

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): September 19, 2025 (September 12, 2025)

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

Delaware
(State or other jurisdiction
of incorporation)

001-41849
(Commission File Number)

93-1757616
(IRS Employer
Identification No.)

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

73134
(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 September 17, 2025 (the “Original Report”). As previously disclosed in the Original Report, on September 16, 2025, the Company completed the acquisition of certain rights, title and interests in oil and gas properties, rights and related assets located in certain designated lands in the Permian Basin from Sabinal Energy Operating, LLC (“Sabinal Energy Operating”), Sabinal Resources, LLC and Sabinal CBP, LLC. Further, as previously disclosed in the Original Report, on September 16, 2025, the Company completed the acquisition of 100% of the membership interests in SIMCOE LLC (“SIMCOE”) and Simlog LLC (“Simlog”) from VEPU Inc. and Simlog Inc. Simlog owns 100% of the issued and outstanding equity interests of SJ INVESTMENT OPPTS LLC (“SJ INVESTMENT”), and SJ INVESTMENT represents substantially all of Simlog.

The Company is filing this Amendment solely to (i) revise Item 2.01 to correct the purchase price for the IKAV Assets (as defined in the Original Report) and (ii) supplement Item 9.01 of the Original Report to file (a) the audited consolidated financial statements of Sabinal Energy Operating as of December 31, 2024 and 2023, and for the years ended December 31, 2024 and 2023, (b) the unaudited consolidated financial statements of Sabinal Energy Operating as of June 30, 2025 and for the six months ended June 30, 2025 and 2024, (c) the audited financial statements of SJ INVESTMENT as of December 31, 2024 and 2023, and for the year ended December 31, 2024 and for the period from June 27, 2023 (inception) to December 31, 2023, (d) the unaudited financial statements of SJ INVESTMENT as of June 30, 2025 and for the six months ended June 30, 2025 and 2024, (e) the audited financial statements of SIMCOE as of December 31, 2024 and 2023, and for the years ended December 31, 2024 and 2023, (f) the unaudited financial statements of SIMCOE as of June 30, 2025 and for the six months ended June 30, 2025 and 2024 and (g) the unaudited pro forma condensed combined financial information of the Company as of June 30, 2025, and for the six months ended June 30, 2025 and the year ended December 31, 2024. Except for the foregoing, this Amendment does not modify or update any other disclosure contained in the Original Report.

Item 2.01. Completion of Acquisition or Disposition of Assets.

This Amendment amends Item 2.01 of the Original Report to correct the purchase price for the IKAV Assets to \$758.9 million, which was comprised of (i) cash in the amount of \$349.0 million and (ii) 30,611,264 Common Units, net of preliminary and customary purchase price adjustments and subject to final post-closing settlement.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Sabinal

The audited consolidated balance sheets of Sabinal Energy Operating as of December 31, 2024 and 2023 and the audited consolidated statements of operations, statements of members’ capital and statements of cash flows for each of the years ended December 31, 2024 and 2023, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.1 and are incorporated herein by reference.

The unaudited consolidated balance sheet of Sabinal Energy Operating as of June 30, 2025 and the unaudited consolidated statements of operations, statements of members’ capital and statements of cash flows for each of the six months ended June 30, 2025 and 2024, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.2 and are incorporated herein by reference.

IKAV

The audited statements of financial position of SJ INVESTMENT as of December 31, 2024 and 2023 and the audited statements of operations, statements of changes in member’s capital and statements of cash flows for the year ended December 31, 2024 and for the period from June 27, 2023 to December 31, 2023, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.3 and are incorporated herein by reference.

The unaudited statements of financial position of SJ INVESTMENT as of June 30, 2025 and the unaudited statements of operations and comprehensive income (loss), statements of changes in member's capital and statements of cash flows for each of the six months ended June 30, 2025 and 2024, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.4 and are incorporated herein by reference.

The audited statements of financial position of SIMCOE as of December 31, 2024 and 2023 and the audited statements of operations and comprehensive income (loss), statements of changes in member's capital and statements of cash flows for each of the years ended December 31, 2024 and 2023, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.5 and are incorporated herein by reference.

The unaudited statements of financial position of SIMCOE as of June 30, 2025, and the unaudited statements of operations and comprehensive income (loss), statements of changes in member's capital and statements of cash flows for each of the six months ended June 30, 2025 and 2024, and the related notes thereto, are filed herewith and attached hereto as Exhibit 99.6 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 June 30, 2025, and the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2025 and for the year ended December 31, 2024, are filed herewith and attached hereto as Exhibit 99.7, and are incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Weaver and Tidwell, L.L.P., independent auditor for Sabinal Energy Operating, LLC.
23.2	Consent of PricewaterhouseCoopers LLP, independent auditor for SJ INVESTMENT OPPS LLC.
23.3	Consent of PricewaterhouseCoopers LLP, independent auditor for SIMCOE LLC.
99.1	Audited Consolidated Financial Statements of Sabinal Energy Operating, LLC as of December 31, 2024 and 2023 and for the years ended December 31, 2024 and 2023.
99.2	Unaudited Consolidated Financial Statements of Sabinal Energy Operating, LLC as of June 30, 2025 and for the six months ended June 30, 2025 and 2024.
99.3	Audited Financial Statements of SJ INVESTMENT OPPS LLC as of December 31, 2024 and 2023, for the year ended December 31, 2024 and for the period from June 27, 2023 to December 31, 2023.
99.4	Unaudited Financial Statements of SJ INVESTMENT OPPS LLC as of June 30, 2025 and for the six months ended June 30, 2025 and 2024.
99.5	Audited Financial Statements of SIMCOE LLC as of December 31, 2024 and 2023 and for the years ended December 31, 2024 and 2023.
99.6	Unaudited Financial Statements of SIMCOE LLC as of June 30, 2025 and for the six months ended June 30, 2025 and 2024.
99.7	Unaudited Pro Forma Condensed Combined Financial Statements of Mach Natural Resources LP as of June 30, 2025, for the six months ended June 30, 2025 and for the year ended December 31, 2024.
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: September 19, 2025

By: /s/ Tom L. Ward

Name: Tom L. Ward

Title: Chief Executive Officer

Consent of Independent Auditors

We consent to the incorporation in the Registration Statements on Form S-3 (No. 333-283511) and Form S-8 (No. 333-275200) of Mach Natural Resources of our report dated March 6, 2025, except for unaudited supplemental information described in Note 13 and subsequent events described in Note 12, as to which the date is September 19, 2025, with respect to the consolidated balance sheets of Sabinal Energy Operating of December 31, 2024 and 2023 and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, included in this Current Report on Form 8-K/A dated September 19, 2025.

