments were recorded as of September 30, 2023, and 2022.

Asset Retirement Obligation

The Company records an asset retirement obligation for the abandonment of oil and natural gas producing properties. The asset retirement obligation is recorded at its estimated fair value on the date that the obligation is incurred and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows which consider an estimate of the cost to plug and abandon wells (excluding salvage), future inflation rates and is discounted at the credit adjusted risk-free interest rate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to mitigate the impacts of commodity price fluctuations, protect returns on investments and achieve a more predictable cash flow. FASB ASC, Topic 815, Derivatives and Hedging, (“ASC 815”), requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its estimated fair value.

ASC 815 requires that changes in the derivative’s estimated fair value be recognized in earnings unless specific hedge accounting criteria are met, or exemptions for normal purchases and normal sales as permitted by ASC 815 exist. The Company does not designate its derivative financial instruments as hedging instruments and, as a result, recognizes the change in a derivative’s estimated fair value in earnings as a component of other income or expense. The Company’s derivative financial instruments are not held for trading purposes.

Income Taxes

The Company reports as a partnership for federal income tax purposes and its taxable income or loss is passed through to its members and reported on their respective tax returns. Accordingly, no provision for federal income taxes has been recorded in these financial statements.

The Company follows the provisions of the Income Taxes Topic of FASB ASC 740 related to uncertain tax positions. The Company recognized no liability for unrecognized tax benefits and has no tax position as of September 30, 2023 and 2022, for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest and penalties related to uncertain tax positions in the statement of operations as interest expense and general and administrative expense, respectively. The Company is open to audit under the statute of limitations from 2019 and beyond.

The Company had no material state income tax expense as of September 30, 2023 and 2022.

Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

Revenue Recognition

Sales of oil, natural gas and natural gas liquids are recognized at the point control of the product is transferred to the customer. Virtually all of the pricing provisions in the Company's contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas and the prevailing supply and demand conditions. As a result, the price of the oil, natural gas and natural gas liquids fluctuates to remain competitive with other available oil, natural gas and natural gas liquids supplies.

Oil sales

The Company's oil sales contracts are generally structured where it delivers oil to the purchaser at a contractually agreed-upon delivery point at which the purchaser takes custody, title and risk of loss of the product. Under this arrangement, the Company or a third party transports the product to the delivery point and receives a specified index price from the purchaser with no deduction. In this scenario, the Company recognizes revenue when control transfers to the purchaser at the delivery point based on the price received from the purchaser.

Oil revenues are recorded net of any third-party transportation fees and other applicable differentials in the Company's consolidated statements of operations.

Natural gas and natural gas liquids sales

Under the Company's natural gas processing contracts, it delivers natural gas to a midstream processing entity at the wellhead, battery facilities or the inlet of the midstream processing entity's system. The midstream processing entity gathers and processes the natural gas and remits proceeds to the Company for the resulting sales of natural gas liquids and residue gas. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction. For those contracts where the Company has concluded it is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation, gathering, processing, treating and compression fees presented as an expense in its consolidated statements of operations.

In certain natural gas processing agreements, the Company may elect to take its residue gas and/or natural gas liquids in-kind at the tailgate of the midstream entity's processing plant and subsequently market the product. Through the marketing process, the Company delivers product to the ultimate third-party purchaser at a contractually agreed-upon delivery point and receives a specified index price from the purchaser.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-operated crude oil and natural gas sales

The Company's proportionate share of production from non-operated properties is generally marketed at the discretion of the operators.

For non-operated properties, the Company receives a net payment from the operator representing its proportionate share of sales proceeds which is net of costs incurred by the operator, if any. Such non-operated revenues are recognized at the gross amount of proceeds to be received by the Company during the month in which production occurs and it is probable the Company will collect the consideration it is entitled to receive. Proceeds are generally received by the Company within one to two months after the month in which production occurs.

Fair Value of Financial Instruments

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing and asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Lease Accounting

Effective January 1, 2022, the Company adopted ASC 842 using the modified retrospective approach whereby the Company recognizes leases on its balance sheet by recording a right-of-use asset and lease liability. The Company applied certain practical expedients that were allowed in the adoption of ASC 842, including not reassessing existing contracts for lease arrangements, not reassessing existing lease classification, and not recording a right-of-use asset or lease liability for leases of twelve months or less.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The adoption did not have a material effect on the Company's beginning retained earnings or income statement but did have a material impact on the way leases are recorded and presented on the balance sheet and disclosed on the financial statement footnotes.

The Company evaluates new contracts at inception to determine if the contract conveys the right to control the use of an identified asset for a period of time in exchange for periodic payments. A lease exists if the Company obtains substantially all of the economic benefits of an asset, and the Company has the right to direct the use of that asset. When a lease exists, the Company records a right-of-use asset that represents the right to use the asset over the lease term and a lease liability that represents the obligation to make payments over the lease term. Lease liabilities are recorded at the sum of future lease payments discounted by the collateralized rate the Company could obtain to lease a similar asset over a similar period, and right-of-use asset over a similar period, and right-of-use assets are recorded equal to the corresponding lease liability, plus any prepaid, or direct costs incurred to enter the lease, less the cost of any incentives received from the lessor.

Reclassification

Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income.

NOTE 3: MEMBERS' EQUITY

The Company is a Delaware Limited Liability Company formed on September 15, 2016 by EnCap Energy Capital Fund IX, L.P. ("EnCap"), Macquarie Americas Corp. and Paloma Resources, LLC (collectively, the "Members"). Net income (loss) of the Company is allocated to the Members in accordance with the terms set forth in the Limited Liability Company Agreement, as amended. The Company Agreement allows for preferred returns to certain Members until internal rate of return and return of investment hurdles are met. The Members have committed to a maximum of $656,722,320 in contributions to the Company. As of September 30, 2023, a total of $524,972,321 had been contributed by the Members.

NOTE 4: OIL AND GAS PROPERTIES

Oil and gas properties as of September 30, 2023 and December 31, 2022 consist of the following:

	September 30, 2023	December 31, 2022
Proved oil and gas properties	$ 1,307,368,288	$ 1,402,046,001
Unproved properties	-	-
	1,307,368,288	1,402,046,001
Less: accumulated depreciation, depletion and impairment	(470,501,475)	(533,154,217)
Oil and gas properties, net	$ 836,866,813	$ 868,891,784

Depletion as of September 30, 2023 and 2022 was $56,752,934 and $58,317,610, respectively.

NOTE 5: OIL AND GAS ASSET DISPOSITIONS

In September 2023, the Company sold certain oil and gas properties for proceeds of approximately $30,500,000. The Company recognized a net loss of approximately $141,400,000 from the sale.