/s/ Weaver and Tidwell

Houston, Texas
September 19, 2025

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-283511) and Form S-8 (No. 333-275200) of Mach Natural Resources LP of our report dated May 30, 2025 relating to the financial statements of SJ INVESTMENT OPPS LLC, which appears in this Current Report on Form 8-K/A.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
September 19, 2025

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-283511) and Form S-8 (No. 333-275200) of Mach Natural Resources LP of our report dated August 1, 2025 relating to the financial statements of SIMCOE LLC, which appears in this Current Report on Form 8-K/A.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
September 19, 2025

Independent Auditor's Report

To the Board of Managers of
Sabinal Energy Operating, LLC and Subsidiaries
The Woodlands, Texas

Opinion

We have audited the consolidated financial statements of Sabinal Energy Operating, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, members' capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued (or when applicable, one year after the date 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

The Board of Managers of
Sabinal Energy Operating, LLC and Subsidiaries

In performing an audit in accordance with GAAS, we:

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The unaudited supplemental disclosures in Note 13 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

/s/ Weaver and Tidwell

Houston, Texas

March 6, 2025, except for subsequent events described in Note 12 and unaudited supplemental information described in Note 13, as to which the date is September 19, 2025

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,782,361	\$ 4,979,971
Accounts receivable	32,831,956	31,967,929
Prepaid expenses and other current assets	6,964,094	6,377,937
Derivative assets, current	<u>4,678,021</u>	<u>2,960,574</u>
Total current assets	47,256,432	46,286,411
OIL AND GAS PROPERTIES, SUCCESSFUL EFFORTS		
Proved properties	983,549,963	927,936,440
Unproved properties	<u>38,640,422</u>	<u>31,188,202</u>
Total oil and gas properties	1,022,190,385	959,124,642
Less: accumulated depletion, depreciation, and amortization	<u>327,952,519</u>	<u>277,952,519</u>
Total oil and gas properties, net	694,237,866	681,172,123
LONG TERM ASSETS		
Other property, plant, and equipment, net	2,270,312	3,138,805
Derivative assets, non current	7,517,108	11,916,120
Right-of-use assets	2,901,279	3,706,173
Deferred financing costs, net	<u>3,825,482</u>	<u>5,408,440</u>
Total long term assets	<u>16,514,181</u>	<u>24,169,538</u>
TOTAL ASSETS	<u>\$ 758,008,479</u>	<u>\$ 751,628,072</u>
LIABILITIES AND MEMBERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable	\$ 19,429,680	\$ 19,098,981
Accounts payable - related parties	6,394,184	5,813,817
Revenue payable	11,618,250	11,048,044
Derivative liabilities, current	6,940,209	35,315,184
Lease liabilities, current	1,823,536	1,715,324
Accrued expenses	15,526,414	15,627,670
Asset retirement obligations, current	<u>3,004,324</u>	<u>3,004,324</u>
Total current liabilities	64,736,597	91,623,344
LONG-TERM LIABILITIES		
Revolving credit facility	171,000,000	187,000,000
Asset retirement obligations, non current	94,032,618	89,990,453
Derivative liabilities, non current	3,250,309	11,395,733
Lease liabilities, non current	<u>1,474,457</u>	<u>2,454,567</u>
Total long-term liabilities	269,757,384	290,840,753
MEMBERS' CAPITAL	<u>423,514,498</u>	<u>369,163,975</u>
TOTAL LIABILITIES AND MEMBERS' CAPITAL	<u>\$ 758,008,479</u>	<u>\$ 751,628,072</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
REVENUE		
Oil sales	\$ 303,124,094	\$ 314,937,390
Natural gas sales	368,010	1,293,351
Natural gas liquids sales	<u>3,076,631</u>	<u>4,174,472</u>
Total revenue	306,568,735	320,405,213
OPERATING EXPENSES		
Lease operating expenses	69,718,029	66,593,294
Workover expenses	32,516,222	26,601,661
Depletion, depreciation, and amortization	51,954,883	48,505,683
Production tax	24,143,300	24,898,914
Accretion expenses	5,314,697	4,386,524
Exploration and abandonment expenses	1,141,404	2,647,664
General and administrative expenses	<u>16,115,647</u>	<u>17,556,833</u>
Total operating expenses	<u>200,904,182</u>	<u>191,190,573</u>
Income from operations	105,664,553	129,214,640
OTHER INCOME (EXPENSES)		
Interest expense	(19,851,257)	(12,473,689)
Realized and unrealized (loss) gain on derivatives	(7,018,407)	6,343,522
Loss on sale of properties	-	(23,756)
Other income	<u>910,858</u>	<u>822,782</u>
Total other (expenses), net	<u>(25,958,806)</u>	<u>(5,331,141)</u>
Income before taxes	79,705,747	123,883,499
Tax expense	<u>384,745</u>	<u>57,680</u>
NET INCOME	<u>\$ 79,321,002</u>	<u>\$ 123,825,819</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Members' Capital
Years Ended December 31, 2024 and 2023

	Members' Capital
BALANCE, at January 1, 2023	\$ 280,264,992
Dividends	(34,980,467)
Share-based compensation	53,631
Net income	123,825,819
BALANCE, at December 31, 2023	369,163,975
Dividends	(24,975,582)
Share-based compensation	5,103
Net income	79,321,002
BALANCE, at December 31, 2024	\$ 423,514,498

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 79,321,002	\$ 123,825,819
Adjustments to reconcile net income to net cash provided by operating activities		
Loss on disposal of property, plant and equipment	-	23,756
Deferred tax liability	-	(213,155)
Amortization of deferred financing costs	1,582,958	1,606,017
Accretion of asset retirement obligations	5,314,697	4,386,524
Settlement of asset retirement obligations	(1,358,026)	(1,237,611)
Amortization of operating leases in excess of cash paid	509,388	489,082
Share-based compensation	5,103	53,631
Depletion, depreciation, and amortization	51,954,883	48,505,683
Unrealized gain on derivative instruments	(33,838,834)	(70,112,756)
Changes in operating assets and liabilities		
Accounts receivable	(864,027)	4,702,017
Prepaid expenses and other current assets	(586,157)	949,653
Accounts payable	(1,830,941)	8,315,014
Accounts payable—related parties	580,367	207,682
Revenue payable	570,206	3,736,641
Accrued expenses	(4,920,466)	(10,233,617)
Lease liabilities	(606,782)	(366,023)
Net cash provided by operating activities	95,833,371	114,638,357
CASH FLOWS FROM INVESTING ACTIVITIES		
Development of oil and natural gas properties	(55,999,399)	(45,499,697)
Net cash used in investing activities	(55,999,399)	(45,499,697)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving credit facility	164,000,000	156,900,000
Payments on revolving credit facility	(180,000,000)	(184,900,000)
Debt issuance costs	-	(4,550,974)
Payments on finance leases	(1,056,000)	(989,279)
Dividends	(24,975,582)	(34,980,467)
Net cash used in financing activities	(42,031,582)	(68,520,720)
Net change in cash and cash equivalents	(2,197,610)	617,940
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,979,971</u>	<u>4,362,031</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,782,361</u>	<u>\$ 4,979,971</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	<u>\$ 17,534,281</u>	<u>\$ 18,346,959</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH ITEMS		
Capital expenditures in accounts payable and accrued expenses	<u>\$ 6,980,850</u>	<u>\$ 1,424,446</u>
Finance lease liabilities	<u>\$ 132,515</u>	<u>\$ 514,704</u>
Non cash change in asset retirement obligations	<u>\$ 85,494</u>	<u>\$ 11,037,174</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Organization and Business Operations

Sabinal Energy Operating, LLC and Subsidiaries (the Company), a Delaware limited liability company, was formed on July 11, 2017. The Company's activities include acquiring and developing large, long-life producing oil and natural gas assets in the Permian Basin in western Texas.

The Company is controlled by Sabinal Energy, LLC, in its capacity as the sole member of the Company (the Member). The Company is a limited liability company (LLC). As an LLC, the amount of loss at risk for each individual member is limited to the amount of capital contributed to the LLC. The term of the Company is to continue until it is dissolved and terminated in accordance with the terms of the Agreement.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Sabinal Energy Operating, LLC and the accounts of the Company's two wholly owned subsidiaries: Sabinal Resources, LLC, and Sabinal CBP, LLC (collectively, the Company). All intercompany transactions are eliminated in consolidation.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, accounts payables and accrued expenses, derivatives, and revolving credit facility. The carrying amounts of the Company's financial instruments other than derivatives and long-term debt approximate fair value because of the short-term nature of the items. Derivatives are recorded at fair value. The carrying value of the Company's debt approximates fair value because the credit facility's variable interest rate resets frequently and approximates current market rates available to the Company.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with maturities, at the date of purchase, of three months or less. At times, the amount of cash and cash equivalents on deposit in financial institutions exceeds federally insured limits. Management monitors the soundness of the financial institutions and believes the Company's risk is negligible.

Accounts Receivable

Accounts receivable consists of oil and natural gas revenues that are uncollateralized and due under normal trade terms, generally requiring payment within 60 days of sale. The Company adheres to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13: Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 2016-13) and its subsequent amendments (collectively, ASC Topic 326), which requires that financial assets measured at cost be presented at the net amount expected to be collected. Management reviews receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The Company has no allowances for expected credit losses or uncollectable accounts receivable as of December 31, 2024 and 2023.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities. Costs incurred by the Company related to the acquisition of oil and gas properties and the cost of drilling development wells and successful exploratory wells are capitalized, while the costs of unsuccessful exploratory wells are expensed when determined to be unsuccessful. Costs incurred to maintain wells and related equipment, lease and well operating costs and other exploration costs, such as geological and geophysical are charged to expense as incurred. Gains and losses arising from sales of properties are generally included as operating income or expense.

The Company records depletion, depreciation, and amortization of capitalized costs of proved oil and natural gas properties using the unit-of-production method. Capitalized costs of proved mineral acquisition interests are depleted over total estimated proved reserves, and capitalized costs to drill and complete wells and related equipment and facilities are depreciated over estimated proved developed reserves.

Capitalized costs are evaluated for impairment in accordance with FASB ASC Topic 360, *Accounting for the Impairment or Disposal of Long Lived Assets*, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable.

To determine if a depletable unit is impaired, the carrying value of the depletable unit is compared to the undiscounted future net cash flows by applying management's estimates of future oil and gas prices to the estimated future production of oil and gas reserves over the economic life of the property and deducting future costs. Future net cash flows are based upon reservoir engineers' estimates of proved reserves. For a property determined to be impaired, an impairment loss equal to the difference between the carrying value and the estimated fair value of the impaired property will be recognized. Fair value, on a depletable unit basis, is estimated to be the present value of the aforementioned expected future net cash flows. Each part of this calculation is subject to a large degree of judgment, including the determination of the depletable units' estimated reserves, future net cash flows and fair value. There were no impairments on proved properties recognized for the years ended December 31, 2024 and 2023.

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. Unproved oil and gas leases are generally for a term of three to five years. In most cases, the term of the unproved leases can be extended by option payments to extend the leases, meeting contractual drilling obligations or by producing reserves on the leases. As properties are evaluated through exploration, they will be included in the amortization base. Unproved properties are assessed periodically to determine whether they have been impaired. The prospects and their related costs are evaluated individually. There were no impairments on unproved properties for the years ended December 31, 2024 and 2023.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Other Property, Plant, and Equipment

The Company records other property, plant, and equipment at cost and depreciates them on a straight-line basis over the individual asset's estimated useful life, which ranges from 1-10 years, once placed in service. Other property, plant and equipment consisted of the following at December 31, 2024 and 2023:

	Year Ended December 31, 2024	Year Ended December 31, 2023
Other property, plant, and equipment		
Gathering lines	\$ 7,224,000	\$ 7,224,000
Buildings	2,577,218	2,577,218
Other property, plant, and equipment	5,571,148	5,571,154
Total	15,372,366	15,372,372
Accumulated depletion, depreciation, and amortization	(13,102,054)	(12,233,567)
Other property, plant, and equipment, net	\$ 2,270,312	\$ 3,138,805

Depreciation expense for property, plant, and equipment amounted to \$868,493 and \$1,228,650 for the years ended December 31, 2024 and 2023, respectively.