NOTE 6: RELATED PARTY TRANSACTIONS

The Company and its subsidiaries have entered into administrative services agreements with certain Members whereby the Members act as the administrative agents of to supervise, administer and manage the business affairs and operations of the Company. All of the Company's general and administrative expenses were incurred under these collective agreements. As of September 30, 2023 and, 2022, the Company incurred expenses under these agreements in the amounts of $7,703,092 and $5,956,025 respectively.

NOTE 7: LONG-TERM DEBT

On October 18, 2017, the Company entered into a Credit Agreement which provides access to loans and letters of credit. Per the terms of the Credit Agreement the initial borrowing base is $50,000,000, subject to semi-annual redeterminations, with an aggregate maximum borrowing base of $500,000,000. As of September 30, 2023, the borrowing base was $400,000,000, while the amount available to the Company was $250,000,000.

NOTE 7: LONG-TERM DEBT *(Continued)*

The Company may request to borrow in the form of ABR loans or Eurodollar loans. ABR loans bear interest at the Alternate Base Rate plus an Applicable Margin. Eurodollar loans bear interest at the Adjusted LIBOR Rate plus the Applicable Margin.The Applicable Margin ranges between 3% and 4% depending on the Company's borrowing base utilization and type of the loan. During 2023 and 2022, the interest rate was approximately 8.68% and 5.9%, respectively. Interest is payable in arrears on each interest payment date and termination date, as defined. The Credit Agreement also allows the Company to request letters of credit for itself or any of the Company's subsidiaries. The loan matures on June 30, 2024 and is secured by substantially all oil and gas assets. The Company is subject to certain financial loan covenants and as of September 30, 2023, the Company believes it is in compliance with these covenants.

NOTE 8: ASSET RETIREMENT OBLIGATION

The Company has asset retirement obligations associated with its future abandonment of oil and gas properties. Under ASC 410-20, Accounting for Asset Retirement Obligations, obligations associated with the retirement of long-lived assets are recorded when there is a legal obligation to incur such costs.

The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. The following table summarizes the Company's asset retirement obligation activity.

The following are changes in the asset retirement liability as of September 30, 2023, and December 31, 2022:

	September 30, 2023	December 31, 2022
Beginning obligation	$ 6,250,485	$ 4,958,163
Accretion/Change in Estimate	(310,256)	1,292,322
Ending obligation	$ 5,940,229	$ 6,250,485

NOTE 9: FAIR VALUE MEASUREMENTS

The Company enters into fixed commodity swap contracts to hedge against future crude oil and natural gas prices. These derivative swaps reduce the Company's exposure to unfavorable changes in crude oil and natural gas prices, which are subject to significant and often volatile fluctuation. The contracts allow the Company to predict with greater certainty the effective prices to be received by the Company.

NOTE 9: FAIR VALUE MEASUREMENTS *(Continued)*

The following methods and assumptions were used to estimate the fair value of each class of assets listed below:

Derivatives: The fair values of the Company's derivative instruments are based on a pricing model that uses market data obtained from reputable independent sources and are considered Level 2 inputs, including (a) quoted forward prices for oil and gas, (b) discount rates, (c) volatility factors, and (d) current market and contractual prices, as well as other relevant economic measures. The estimates of fair value are also compared to the values provided by the counterparty for reasonableness and are adjusted for the counterparties' credit quality for derivative assets and the Company's credit quality for derivative liabilities. To date, adjustments for credit quality have not had a material impact on the fair market values.

The following table summarizes the valuation of financial instruments by ASC 820-10 pricing levels as of September 30, 2023:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at September 30, 2023
Oil and gas derivatives	$ -	$ (2,659,098)	$ -	$ (2,659,098)
Total	$ -	$ (2,659,098)	$ -	$ (2,659,098)

The following table summarizes the valuation of financial instruments by ASC 820-10 pricing levels as of December 31, 2022:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at December 31, 2022
Oil and gas derivatives	$ -	$ (9,570,804)	$ -	$ (9,570,804)
Total	$ -	$ (9,570,804)	$ -	$ (9,570,804)

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various derivative financial instruments to manage price risk. Related gains and losses due to changes in the derivatives' fair values are recognized in earnings.

The following positions were outstanding at September 30, 2023:

Commodity	Quantity remaining	Quantity type	Price range	Price index	Contract terms	Estimated fair value
Oil	1,965,874	bbls	$ 60.00-80.00	WTI	2023-2024	$ (9,895,537)
Gas	23,752,459	mmbtu	$ 2.80-4.5	Henry Hub	2023-2025	$ 7,236,439

At December 31, 2022, the Company's open positions were as follows:

Commodity	Quantity remaining	Quantity type	Price range	Price index	Contract term	Estimated fair value
Oil	1,627,304	bbls	$ 52.50-96.15	WTI	2022-2023	$ (4,170,674)
Gas	22,659,908	mmbtu	$ 2.49-9.14	Henry Hub	2022-2023	$ (5,400,130)

As of September 30, 2023 and 2022, the Company recognized realized gains and (losses) of $8,655,188 and $(61,787,949) and unrealized gains and (losses) of $6,911,706 and $(4,451,046), respectively.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has determined that fair value approximates carrying value for cash, accounts receivable, accounts payable, and notes payable given the short-term nature of these instruments.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Gas gathering, processing and purchase agreements

The Company has entered into certain gas gathering, processing and purchase agreements whereby the counterparties will gather, process and/or purchase and resell all gas produced from certain wells. Fees charged will be subject to periodic increases subject to certain ceiling amounts. The agreements are effective up to a term of 10 years and will remain in effect from month to month thereafter unless terminated in accordance with the agreements.

NOTE 12: COMMITMENTS AND CONTINGENCIES *(Continued)*

Litigation

From time to time, the Company is involved in various claims and lawsuits, both for and against the Company, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to the Company's financial position, results of operations, or cash flow.

Environmental Issues

The Company is engaged in crude oil and natural 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 crude oil and natural gas wells and the operation thereof. In connection with the acquisition of existing or previously drilled well bores, 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 Company would be responsible for curing such a violation which occurred during the time which the Company owned the property.

As of September 30, 2023 and December 31, 2022, no claim has been made, nor are we aware of any liability that exists, which would be material to the financial statements, as it relates to any environmental cleanup, restoration, or the violation of any rules or regulations relating thereto.

NOTE 13: TMS AND CHICKASAW

The following is a summary of the financial statement balances for the consolidated subsidiaries of TMS and Chickasaw as of September 30, 2023:

	TMS	Chickasaw
Total assets	$ 25,036	$ 6,801,840
Total liabilities	-	62,943
Total equity	25,036	6,738,897
Revenues	-	1,104,095
Expenses	-	(140,032)
Net operating income	-	964,063
Nonrecurring other expense	-	-
Net income	$ -	$ 964,063

NOTE 13: TMS AND CHICKASAW *(Continued)*

The following is a summary of the financial statement balances for the consolidated subsidiaries of TMS and Chickasaw as of and for the year ended December 31, 2022:

	TMS	Chickasaw
Total assets	$ 25,036	$ 5,833,773
Total liabilities	-	58,939
Total equity	25,036	5,774,834
Revenues	-	3,082,553
Expenses	-	(251,226)
Net operating income	-	2,831,327
Nonrecurring other expense	-	(3,465,585)
Net loss	$ -	$ (634,258)

NOTE 14: SUBSEQUENT EVENTS

Subsequent events were evaluated from October 1, 2023 through March 7, 2024, the date the financial statements were available to be issued.

During December 2023, the Company entered into an agreement to sell substantially all interests in oil and gas properties, rights and related assets located in certain counties in Oklahoma.

No other subsequent events were identified requiring additional recognition or disclosure in the accompanying financial statements.

MACH NATURAL RESOURCES LP
Unaudited Pro Forma Condensed Combined Financial Statements

Introduction

Mach Natural Resources LP (the "Company") is a limited partnership focused on the acquisition, development and production of oil, natural gas and NGL reserves in the Anadarko Basin region of Western Oklahoma, Southern Kansas and the panhandle of Texas.

On December 28, 2023, the Company consummated the acquisition contemplated by the Purchase and Sale Agreement (the "Paloma PSA"), dated as of November 10, 2023, with Paloma Partners IV, LLC and its affiliated companies (the "Sellers"), pursuant to which the Company acquired from the Sellers certain interests in oil and gas properties, rights and related assets located in Blaine, Caddo, Canadian, Custer, Dewey, Grady, Kingfisher and McClain Counties, Oklahoma (the "Paloma Assets") for aggregate purchase consideration of $733.0 million, including purchase price adjustments and capitalized transaction costs (the "Paloma Acquisition"). The Paloma Acquisition was accounted for as an asset acquisition as substantially all of the gross fair value of the Paloma Assets was concentrated in proved oil and natural gas properties, which were considered to be a group of similar identifiable assets. The cash purchase price was funded by cash on hand and borrowings from the senior secured term loan credit agreement (the "Term Loan Credit Agreement"), entered into among the Company, the guarantors party thereto, the lenders party thereto, Texas Capital Bank, as agent, and Chambers Energy Management, LP, as arranger, in connection with the Paloma Acquisition.

The unaudited pro forma condensed combined financial statements (the "pro forma financial statements") have been prepared in accordance with Article 11 of Regulation S-X, Pro Forma Financial Information, using assumptions set forth in the notes to the unaudited pro forma financial statements. The following unaudited pro forma financial statements reflect the historical results of BCE-Mach III LLC ("BCE-Mach III" or the "Predecessor"), BCE-Mach LLC ("BCE-Mach"), BCE-Mach II LLC ("BCE-Mach II") and Paloma Partners IV Holdings, LLC ("Paloma Partners") on a pro forma basis to give effect to the following transactions, which are described in further detail below, as if they had occurred on September 30, 2023 for the unaudited condensed combined pro forma balance sheet (the "pro forma balance sheet") and on January 1, 2022 for the unaudited condensed combined pro forma statements of operations (the "pro forma statements of operations"):

1. The completion of the reorganization transactions (the "Corporate Reorganization") described in "Note 1 – Basis of Pro Forma Presentation" included elsewhere in these pro forma financial statements.

2. The initial public offering of 10,000,000 common units (the "Offering") at a public offering price of $19.00 per common unit and the use of the net proceeds of $168.5 million as follows: (i) to repay the credit facilities of BCE-Mach and BCE-Mach II in full, (ii) to repay a portion of the BCE-Mach III credit facility and (iii) to purchase 3,750,000 common units from the existing owners prior to the Offering (the "Exchanging Members") for $66.3 million.

3. The entry into certain new credit agreements and termination of certain outstanding credit agreements (the "Refinancings") described in "Note 1 – Basis of Pro Forma Presentation" included elsewhere in these pro forma financial statements.

4. The consummation of the Paloma Acquisition pursuant to the terms of the Paloma PSA (together with the Corporate Reorganization, the Offering and the Refinancings, the "Transactions").

The pro forma balance sheet is based on the historical balance sheets of BCE-Mach III, BCE-Mach, BCE-Mach II and Paloma Partners as of September 30, 2023, and includes pro forma adjustments to give effect to the Transactions as if they had occurred on September 30, 2023. The pro forma statements of operations are based on the historical statements of operations of BCE-Mach III, BCE-Mach, BCE-Mach II and Paloma Partners for the year ended December 31, 2022 and for the nine months ended September 30, 2023, and adjusted to give effect to the Transactions as if they occurred on January 1, 2022. All entities contributed in the Corporate Reorganization had a high degree of common ownership, though no individual controlled any of the entities and therefore the transactions are not accounted for as common control transactions, and the acquisitions of BCE-Mach and BCE-Mach II by BCE-Mach III, as the accounting acquirer, were accounted for in accordance with the business combination guidance in ASC 805.

The Company considered the guidance in ASC 805 to determine the predecessor for accounting and reporting purposes. In consideration of the guidance, Mach Natural Resources LP, BCE-Mach, BCE-Mach II and BCE-Mach III were all reviewed to determine predecessor status. Mach Natural Resources LP was not considered to be a substantive entity as it was formed for the sole purpose of receiving the transfer of equity interests and has no other operations. As such, Mach Natural Resources LP was not considered to be the accounting predecessor. For BCE-Mach, BCE-Mach II and BCE-Mach III, relevant financial data was reviewed to determine if one of the entities was significantly larger than the other entities. In reviewing total assets, oil and gas sales and operating cash flow, it was determined that BCE-Mach III was significantly larger by these relevant measures. Additionally, BCE-Mach III had a meaningful operating history over the past three years. As such, BCE-Mach III was considered to be the predecessor and accounting acquirer for accounting and reporting purposes. The pro forma information presented reflect events directly attributable to the Transactions and certain assumptions the Company believes are reasonable.

The pro forma information is not necessarily indicative of financial results that would have been attained had the Transactions occurred on the date indicated or which could be achieved in the future because they necessarily exclude various operating expenses, such as incremental general and administrative expenses associated with being a public company. The adjustments are based on currently available information and certain estimates and assumptions. Therefore, the actual adjustments may differ from the pro forma adjustments. However, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the Transactions as contemplated and the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma financial statements. The Company has not included any adjustments depicting synergies or dis-synergies of the Corporate Reorganization or the Paloma Acquisition.

The pro forma financial statements and related notes are presented for illustrative purposes only. If the Corporate Reorganization, the Offering, the Refinancings and the Paloma Acquisition had occurred in the past, the Company's operating results might have been materially different from those presented in the pro forma financial statements. The pro forma financial statements should not be relied upon as an indication of operating results that the Company would have achieved if the Corporate Reorganization, the Offering, the Refinancings and the Paloma Acquisition had taken place on the dates specified in the pro forma financial statements. In addition, future results may vary significantly from the results reflected in the pro forma financial statements of operations and should not be relied upon as an indication of the future results the Company.