Asset Retirement Obligation

Asset retirement obligations (ARO) consist of future plugging and abandonment expenses on oil and natural gas properties. The Company records the estimated fair value of its ARO when the related wells are acquired or once a new well is placed on production with a corresponding increase in the carrying amount of oil and natural gas. The liability is accreted to its present value each period. Management estimates the fair value of additions to the asset retirement obligation liability using a valuation technique that converts future cash flows to a single discounted amount. Significant inputs to the valuation include: (i) estimated plug and abandonment cost per well based on management's experience; (ii) estimated remaining life per well; and (iii) the Company's credit-adjusted risk-free rate. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Revenue Recognition

The Company accounts for revenues under FASB ASC Topic 606, *Revenue from Contracts with Customers* (ASC Topic 606). The Company recognized revenues from the sales of oil, natural gas and natural gas liquids to its customers and presents them as individual line items on the Company's consolidated statements of operations. All revenues are recognized in Texas and New Mexico.

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

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Crude Oil

The Company sells its crude oil production at the wellhead or further downstream at a contractually specified delivery point. Revenue is recognized when control transfers to the customer based on contract terms which reflect prevailing market prices. Any costs incurred prior to the transfer of control, such as gathering and transportation, are recognized as operating expenses. The Company recognized revenues from oil contracts with customers of \$303,124,094 and \$314,937,390 for the years ended December 31, 2024 and 2023, respectively.

Natural Gas Liquids

The Company sells its natural gas production to customers with processing facilities, where extraction of natural gas liquids (NGL) occurs. Revenue is recognized upon the transfer of control to the customer at the inlet of the processing plant. The Company recognizes revenues based on contract terms which reflect prevailing market prices, with processing fees recognized as a deduction from NGL revenue. The Company recognized revenues from NGL contracts with customers of \$3,076,631 and \$4,174,472 for the years ended December 31, 2024 and 2023, respectively.

Natural Gas

The Company sells its natural gas production at the wellhead or further downstream at a contractually specified delivery point. In this case, the Company transfers title and risk of loss to the customer at the inlet of the processing plant and receives a portion of the proceeds after the customer has sold the treated product. The Company recognizes revenues when control transfers to the customer, based on the contract terms which reflect prevailing market prices.

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry; therefore, the Company's customers may be similarly affected by changes in economic and other conditions within the industry.

The Company presents natural gas processing fees relating to certain processing and marketing agreements as a deduction to revenues within its consolidated statements of operations. The Company recognized revenues from natural gas contracts with customers of \$368,010 and \$1,293,351 for the years ended December 31, 2024 and 2023, respectively.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with ASC 606. The exemption, as described in ASC 606-10-50-14(a), applies to variable consideration that is recognized as control of the product is transferred to the customer.

Contract Balances

Under the Company's sales contracts, customers are invoiced once performance obligations have been satisfied, at which point, payment is unconditional. Accordingly, the Company's product sales do not rise to contract assets or liabilities. Accounts receivable attributable to the Company's revenue contracts with customers was \$31,965,266 and \$36,669,946 at January 1, 2024 and 2023, respectively.

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Income Taxes

The Company is organized as a limited liability company and is considered a pass through entity for federal income tax purposes. As a result, income or losses are taxable or deductible to the members rather than at the Company level; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements. In certain instances, the Company is subject to state taxes on income arising in or derived from the state tax jurisdictions in which it operates.

The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not threshold, it is then measured to determine the amount of expense to record in the consolidated financial statements. The tax expense recorded would equal the largest amount of expense related to the outcome that is 50% or greater likely to occur. The Company classifies any potential accrued interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as operating expense. Management of the Company has not taken a tax position that, if challenged, would be expected to have a material effect on the consolidated financial statements as of December 31, 2024 and 2023.

The Company did not incur any penalties or interest related to its state tax returns during the years ended December 31, 2024 and 2023.

Under the centralized partnership audit rules effective for tax years beginning after 2018, the Internal Revenue Service (IRS) assesses and collects underpayments of tax from the Company instead of from each member. The collection of tax from the Company is only an administrative convenience for the IRS to collect any underpayment of income taxes including interest and penalties. Income taxes on membership income, regardless of who pays the tax or when the tax is paid, is attributed to the members. Any payment made by the Company as a result of an IRS examination will be treated as a distribution from the Company to the members in the consolidated financial statements.

Deferred Tax

The Company uses the asset and liability method for accounting for margin taxes. Under this method, margin tax assets and liabilities are determined based on the differences between the consolidated financial statements carrying value of the assets and liabilities and their respective margin tax bases (temporary differences). Tax assets and liabilities are measured using the margin tax rates expected to be in effect when the temporary differences are likely to reverse. The effect of a change in tax rates on margin tax assets or liabilities is included in earnings in the period in which the change is enacted. The book value of margin tax assets is limited to the amount of tax benefit that is more likely than not to be realized in the future.

In assessing the need for a valuation allowance on the Company's deferred tax asset, we consider whether or not it is more likely than not that some portion or all of the deferred tax assets will be realized. In making this assessment, we consider the scheduled reversal of deferred tax liabilities, available taxes in carryback periods, tax planning strategies, and projected future margin tax. If the ultimate realization of deferred tax assets is dependent on future book income, assessing the need for, or the sufficiency of, a valuation allowance requires the evaluation of all available evidence, both negative and positive, as to whether it is more likely than not that a deferred tax asset will be realized. The Company has no deferred tax asset valuation allowance as of December 31, 2024 and 2023.

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Deferred Financing Costs

Debt issuance costs consist of fees incurred to secure debt financing and are amortized over the life of the related credit facility using the straight line method. Debt issuance costs, net were \$3,825,482 and \$5,408,440 at December 31, 2024 and 2023, respectively. Amortization of debt issuance costs totaled \$1,582,958 and \$1,606,017 for the years ended December 31, 2024 and 2023, respectively, and was recorded in interest expense in the consolidated statements of operations. Debt issuance costs are presented as a long term asset on the consolidated balance sheets.

Commodity Derivative Financial Instruments

The Company's derivative financial instruments are used to manage commodity price risk attributable to expected oil and gas production. While there is risk the financial benefit of rising oil and gas prices or declining interest rates may not be captured, the Company believes the benefits of stable and predictable cash flows outweigh the potential risks.