MACH NATURAL RESOURCES LP
Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2023

(in thousands)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Corporate Reorganization, Offering, and Refinancings Transaction Adjustments (Pro Forma)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
ASSETS								
Current assets								
Cash and cash equivalents	$ 58,737	$ 25,370	$ 9,127	$ (73,747)(a)	$ 826,447	$ 3,415	$ (750,282)(j)	$ 76,165
				806,960(b)			(3,415)(k)	
Accounts receivable – joint interest and other	21,957	10,419	7,430	—	39,806	18,280	(3,222)(k)	72,124
							17,260(l)	
Accounts receivable – oil, gas, and NGL sales	68,160	22,154	3,882	—	94,196	42,777	(42,777)(k)	94,196
Inventories	17,647	14,330	1,051	—	33,028	—	166(k)	33,194
Short-term derivative contracts	—	—	82	—	82	—	—	82
Other current assets	3,450	2,275	1,103	—	6,828	1,819	(1,819)(k)	6,828
Total current assets	169,951	74,548	22,675	733,213	1,000,387	66,291	(784,089)	282,589
Oil and natural gas properties, using the full cost method:								
Proved oil and natural gas properties	1,018,171	530,123	81,020	(322,016)(c)	1,307,298	1,307,385	(570,466)(c)	2,044,217
Less: accumulated depreciation, depletion and amortization	(225,604)	(297,541)	(40,532)	338,073(c)	(225,604)	(470,518)	470,518(c)	(225,604)
Oil and natural gas properties, net	792,567	232,582	40,488	16,057	1,081,694	836,867	(99,948)	1,818,613
Other property, plant and equipment	91,146	99,697	11,474	(100,301)(d)	102,016	—	—	102,016
Less: accumulated depreciation	(13,722)	(42,149)	(2,621)	44,770(d)	(13,722)	—	—	(13,722)
Other property, plant and equipment, net	77,424	57,548	8,853	(55,531)	88,294	—	—	88,294
Other assets	2,846	5,335	135	(615)(e)	8,044	1,173	(1,173)(k)	8,044
				343(a)				
Operating lease assets	11,995	2,898	1,153	—	16,046	1,917	(1,917)(k)	16,046
Goodwill	—	2,674	—	(2,674)(f)	—	—	—	—
Total assets	$ 1,054,783	$ 375,585	$ 73,304	$ 690,793	$ 2,194,465	$ 906,248	$ (887,127)	$ 2,213,586
LIABILITIES AND EQUITY								
Current liabilities								
Accounts payable	$ 34,106	$ 7,272	$ 1,289	$ —	$ 42,667	$ 29,211	$ (29,211)(k)	$ 42,667
Accrued liabilities	36,774	9,628	2,904	—	49,306	2,216	(2,216)(k)	49,306
Revenue payable	52,955	28,808	15,370	—	97,133	39,323	(21,666)(k)	114,790
Current portion of long-term debt	—	—	—	61,875(b)	61,875	—	—	61,875
Current portion of operating lease liabilities	8,820	1,393	450	—	10,663	479	(479)(k)	10,663
Short-term derivative contracts	3,547	361	—	—	3,908	3,833	(3,833)(k)	3,908
Total current liabilities	136,202	47,462	20,013	61,875	265,552	75,062	(57,405)	283,209
Long-term debt	91,900	65,000	17,100	(102,203)(g)	745,085	148,638	(148,638)(k)	745,085
				(71,797)(a)				
				745,085(b)				
Asset retirement obligations	55,973	34,776	19,145	(27,962)(h)	81,932	5,940	(4,476)(h)	83,396
Long-term portion of operating lease liabilities	3,296	1,513	704	—	5,513	1,454	(1,454)(k)	5,513
Other long-term liabilities	603	323	408	—	1,334	—	—	1,334
Total liabilities	287,974	149,074	57,370	604,998	1,099,416	231,094	(211,973)	1,118,537
Equity:								
Members' equity	766,809	226,511	15,934	(1,009,254)(i)	—	675,154	(675,154)(m)	—
Partners' capital	—	—	—	994,453(i)	1,095,049	—	—	1,095,049
				102,203(g)				
				(1,607)(a)				
Total equity	766,809	226,511	15,934	85,795	1,095,049	675,154	(675,154)	1,095,049
Total liabilities and members' equity	$ 1,054,783	$ 375,585	$ 73,304	$ 690,793	$ 2,194,465	$ 906,248	$ (887,127)	$ 2,213,586

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

MACH NATURAL RESOURCES LP
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2023
(in thousands, except per unit data)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Corporate Reorganization, Offering, and Refinancings Transaction Adjustments (Pro Forma)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Revenue								
Oil, natural gas, and NGL sales	$ 479,319	$ 104,896	$ 23,772	$ —	$ 607,987	$ 262,970	$ (19,959)(h)	$ 850,998
Midstream revenue	20,001	—	319	—	20,320	—	—	20,320
Gain (loss) on oil and natural gas derivatives	10,842	5,713	835	—	17,390	15,567	(15,567)(i)	17,390
Product sales	24,321	—	—	—	24,321	—	—	24,321
Total revenues	534,483	110,609	24,926	—	670,018	278,537	(35,526)	913,029
Operating expenses								
Gathering and processing	25,472	21,377	2,808	—	49,657	30,371	(7,489)(h)	72,539
Lease operating expense	89,494	30,080	9,926	—	129,500	16,803	(3,480)(h)	142,823
Midstream operating expense	8,263	—	350	—	8,613	—	—	8,613
Cost of product sales	21,599	—	—	—	21,599	—	—	21,599
Production taxes	23,186	5,252	1,142	—	29,580	13,875	(2,808)(h)	40,647

Depreciation, depletion, and accretion – oil and natural gas	89,372	18,159	3,320	(5,852)(a)	104,999	56,791	1,628(a)	163,418
Depreciation and amortization – other	4,551	6,701	519	(6,572)(b)	5,199	—	—	5,199
General and administrative	15,265	7,447	(2,174)	—	20,538	9,095	(9,095)(j)	20,538
Total operating expenses	277,202	89,016	15,891	(12,424)	369,685	126,935	(21,244)	475,376
Income from operations	257,281	21,593	9,035	12,424	300,333	151,602	(14,282)	437,653
Other (expense) income								
Interest expense	(5,843)	(4,284)	(1,148)	11,275(c)	(78,988)	(12,392)	12,392(k)	(78,988)
				(78,988)(d)				
Gain (loss) on sale of assets	—	—	—	—	—	(141,439)	141,439(l)	—
Other (expense) income, net	1,550	(2,683)	(593)	—	(1,726)	791	(791)(m)	(1,726)
Total other expense	(4,293)	(6,967)	(1,741)	(67,713)	(80,714)	(153,040)	153,040	(80,714)
Net income	$ 252,988	$ 14,626	$ 7,294	$ (55,289)	$ 219,619	$ (1,438)	$ 138,758	$ 356,939
Net income per common unit:								
Basic and diluted	$ —	$ —	$ —	$ 2.31(f)	$ 2.31	$ —	$ 1.45(f)	$ 3.76
Weighted average common units outstanding:								
Basic and diluted	—	—	—	95,000(g)	95,000	—	—	95,000