The Company accounts for derivative financial instruments using fair value accounting and recognizes gains and losses in earnings during the year in which they occur. Unsettled derivative instruments are recorded in the accompanying consolidated balance sheets as either a current or non-current asset or a liability measured at its fair value. The Company only offsets derivative assets and liabilities for arrangements with the same counterparty when right of offset exists. Derivative assets and liabilities with different counterparties are recorded gross in the consolidated balance sheets. Derivative contract settlements are reflected in operating activities in the accompanying consolidated statements of cash flows.

The Company uses certain pricing models to determine the fair value of its derivative financial instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties.

Company management validates the data provided by third parties by understanding the pricing models used, obtaining market values from other pricing sources, analyzing pricing data and confirming that those securities trade in active markets. See further disclosure regarding commodity hedging at Note 8.

Leases

The Company accounts for leases in accordance with FASB ASC Topic 842, Leases, (ASC Topic 842), which requires lessees to recognize operating and finance leases with terms greater than 12 months on the consolidated balance sheets. The Company evaluates a contractual arrangement at its inception to determine if it is a lease or contains an identifiable lease component. Certain leases may contain both lease and non-lease components together and accounts for the arrangement as a single lease.

Certain assumptions and judgements are made by the Company when evaluating a contract that meets the definition of a lease under ASC Topic 842, which include those to determine the discount rate and lease term. Unless implicitly defined, the Company determines the present value of the future lease payments using the risk-free rate option. The Company evaluates each contract containing a lease arrangement at inception to determine the length of the lease term when recognizing a right-of-use asset and corresponding lease liability. The Company excludes from the consolidated balance sheets leases with terms that are less than one year.

The Company's leases generally have remaining terms of one to ten years, and typically include one or more renewal options, with renewal terms that can generally extend the lease term. The exercise of lease renewal options is at the Company's sole discretion. The Company includes options to renew in the expected term when they are reasonably certain to be exercised. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

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Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the leases. Right of use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. If a lease does not have a stated or implicit discount rate, the Company will use its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. Right of use assets are amortized on a straight-line basis over the lease term.

The leases typically contain rent escalations over the lease term. The Company recognizes expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce the right of use asset related to the lease. These tenant incentives are amortized as reduction of rent expense over the lease term. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has certain non-real estate leases that are accounted for as finance leases under ASC 842, which is similar to the accounting for capital leases under the previous standard.

Note 3. Fair Value Measurements

The Company has determined the fair value of certain assets and liabilities through application of FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820). Under ASC 820, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure the fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

- Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs: Inputs, other than quoted prices in active markets, which are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgement. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the asset or liability existed.

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In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Valuation techniques utilized to determine fair value are consistently applied. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company uses fair value to measure certain assets and liabilities on a recurring basis and on a nonrecurring basis.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of December 31, 2024 and 2023:

	As of December 31, 2024			
	Level 1	Level 2	Level 3	Total
Assets				
Commodity hedges, current	\$ -	\$ 4,678,021	\$ -	\$ 4,678,021
Commodity hedges, non current	-	7,517,108	-	7,517,108
Total assets	\$ -	\$ 12,195,129	\$ -	\$ 12,195,129
Liabilities				
Commodity hedges, current	\$ -	\$ 6,940,209	\$ -	\$ 6,940,209
Commodity hedges, non current	-	3,250,309	-	3,250,309
Total liabilities	\$ -	\$ 10,190,518	\$ -	\$ 10,190,518

Fair Value on a Nonrecurring Basis

Asset Retirement Obligation

The asset retirement obligation estimates are derived from historical costs and management's expectation of future cost environments and, therefore, the Company has designated these liabilities as Level 3 measurements. The significant inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs, well life, inflation and credit-adjusted risk free rate. See Note 5 for a reconciliation of the beginning and ending balances of the liability for the Company's asset retirement obligations.

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Note 4. Revolving Credit Facility

On July 1, 2019, the Company entered into a new revolving credit agreement with a commercial bank for a credit facility of up to \$750,000,000. At December 31, 2024 and 2023, the borrowing base under the credit agreement is \$290,000,000 and \$310,000,000, respectively. The credit agreement was amended in June 2023 with adjustments to certain terms and adjusting the Alternate Base Rate to include SOFR.

The credit agreement provides that the borrowing base under the facility is to be redetermined biannually based on the oil and natural gas reserves of the Company. The first such scheduled redetermination occurred on September 1, 2023, and thereafter shall occur biannually on March 1st and September 1st of each year beginning on March 1, 2024. Borrowings are secured by the Company's oil and natural gas properties and bear interest at the option of the Company at the Alternate Base Rate, which is the highest of the Prime Rate, the Federal Funds Effective Rate plus 0.50% and the Adjusted term SOFR for a one month tenor in effect on such day plus 1.0%. The Alternate Base Rate advance margins range from 2.00% for outstanding loan balances less than 25% of the borrowing base up to 3.00% for outstanding loan balances greater than 90% of the borrowing base. The SOFR rate advance margins range from 3.00% for outstanding loan balances less than 25% of the borrowing base up to 4.00% for outstanding loan balances greater than 90% of the borrowing base. As of December 31, 2024 and 2023, the Company had \$171,000,000 and \$187,000,000 drawn on the revolving credit agreement at a weighted average interest rate of 8.049% and 8.956%, respectively. The Company's revolving credit agreement matures on June 1, 2027.

The Company is subject to certain restrictive financial and non-financial covenants under the Loan. The financial covenants include, a minimum current and consolidated total leverage ratio.

The Company incurred commitment fees of \$490,381 and \$488,638 associated with the unused portion of the borrowing base under the facility during the years ended December 31, 2024 and 2023, respectively.

Note 5. Asset Retirement Obligations

The following is a summary of the activity for asset retirement obligations for the years ended December 31, 2024 and 2023:

	Year Ended December 31, 2024	Year Ended December 31, 2023
Asset retirement obligations, beginning of year	\$ 92,994,777	\$ 78,808,690
Liabilities incurred/assumed	85,494	283,997
Change in estimate	-	10,753,177
Settlement of asset retirement obligations	(1,358,026)	(1,237,611)
Accretion expense	5,314,697	4,386,524
Asset retirement obligations, end of year	<u>\$ 97,036,942</u>	<u>\$ 92,994,777</u>

Changes in estimates are determined based on several factors, including updating abandonment cost estimates using recent actual costs for abandonment activity, credit-adjusted risk-free discount rates, economic well life estimates and forecast timing of abandoning wells. For the year ended December 31, 2023, the change in estimate was due to updating abandonment cost estimates. Based on the expected timing of payments, the Company recorded \$3,004,324 as a current liability in the consolidated balance sheets as of December 31, 2024 and 2023. The Company recorded a long term liability of \$94,032,618 and \$89,990,453 as a long term liability in the consolidated balance sheets for the years ended December 31, 2024 and 2023, respectively.