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

MACH NATURAL RESOURCES LP
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2022
(in thousands, except per unit data)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Corporate Reorganization, Offering, and Refinancings Transaction Adjustments (Pro Forma)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Revenue								
Oil, natural gas, and NGL sales	$ 860,388	$ 233,644	$ 71,388	$ —	$ 1,165,420	$ 415,717	$ (44,011)(h)	$ 1,537,126
Midstream revenue	44,373	—	459	—	44,832	—	—	44,832
Gain (loss) on oil and natural gas derivatives	(67,453)	(42,334)	(3,535)	—	(113,322)	(55,469)	55,469(i)	(113,322)
Product sales	100,106	—	—	—	100,106	—	—	100,106
Total revenues	937,414	191,310	68,312	—	1,197,036	360,248	11,458	1,568,742
Operating expenses								
Gathering and processing	47,484	34,437	5,966	—	87,887	26,242	(6,391)(h)	107,738
Lease operating expense	95,941	35,605	13,721	—	145,267	18,375	(1,257)(h)	162,385
Midstream operating expense	15,157	—	461	—	15,618	—	—	15,618
Cost of product sales	94,580	—	—	—	94,580	—	—	94,580
Production taxes	47,825	13,246	4,123	—	65,194	23,859	(2,095)(h)	86,958
Depreciation, depletion, and accretion – oil and natural gas	84,070	26,621	4,487	17,089(a)	132,267	74,344	(9,483)(a)	197,128
Depreciation and amortization – other	4,519	8,318	679	(8,112)(b)	5,404	—	—	5,404
General and administrative	25,454	4,577	(2,551)	—	27,480	12,810	(12,810)(j)	27,480
Total operating expenses	415,030	122,804	26,886	8,977	573,697	155,630	(32,036)	697,291
Income from operations	522,384	68,506	41,426	(8,977)	623,339	204,618	43,494	871,451
Other (expense) income								
Interest expense	(4,852)	(5,515)	(951)	11,318(c)	(105,607)	(6,013)	6,013(k)	(105,607)
				(105,607)(d)				
Loss on debt extinguishment	—	(898)	—	(1,607)(e)	(2,505)	—	—	(2,505)
Gain (loss) on sale of assets	—	—	—	—	—	30	(30)(l)	—
Other (expense) income, net	(691)	(452)	60	—	(1,083)	2,192	(2,192)(m)	(1,083)
Total other expense	(5,543)	(6,865)	(891)	(95,896)	(109,195)	(3,791)	3,791	(109,195)
Net income	$ 516,841	$ 61,641	$ 40,535	$ (104,873)	$ 514,144	$ 200,827	$ 47,285	$ 762,256
Net income per common unit:								
Basic and diluted	$ —	$ —	$ —	$ 5.41(f)	$ 5.41	$ —	$ 2.61(f)	$ 8.02
Weighted average common units outstanding:								
Basic and diluted	—	—	—	95,000(g)	95,000	—	—	95,000

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

MACH NATURAL RESOURCES LP
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1 – Basis of Pro Forma Presentation

The historical financial information included herein is derived from the financial statements of BCE-Mach III, BCE-Mach, BCE-Mach II, and Paloma Partners. For purposes of the pro forma balance sheet, it is assumed that each of the Transactions took place on September 30, 2023. For purposes of the pro forma statement of operations, it is assumed that each of the Transactions took place on January 1, 2022.

The following Transactions are reflected in the pro forma financial statements:

Corporate Reorganization

i) Investment funds managed by Bayou City Energy Management LLC contributed 100% of their membership interests in Predecessor, BCE-Mach and BCE-Mach II to BCE Mach Aggregator LLC ("BCE-Mach Aggregator") in exchange for 100% of the membership interests in BCE-Mach Aggregator;

ii) Each of BCE-Mach Aggregator, the current officers and employees who own indirect equity interests in Predecessor, BCE-Mach and BCE-Mach II and Mach Resources, LLC contributed 100% of their respective membership interests in Predecessor, BCE-Mach and BCE-Mach II to the Company in exchange for a pro rata allocation of 100% of the limited partner interests in the Company;

iii) The Company contributed 100% of its membership interests in the Predecessor, BCE-Mach and BCE-Mach II to Mach Natural Resources Intermediate LLC ("Intermediate") in exchange for 100% of the membership interests in Intermediate; and

iv) Intermediate contributed 100% of its membership interests in the Predecessor, BCE-Mach and BCE-Mach II to Mach Natural Resources Holdco LLC ("Holdco") in exchange for 100% of the membership interests in Holdco.

The Offering

i) 10,000,000 common units of the Company were issued and sold to the public at an initial public offering price of $19.00 per common unit. The gross proceeds from the sale of the common units were $190.0 million, and net proceeds were $168.5 million after deducting underwriters' fees and offering expenses; and

ii) Net proceeds from the Offering were used as follows: (i) to repay the credit facilities of BCE-Mach and BCE-Mach II in full, (ii) to repay a portion of the BCE-Mach III credit facility and (iii) to purchase 3,750,000 common units from the Exchanging Members for $66.3 million.

The Refinancings

i) The Company entered into an amended and restated credit agreement (the "November 2023 Credit Facility") with a syndicate of banks, including MidFirst Bank who served as sole book runner and lead arranger. In connection with entering into the November 2023 Credit Facility on November 10, 2023, the Company repaid all amounts outstanding under the BCE-Mach III credit facility and terminated the credit facilities of BCE-Mach III, BCE-Mach and BCE-Mach II (collectively, the "Pre-IPO Credit Facilities"); and

ii) The Company entered into (i) the Term Loan Credit Agreement, and (ii) a senior secured revolving credit agreement (the "Revolving Credit Agreement," and together with the Term Loan Credit Agreement, the "Credit Agreements") with a syndicate of lenders, including MidFirst Bank as the administrative agent. The Company used borrowings from the Term Loan Credit Agreement, together with cash on hand, to repay and terminate the November 2023 Credit Facility on December 28, 2023.

Paloma Acquisition

i) The consummation of the Paloma Acquisition pursuant to the terms of the Paloma PSA.

Subsequent to the closing of the Offering, the Company has incurred direct, incremental general and administrative expenses as a result of being publicly traded, including, but not limited to, costs associated with annual and quarterly reports to unitholders, tax return preparation, independent auditor fees, incremental legal fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These direct, incremental general and administrative expenditures are not reflected in the historical financial statements or in the unaudited pro forma financial statements.

The pro forma financial statements reflect pro forma adjustments that are based on available information and certain assumptions that management believes are reasonable. However, actual results may differ from those reflected in these statements. In management's opinion, all adjustments known to date that are necessary to fairly present the pro forma information have been made. The pro forma financial statements do not purport to represent what the combined entity's results of operations would have been if the Corporate Reorganization, the Offering, the Refinancings and the Paloma Acquisition had actually occurred on January 1, 2022, nor are they indicative of the Company's future results of operations.

These pro forma financial statements should be read in conjunction with our historical financial statements for the three and nine months ended September 30, 2023 and for the year ended December 31, 2022 included in the Company's Quarterly Report on Form 10-Q and final prospectus filed pursuant to Rule 424(b)(4), respectively, as well as the historical financial statements of Paloma included herewith.

Note 2 – Purchase Price Allocations

The acquisitions of BCE-Mach and BCE-Mach II in connection with the Corporate Reorganization were accounted for using the acquisition method of accounting for business combinations with BCE-Mach III considered to be the accounting acquirer. The Paloma Acquisition was accounted for as an asset acquisition. The allocation of the purchase price for the acquisitions of BCE-Mach and BCE-Mach II and the Paloma Acquisition were based upon management's estimates of and assumptions related to the fair value of assets acquired and liabilities assumed as of September 30, 2023 using currently available information. Because the pro forma financial statements have been prepared based on estimates, the final purchase price allocations and the resulting effects on the Company's financial position and results of operations may differ significantly from the pro forma amounts included in this exhibit to the Company's Current Report on Form 8-K. The Company has completed allocations of the purchase prices of BCE-Mach and BCE-Mach II, and expects to complete its allocation for the Paloma Acquisition during the second half of 2024.

The determination of consideration transferred and the allocation of the purchase price to assets acquired and liabilities recorded were as follows (in thousands, except unit data):

	BCE-Mach	BCE-Mach II	Paloma Acquisition
Common units issued for acquisition	7,765,625	4,215,625	—
Offering price of common units	$ 19.00	$ 19.00	$ —
Equity consideration	$ 147,547	$ 80,097	$ —
Cash consideration	—	—	748,587
Capitalized transaction costs	—	—	1,695

Less: purchase price adjustment receivable	—	—	(17,260)
Total acquisition consideration	$ 147,547	$ 80,097	$ 733,022
Assets acquired:			
Cash and cash equivalents	$ 25,370	$ 9,127	$ —
Accounts receivable	32,573	11,312	15,058
Other current assets	16,605	2,236	166
Proved oil and natural gas properties	189,763	99,364	736,919
Other long-term assets	11,902	7,872	—
Total assets acquired	276,213	129,911	752,143
Liabilities assumed:			
Accounts payable and accrued liabilities	16,900	4,193	—
Revenue payable	28,808	15,370	17,657
Other current liabilities	1,754	450	—
Long-term debt	65,000	17,100	—
Asset retirement obligations	14,369	11,589	1,464
Other long-term liabilities	1,835	1,112	—
Total liabilities assumed	128,666	49,814	19,121
Net assets acquired	$ 147,547	$ 80,097	$ 733,022

Note 3 – Pro Forma Adjustments and Assumptions

The pro forma financial statements have been prepared to illustrate the effect of the Corporate Reorganization, the Offering, the Refinancings and the Paloma Acquisition and have been prepared for informational purposes only.

The preceding pro forma financial statements have been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses.” Release No. 33-10786 replaced the previous pro forma adjustment criteria with simplified requirements to depict the accounting for the Transactions (“Transaction Accounting Adjustments”) and allows for supplemental disclosure of the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur (“Management Adjustments”). Management has elected not to disclose Management Adjustments.

Certain reclassification adjustments were made to the financial statement presentation of Paloma Partners in order to conform with the Company’s financial statement presentation for these pro forma financial statements. These conforming adjustments for pro forma presentation are summarized as follows:

Paloma Partners (Historical)	Pro Forma Presentation	September 30, 2023	December 31, 2022
Balance sheet:			
Accounts receivable	Accounts receivable - joint interest and other	$ 18,280	
	Accounts receivable - oil, gas, and NGL sales	42,777	
Prepaid drilling costs	Other current assets	1,819	
Derivative asset, noncurrent	Other assets (long-term assets)	1,173	
Revenue payable and accrued expense	Accrued liabilities	2,216	
	Revenue payable	39,323	
Prepayments	Accounts payable	5,117	
Statements of operations:			
Realized gain (loss) on derivatives	Gain (loss) on oil and natural gas derivatives	$ 8,655	$ (66,674)
Unrealized gain (loss) on derivatives	Gain (loss) on oil and natural gas derivatives	6,912	11,205
Overhead reimbursement	General and administrative	7,703	10,932

The Company made the following adjustments and assumptions in preparation of the pro forma balance sheet:

a) Adjustments reflect amounts paid for debt issuance costs in connection with entering into the November 2023 Credit Facility on November 10, 2023 and the repayment of the remaining balances outstanding under the Pre-IPO Credit Facilities. The November 2023 Credit Facility was repaid and terminated in connection with entering into the Credit Agreements on December 28, 2023.

b) Adjustments reflect entering into the Credit Agreements on December 28, 2023.

c) Adjustments reflect removal of historical cost and accumulated depreciation, depletion, and amortization of oil and gas properties and replacement with current fair value as a result of the Corporate Reorganization and Paloma Acquisition. The fair value of the oil and gas properties was assessed by utilizing a fair value reserve report that used future pricing and other commonly used valuation techniques.

d) Adjustments reflect removal of certain operator owned equipment from other property, plant and equipment, as it is included in the new fair value of oil and gas properties, as well as recording BCE-Mach II’s gathering assets at fair value. The fair value of the gathering assets was assessed using the income approach.

e) Adjustment reflects the write-off of all loan origination fees related to the credit facilities of BCE-Mach and BCE-Mach II as part of purchase accounting.

f) Adjustment reflects removal of goodwill as there is no implied goodwill related to the Corporate Reorganization.

g) Adjustments reflect gross proceeds of $190.0 million from the issuance and sale of common units at an initial public offering price of $19.00 per common unit, reduced by underwriting discounts and commissions of $13.3 million, in the aggregate, and additional expenses related to the Offering of $8.2 million and the use of the net proceeds therefrom as follows:

- To pay down $102.2 million of outstanding borrowings under the Company’s Pre-IPO Credit Facilities. The credit facilities of BCE-Mach and BCE-Mach II were repaid in full, with the remaining proceeds used to repay a portion of the BCE-Mach III credit facility.