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Note 6. Oil and Gas Properties

Capitalized costs related to the Company's oil and gas producing activities and the related amount of accumulated depletion, depreciation, and amortization for the years ended December 31, 2024 and 2023:

	Year Ended December 31, 2024	Year Ended December 31, 2023
Oil and natural gas properties		
Proved	\$ 983,549,963	\$ 927,936,440
Unproved	38,640,422	31,188,202
Total oil and gas properties	1,022,190,385	959,124,642
Accumulated depletion, depreciation, and amortization	(327,952,519)	(277,952,519)
Oil and natural gas properties, net	\$ 694,237,866	\$ 681,172,123

Depletion, depreciation and amortization expense related to oil and gas properties was \$50,000,000 and \$46,446,000 for the years ended December 31, 2024 and 2023, respectively.

Note 7. Profits Units

The Company established a Series B Profits Units Award Plan (the "Plan") to provide economic incentives to certain of its employees for providing services to the Company and its subsidiaries. Distributions are allocated to the Company's Series A Units and Series B Profit Units according to a waterfall stipulated in the Company's LLC Agreement. The Company is authorized to issue up to 6,000,000 Profits Units of which none were granted in 2024.

As of December 31, 2024 and 2023, a total of 4,099,295, Series B Profits Units are outstanding.

The Company's Series B Profit Units are deemed to be a substantive class of equity and are accounted for as shared-based compensation under ASC 718, Share-Based Compensation. The Series B Profit Units are subject to service vesting conditions and vest only to the extent a person issued such Series B Profit Units continues to provide services to or remain employed by the Company through the applicable vesting periods. The Series B Profit Units are divided into two tranches including "Time Vesting Units" and "Exit Vesting Units" representing 70% and 30% of the granted units, respectively. The Time Vesting Units are subject to graded vesting over five years or are accelerated upon a Change of Control or sale of the Company (Exit Event), and the Exit Vesting Units become vested in full upon the earlier of an Exit Event or Qualified Initial Public Offering. In case of termination for any reason other than cause, Series B Profits Units holders' vested units remain outstanding and eligible for distributions, subject to a repurchase option by the Company at a price equal to fair market value, while the Series B Profits Units holders' unvested units are forfeited for no consideration. The Company has elected to account for forfeitures as they occur. Compensation expense is recorded as the units are earned over time, with the offset to additional paid-in capital. The Company no incurred shared-based compensation for the year ended December 31, 2024, and \$53,631 of shared-based compensation for the year ended December 31, 2023. This expense is presented within general and administrative expenses in the Company's consolidated statements of operations.

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The Company uses the Black Scholes option pricing method to estimate the fair value of the Series B Profits Units. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of each reporting period commensurate with the Series B Profits Units' estimated time horizon. Expected volatilities are based on historical equity volatilities of comparable companies in the oil and natural gas industry. At December 31, 2024 and 2023, the remaining unamortized incentive compensation was approximately \$0 and \$5,000, respectively.

Note 8. Commodity Derivative Financial Instruments

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

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

Commodity derivative instruments may take the form of collars, swaps or other derivatives indexed to WTI, NYMEX or other commodity price indexes. Volumes hedged through derivative instruments cannot exceed total production volumes due to lending covenants, and are expected to have a reasonable correlation between price movements in the futures market and the spot markets where the Company's production is sold, and are authorized by the Board of Managers. Derivatives are expected to be realized as related production occurs, but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated.

The Company's crude oil derivative positions consist of fixed-price swaps, collars, and physical basis swaps. Fixed price swaps are designed so that the Company receives or makes payments based on a differential between fixed and variable prices for crude oil and natural gas. Collars are designed so that the Company pays the counterparty if the market price exceeds the ceiling price and the counterparty pays the Company if the market price is below the floor on a notional volume. Basis swap contracts guarantee a price differential between NYMEX prices for crude oil and natural gas and the Company's physical pricing points.

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The periods covered, notional amounts, fixed price and related commodity pricing index of the Company's outstanding crude oil derivative contracts as of December 31, 2024 and 2023 are set forth in the table below.

2024			
Crude Oil			
Period	Volume BBLs	Average Contract Price	Asset / (Liability)
NYMEX Swaps			
07/01/2025 - 12/31/2025	92,000	\$ 70.50	\$ 131,125
01/01/2026 - 12/31/2026	182,500	69.31	488,887
07/01/2025 - 12/31/2025	92,000	67.50	(95,819)
01/01/2025 - 12/31/2025	182,500	71.50	340,375
01/01/2026 - 12/31/2026	182,500	70.30	658,288
01/01/2026 - 12/31/2026	90,500	67.18	15,799
01/01/2025 - 12/31/2025	182,500	70.20	108,543
01/01/2025 - 12/31/2025	90,500	67.70	60,397
01/01/2026 - 12/31/2026	90,500	67.90	77,550
01/01/2026 - 12/31/2026	182,500	70.00	72,877
01/01/2026 - 12/31/2026	182,500	70.45	683,954
01/01/2026 - 12/31/2026	90,500	67.06	5,507
01/01/2026 - 12/31/2026	92,000	70.15	362,092
01/01/2025 - 12/31/2025	182,500	72.50	518,707
01/01/2025 - 12/31/2025	182,500	57.55	(2,147,358)
01/01/2025 - 12/31/2025	90,500	70.35	(22,531)
01/01/2025 - 12/31/2025	90,500	69.55	(93,999)
07/01/2026 - 12/31/2026	92,000	70.53	394,476
Total NYMEX swaps			1,558,870
Collars			
1/1/2025 - 12/1/2025	182,500	55.00-78.15	(128,690)
7/1/2025 - 12/1/2025	92,000	60.00-76.75	8,689
1/1/2026 - 6/1/2026	90,500	60.00-74.90	49,249
1/1/2025 - 12/1/2025	182,500	60.00-83.80	177,533
7/1/2025 - 12/1/2025	92,000	60.00-84.70	160,634
1/1/2025 - 12/1/2025	182,500	60.00-86.75	226,884
1/1/2026 - 12/1/2026	182,500	60.00-79.30	398,411
7/1/2026 - 12/1/2026	92,000	60.00-79.40	237,940
7/1/2026 - 12/1/2026	92,000	60.00-79.39	237,733
7/1/2025 - 12/1/2025	92,000	55.00-75.90	(122,480)
1/1/2025 - 12/1/2025	182,500	57.50-67.54	(1,188,710)
1/1/2025 - 12/1/2025	182,500	57.50-64.50	(830,186)
1/1/2025 - 6/1/2025	90,500	60.00-78.90	(16,239)
7/1/2026 - 12/1/2026	92,000	60.00-76.00	156,680
1/1/2025 - 6/1/2025	90,500	60.00-79.75	(5,880)
1/1/2025 - 6/1/2025	90,500	60.00-78.70	(19,047)
1/1/2027 - 6/1/2027	181,000	62.50-71.25	285,018
Total oil collars			(372,462)