- To repurchase 3,750,000 common units from the Exchanging Members for approximately $66.3 million.

h) Adjustments reflect recording asset retirement obligations assumed in the Corporate Reorganization and Paloma Acquisition at fair value.

i) Adjustments reflect the recapitalization of the Company as part of the Corporate Reorganization, with the historical equity of BCE-Mach III recast as partners' capital and elimination of members' equity related to BCE-Mach and BCE-Mach II. Partners' capital reflects the fair value of consideration transferred for the acquisitions of BCE-Mach and BCE-Mach II as part of the Corporate Reorganization.

j) Adjustment reflects the acquisition deposit and cash paid at closing for the Paloma Acquisition, after the effects of certain preliminary purchase price adjustments and inclusive of capitalized transaction costs. The amounts paid at or prior to closing were in excess of the anticipated final settlement statement for the Paloma Acquisition. Refer to adjustment (l) below for the related purchase price adjustment receivable.

k) Adjustments reflect eliminations of assets not acquired and liabilities not assumed as part of the Paloma Acquisition.

l) Adjustment reflects the purchase price adjustment receivable related to cash closing payments made in excess of the anticipated final settlement statement for the Paloma Acquisition.

m) Adjustment reflects elimination of members' equity of Paloma Partners as part of purchase accounting.

The Company made the following adjustments and assumptions in preparation of the pro forma statements of operations:

a) Adjustments reflect changes to depreciation, depletion and amortization expense that would have been incurred as a result of the fair value of acquired oil and natural gas properties.

b) Adjustments reflect changes to depreciation and amortization of other assets that would have been incurred based on the fair value of acquired other property and equipment.

c) Adjustments reflect the elimination of interest expense for the Pre-IPO Credit Facilities from the use of proceeds from the Offering and the Refinancings to pay down all debt outstanding under the Pre-IPO Credit Facilities.

d) Adjustments reflect interest expense for the Credit Agreements on a pro forma basis assuming the amounts drawn on December 28, 2023 were outstanding from January 1, 2022.

e) Adjustment reflects the loss on debt extinguishment related to the repayment and termination of the Pre-IPO Credit Facilities and the November 2023 Credit Facility.

f) Adjustments reflect the computation of net income per common unit on a pro forma basis.

g) Adjustments reflect the impact of the Company's net issuance of common units as a result of the Corporate Reorganization and the Offering.

h) Adjustments reflect the carve-out of revenues and operating expenses for certain oil and natural gas properties that were not acquired from Paloma Partners as part of the Paloma Acquisition.

i) Adjustments reflect the elimination of gain (loss) on oil and natural gas derivatives for Paloma Partners related to commodity derivatives that were not assumed as part of the Paloma Acquisition.

j) Adjustments reflect the elimination of general and administrative expenses for Paloma Partners as these expenses relate to activities that were not acquired as part of the Paloma Acquisition.

k) Adjustments reflect the elimination of interest expense for Paloma Partners related to debt obligations that were not assumed as part of the Paloma Acquisition.

l) Adjustments reflect the elimination of gain (loss) on sale of assets for Paloma Partners related to sales of oil and natural gas properties that were not acquired as part of the Paloma Acquisition.

m) Adjustments reflect the elimination of other income (expense), net for Paloma Partners related to activities that were not acquired as part of the Paloma Acquisition.

Note 4 – Supplementary Disclosure for Oil and Natural Gas Producing Activities

Oil and natural gas reserves

The following tables present the estimated pro forma combined net proved developed and undeveloped oil, natural gas and NGLs reserves information as of December 31, 2022 for Mach Natural Resources' proved reserves. The Paloma Acquisition transaction adjustments represent adjustments to remove the effects of properties retained by Paloma Partners which were not included in the Paloma Acquisition, from the Paloma Partners historical amounts. Reserve quantities cannot be measured with precision and their estimation requires many judgmental determinations and frequent revisions. The estimates below are in certain instances presented on a "barrels of oil equivalent" or "Boe" basis. To determine Boe in the following tables, natural gas is converted to a crude oil equivalent at the ratio of six Mcf of natural gas to one barrel of crude oil equivalent.

The pro forma oil and natural gas reserves information is not necessarily indicative of the results that might have occurred had the Corporate Reorganization and Paloma Acquisition been completed on January 1, 2022 and is not intended to be a projection of future results. Future results may vary significantly from the results reflected because of various factors, including those discussed in "Risk Factors" included in the Company's final prospectus filed on October 26, 2023 pursuant to Rule 424(b)(4).

Oil and Condensate (MBbls)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:							
December 31, 2021	35,775	16,359	1,623	53,757	22,703	(3,519)	72,941
Revisions of previous estimates	15,675	1,133	221	17,029	(1,102)	(608)	15,319
Purchases in place	1,919	—	10	1,929	3,728	(5)	5,652
Extensions, discoveries and other additions	—	—	—	—	2,815	(997)	1,818
Sales in place	—	—	—	—	(1,622)	1,622	—
Production	(4,789)	(1,020)	(160)	(5,969)	(2,298)	370	(7,897)
December 31, 2022	48,580	16,472	1,694	66,746	24,224	(3,137)	87,833
Proved Developed Reserves as of:							
December 31, 2021	22,794	12,267	1,623	36,684	10,354	(1,615)	45,423
December 31, 2022	29,984	11,629	1,694	43,307	13,033	(1,485)	54,855
Proved Undeveloped Reserves as of:							
December 31, 2021	12,981	4,092	—	17,073	12,349	(1,904)	27,518
December 31, 2022	18,596	4,843	—	23,439	11,191	(1,652)	32,978

Natural Gas (MMcf)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:							
December 31, 2021	437,120	241,573	86,193	764,886	339,590	(48,403)	1,056,073
Revisions of previous estimates	167,606	28,357	14,695	210,658	(4,029)	(1,319)	205,310
Purchases in place	72,451	—	5,630	78,081	84,004	(14,772)	147,313
Extensions, discoveries and other additions	—	—	—	—	58,535	(11,028)	47,507
Sales in place	—	—	—	—	(14,868)	14,868	—
Production	(47,557)	(15,780)	(7,610)	(70,947)	(20,911)	2,926	(88,932)
December 31, 2022	629,620	254,150	98,908	982,678	442,321	(57,728)	1,367,271
Proved Developed Reserves as of:							
December 31, 2021	415,141	210,858	86,193	712,192	165,872	(24,425)	853,639
December 31, 2022	527,369	212,020	98,908	838,297	201,220	(22,104)	1,017,413
Proved Undeveloped Reserves as of:							
December 31, 2021	21,979	30,715	—	52,694	173,718	(23,978)	202,434
December 31, 2022	102,251	42,130	—	144,381	241,101	(35,624)	349,858

NGLs (MBbls)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:							
December 31, 2021	30,055	15,295	5,547	50,897	36,191	(5,167)	81,921
Revisions of previous estimates	11,360	1,885	1,578	14,823	2,051	(345)	16,529
Purchases in place	8,230	—	40	8,270	10,695	(2,025)	16,940
Extensions, discoveries and other additions	—	—	—	—	7,032	(1,276)	5,756
Sales in place	—	—	—	—	(1,719)	1,719	—
Production	(2,812)	(970)	(470)	(4,252)	(2,522)	231	(6,543)
December 31, 2022	46,833	16,210	6,695	69,738	51,728	(6,863)	114,603
Proved Developed Reserves as of:							
December 31, 2021	29,736	13,578	5,547	48,861	17,791	(2,560)	64,092
December 31, 2022	39,239	13,827	6,695	59,761	23,111	(2,372)	80,500
Proved Undeveloped Reserves as of:							
December 31, 2021	319	1,717	—	2,036	18,400	(2,607)	17,829
December 31, 2022	7,594	2,383	—	9,977	28,617	(4,491)	34,103

Total (MBoe)

	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)

Proved Developed and Undeveloped Reserves as of:							
December 31, 2021	138,683	71,916	21,536	232,135	115,492	(16,753)	330,874
Revisions of previous estimates	54,969	7,744	4,248	66,961	278	(1,174)	66,065
Purchases in place	22,224	—	988	23,212	28,424	(4,492)	47,144
Extensions, discoveries and other additions	—	—	—	—	19,603	(4,111)	15,492
Sales in place	—	—	—	—	(5,819)	5,819	—
Production	(15,527)	(4,620)	(1,898)	(22,045)	(8,305)	1,088	(29,262)
December 31, 2022	200,349	75,040	24,874	300,263	149,673	(19,623)	430,313
Proved Developed Reserves as of:							
December 31, 2021	121,719	60,988	21,536	204,243	55,790	(8,246)	251,787
December 31, 2022	157,117	60,792	24,874	242,783	69,681	(7,542)	304,922
Proved Undeveloped Reserves as of:							
December 31, 2021	16,964	10,928	—	27,892	59,702	(8,507)	79,087
December 31, 2022	43,232	14,248	—	57,480	79,992	(12,081)	125,391

Standardized measure of discounted future net cash flows

The following tables present the pro forma standardized measure of discounted future net cash flows (the “pro forma standardized measure”) applicable to Mach Natural Resources’ proved reserves as of December 31, 2022. The future cash flows are discounted at 10% per year and assume continuation of existing economic conditions.

The standardized measure of discounted future net cash flows, in management’s opinion, should be examined with caution. The basis for this table is the reserve studies prepared by independent petroleum engineering consultants, which contain imprecise estimates of quantities and rates of production of reserves. Revisions of previous year estimates can have a significant impact on these results. Also, exploration costs in one year may lead to significant discoveries in later years and may significantly change previous estimates of proved reserves and their valuation. Therefore, the standardized measure of discounted future net cash flow is not necessarily indicative of the fair value of Mach Natural Resources’ proved oil and natural gas properties.

The data presented should not be viewed as representing the expected cash flow from, or current value of, existing proved reserves since the computations are based on a large number of estimates and assumptions. Reserve quantities cannot be measured with precision and their estimation requires many judgmental determinations and frequent revisions. Actual future prices and costs are likely to be substantially different from the prices and costs utilized in the computation of reported amounts.

The pro forma standardized measure is not necessarily indicative of the results that might have occurred had the Corporate Reorganization and Paloma Acquisition been completed on January 1, 2022 and is not intended to be a projection of future results. Future results may vary significantly from the results reflected because of various factors, including those discussed in “Risk Factors” included in the Company’s final prospectus filed on October 26, 2023 pursuant to Rule 424(b)(4).

The pro forma standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves of our consolidated operations as of December 31, 2022 is as follows:

	(in thousands)						
	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Future cash inflows	$ 9,666,636	$ 3,206,749	$ 852,310	$ 13,725,695	$ 6,289,149	$ (795,982)	$ 19,218,862
Future costs:							
Production costs[1]	(3,143,467)	(1,086,699)	(292,974)	(4,523,140)	(925,323)	167,720	(5,280,743)
Development costs[2]	(876,115)	(241,007)	(23,486)	(1,140,608)	(521,148)	78,746	(1,583,010)
Income taxes[3]	—	—	—	—	—	—	—
Future net cash flows	5,647,054	1,879,043	535,850	8,061,947	4,842,678	(549,516)	12,355,109
10% annual discount	(2,693,549)	(1,029,073)	(281,020)	(4,003,642)	(2,508,697)	285,463	(6,226,876)
Standardized measure	$ 2,953,505	$ 849,970	$ 254,830	$ 4,058,305	$ 2,333,981	$ (264,053)	$ 6,128,233

1 Production costs include production severance taxes, ad valorem taxes and operating expenses.

2 Development costs include plugging expenses, net of salvage and net capital investment.

3 The Company is a limited partnership treated as a partnership for federal and state income tax purposes, with the exception of the state of Texas, with taxable income of the Company passed through to partners based on their respective share. Limited partnerships are subject to state income taxes in Texas. Due to immateriality, state income taxes related to the Texas margin tax are not included in our Standardized Measure calculation.

Changes in standardized measure

The changes in the pro forma standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves of our consolidated operations for the year ended December 31, 2022 are as follows:

	(in thousands)						
	BCE-Mach III (Predecessor)	BCE-Mach (Historical)	BCE-Mach II (Historical)	Mach Natural Resources LP As Adjusted (Pro Forma)	Paloma Partners (Historical)	Paloma Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)

Standardized measure, beginning of period	$ 1,413,611	$ 540,643	$ 124,185	$ 2,078,439	$ 1,048,144	$ (131,896)	$ 2,994,687
Revisions of previous quantity estimates	962,927	98,988	45,324	1,107,239	5,110	(21,900)	1,090,449
Changes in estimated future development costs	169,405	30,957	210	200,572	(17,327)	8,588	191,833
Purchases of reserves in place	201,135	—	9,699	210,834	461,193	(59,601)	612,426
Divestiture of reserves	—	—	—	—	(43,575)	43,575	—
Net changes in prices and production costs	442,599	301,637	100,586	844,822	846,653	(64,094)	1,627,381
Net change due to extensions and discoveries, net of estimated future development and production costs	—	—	—	—	216,960	(52,376)	164,584
Accretion of discount	141,361	54,064	12,418	207,843	104,814	(13,189)	299,468
Sales of oil and gas produced, net of production costs	(669,138)	(150,356)	(47,578)	(867,072)	(347,242)	34,268	(1,180,046)
Development costs incurred during the period	261,650	14,619	441	276,710	79,129	(323)	355,516
Change in timing of estimated future production and other	29,955	(40,582)	9,545	(1,082)	(19,878)	(7,105)	(28,065)
Standardized measure, end of period	$ 2,953,505	$ 849,970	$ 254,830	$ 4,058,305	$ 2,333,981	$ (264,053)	$ 6,128,233