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Crude Oil

Basis swaps			
2/1/2025 - 12/1/2025	334,000	1.10	66,644
2/1/2025 - 12/1/2025	542,000	1.05	106,190
7/1/2025 - 12/1/2025	184,000	1.25	45,096
2/1/2025 - 12/1/2025	334,000	1.21	102,624
7/1/2025 - 12/1/2025	368,000	1.24	101,861
2/1/2025 - 6/1/2025	75,000	1.25	31,049
1/1/2026 - 12/1/2026	547,500	1.25	154,819
1/1/2025 - 12/1/2025	365,000	1.25	104,960
1/1/2025 - 12/1/2025	365,000	1.25	104,960
Total basis swaps			818,202
Total open positions			<u>\$ 2,004,610</u>

2023

Crude Oil

Period	Volume BBLs	Average Contract Price	Asset / (Liability)
NYMEX Swaps			
01/01/2024 - 12/31/2024	274,500	\$ 43.27	\$ (7,526,880)
01/01/2024 - 12/31/2024	274,500	44.20	(7,277,459)
01/01/2024 - 12/31/2024	183,000	56.00	(2,741,840)
01/01/2024 - 12/31/2024	183,000	56.21	(2,704,292)
01/01/2024 - 12/31/2024	183,000	61.55	(1,749,519)
01/01/2025 - 12/31/2025	182,500	57.55	(1,808,001)
01/01/2024 - 12/31/2024	183,000	63.97	(1,316,831)
01/01/2024 - 12/31/2024	183,000	74.30	530,138
01/01/2025 - 06/30/2025	90,500	70.35	137,042
01/01/2025 - 06/30/2025	90,500	69.55	67,696
07/01/2025 - 12/31/2025	92,000	67.50	30,505
07/01/2025 - 12/31/2025	92,000	70.05	252,446
01/01/2025 - 12/31/2025	182,500	71.50	615,376
01/01/2026 - 12/31/2026	182,500	70.30	876,429
01/01/2026 - 12/31/2026	182,500	70.45	901,724
Total NYMEX swaps			(21,713,466)

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Collars

01/01/2024 - 12/31/2024	183,000	48.00-52.00	(3,526,684)
01/01/2024 - 12/31/2024	183,000	48.00-53.60	(3,275,138)
01/01/2024 - 12/31/2024	183,000	60.00-65.05	(1,354,535)
01/01/2025 - 12/31/2025	182,500	57.50-64.50	(1,067,186)
01/01/2024 - 12/31/2024	183,000	57.50-72.00	(688,661)
01/01/2024 - 12/31/2024	183,000	57.50-74.05	(517,813)
01/01/2025 - 12/31/2025	182,500	57.50-67.54	(775,535)
01/01/2024 - 12/31/2024	183,000	60.00-86.95	175,396
01/01/2025 - 06/30/2025	90,500	60.00-78.90	57,149
01/01/2025 - 06/30/2025	90,500	60.00-79.75	81,077
01/01/2024 - 12/31/2024	183,000	60.00-87.00	176,260
01/01/2025 - 06/30/2025	90,500	60.00-78.70	51,343
01/01/2025 - 12/31/2025	182,500	55.00-78.15	(120,253)
07/01/2025 - 12/31/2025	92,000	55.00-75.90	(86,607)
07/01/2025 - 12/31/2025	92,000	60.00-76.75	95,718
07/01/2025 - 12/31/2025	9,200	60.00-84.70	299,369
01/01/2025 - 12/31/2025	182,500	60.00-86.75	577,087
01/01/2026 - 12/31/2026	182,500	60.00-79.30	528,092
Total oil collars			(9,370,921)

Crude Oil

Basis swaps			
02/01/2024 - 12/31/2024	502,500	\$ 0.30	\$ (473,678)
02/01/2024 - 12/31/2024	167,500	0.75	(84,116)
02/01/2024 - 12/31/2024	335,000	1.25	(4,282)
02/01/2024 - 12/31/2024	335,000	1.25	(4,282)
01/01/2025 - 12/31/2025	365,000	1.10	(52,237)
02/01/2024 - 12/31/2024	670,000	1.25	(8,564)
02/01/2024 - 12/31/2024	502,500	1.30	18,170
01/01/2025 - 12/31/2025	635,000	1.05	(121,681)
01/01/2025 - 12/31/2025	365,000	1.21	(13,930)
07/01/2025 - 12/31/2025	368,000	1.24	(5,236)
Total basis swaps			(749,836)
Total open positions			<u><u>\$ (31,834,223)</u></u>

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

The following table summarizes the location and fair value amounts of all derivative instruments in the consolidated balance sheets as well as the gross recognized derivative assets and liabilities as of December 31, 2024 and 2023:

Derivatives not designed as hedging contracts under ASC Topic 815	Consolidated Balance Sheet Location	Fair Value
	2024	
Commodity derivatives	Derivative assets / (liability) - current	\$ (2,262,188)
Commodity derivatives	Derivative assets / (liability) - non current	4,266,799
	Total commodity derivatives	<u>\$ 2,004,611</u>
	2023	
Commodity derivatives	Derivative assets / (liability) - current	\$ (32,354,610)
Commodity derivatives	Derivative assets / (liability) - non current	520,387
	Total commodity derivatives	<u>\$ (31,834,223)</u>

The following table sets forth the cash settlements and non-cash fair value adjustments for derivative instruments not designated as hedges for the years ended December 31, 2024 and 2023, which is presented as realized and unrealized losses on derivative contracts in the accompanying consolidated statements of operations:

Derivatives not designed as hedging contracts under ASC Topic 815	Consolidated Statement of Operations Location	Fair Value
	2024	
Realized loss on hedges	Realized and unrealized (loss) gain on derivatives	\$ 40,857,240
Unrealized gain on hedges	Realized and unrealized (loss) gain on derivatives	(33,838,833)
	Total commodity derivatives	<u>\$ 7,018,407</u>
	2023	
Realized loss on hedges	Realized and unrealized (loss) gain on derivatives	\$ 63,769,234
Unrealized gain on hedges	Realized and unrealized (loss) gain on derivatives	(70,112,756)
	Total commodity derivatives	<u>\$ (6,343,522)</u>

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies

Legal Matters

In the ordinary course of business, the Company may at times be subject to claims and legal actions. Management does not believe the impact of such matters will have a material adverse effect on the Company's financial position or results of operations. The Company had no legal matters requiring specific disclosure or recognition of a liability as of December 31, 2024 and 2023.

Environmental Issues

The Company's operations are subject to risks normally incidental to the exploration for and the production of oil and gas, including blowouts, fires, and environmental risks such as oil spills or gas leaks that could expose the Company to liabilities associated with these risks.

In the Company's 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. The Company maintains comprehensive insurance coverage that it believes is adequate to mitigate the risk of any adverse financial effects associated with these risks.

However, should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could fall upon the Company.

No claim has been made, nor is the Company aware of the assertion of any liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations relating thereto. In addition, the Company is subject to extensive regulation at the federal and state levels that may materially affect its operations.

Standby Letters of Credit

As of December 31, 2024 and 2023, the Company had \$1,000,000 in letters of credit outstanding. For these letters of credit, the Company incurred interest of \$29,228 for the years ended December 31, 2024 and 2023. No amounts have been drawn under the standby letters of credit.

Performance Bonds

The Company has performance bonds with an outside operator and U.S. state and federal entities in the amount of approximately \$12,590,000 and \$13,250,000 for the years ended December 31, 2024 and 2023, respectively. Should the Company fail to plug and abandon uneconomical wells, the Company would default on the mentioned performance bonds. Until that liability becomes probable, the amount of the performance bonds is not recognized on the Company's consolidated balance sheets.

Operating Lease Commitments

As disclosed in Note 2, the Company leases office space set to expire on December 31, 2025. The Company is obligated to pay executory costs (real estate taxes, insurance, and repairs) on certain leases based on lessors' estimates. Due to this variability, the cash flows associated with these costs are not included in the minimum lease payments used in determining the right-of-use asset and associated lease liability. Lease expense totaled \$1,047,636 and \$1,081,887 for the years ended December 31, 2024 and 2023, respectively.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Operating lease assets and liabilities as of December 31, 2024 and are presented in the table below.

	2024	2023
Right-of-use assets Lease assets	\$ 1,759,403	\$ 1,759,403
Total right-of-use asset	<u>\$ 1,759,403</u>	<u>\$ 1,759,403</u>
Current liabilities Current lease liabilities	\$ 827,920	\$ 719,708
Long-term liabilities Operating lease liabilities	(209,567)	770,543
Total lease liabilities	<u>\$ 618,353</u>	<u>\$ 1,490,251</u>

At December 31, 2024, the remaining lease term is 1 year and the risk-free rate is 5%.

Total future minimum lease payments under ASC 842 for operating leases as of December 31, 2024 are approximated as follows:

Year Ending December 31, 2025

	\$ 770,543
Total minimum lease payments	770,543
Less current portion of capital lease obligations	770,543
Capital lease obligations, net of current portion	<u>\$ -</u>

Finance Leases

Certain equipment has been leased under terms which constitute a finance lease in accordance with ASC 842 (previously disclosed as a capital lease under ASC 840). The assets are amortized using the straight-line method over the term of the lease and interest expense is recognized using the effective interest method based on outstanding lease obligations. The cost of the assets capitalized under the lease agreement is as follows for the years ended December 31 2024 and 2023:

	2024	2023
Vehicles	\$ 4,308,612	\$ 3,385,126
Accumulated depreciation	(3,166,736)	(1,438,356)
Vehicles under finance leases	<u>\$ 1,141,876</u>	<u>\$ 1,946,770</u>

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Note 10. Related Parties

Management Services Agreement (MSA)

The Company pays management fees to the Member, which are included in general and administrative expenses. Management fees incurred were \$13,129,064 and \$13,469,582 for the years ended December 31, 2024 and 2023, respectively.

The Company had related party payables of \$6,394,184 and \$5,813,817 as of December 31, 2024 and 2023, respectively to the Member.

Note 11. Significant Concentrations

As of December 31, 2024 and 2023, substantially all of the Company's operations and business efforts were related to the oil and gas industry. This concentration may impact the Company's business risk, either positively or negatively, in that commodity prices, future customers and suppliers may be similarly affected by changes in economic, political or other conditions related to the industry.

The Company regularly maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses with respect to the related risks to cash and cash equivalents and does not believe its exposure to such risk is more than nominal.

The Company had revenues from three purchasers which accounted for 83% and 84% of the 2024 and 2023 oil and gas revenues. Amounts due from these customers at December 31, 2024 and 2023, amounted to 85% and 63%, respectively, of the Company's accounts receivable. The Company's three main purchasers have investment-grade credit ratings. This concentration of customers may impact the Company's overall business risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. The Company believes this risk is mitigated by the size, reputation and nature of its purchasers.

Major vendors are defined as those individually comprising more than 10% of the Company's accounts payable. During years ended December 31, 2024 and 2023, the Company had no major vendor which accounted for 10% of total purchases

Note 12. Subsequent Events

On July 10, 2025, the Company entered into an agreement with Mach Natural Resources (Mach) for the sale of its oil and gas properties in the Permian Basin for cash considerations of \$200 million and 20.60 million shares of Company common stock. Upon signing, Mach paid \$37.5 million as a deposit into third-party escrow accounts. The transaction is structured as the acquisition by Mach of 100% of the interest in Sabinal Energy Operating, LLC. Closing of the transaction is expected to occur in September 2025, subject to completion of various customary conditions.

The Company has evaluated subsequent events from December 31, 2024 through March 6, 2025, except for subsequent events described in Note 12 and unaudited supplemental information described in Note 13, as to which the date is September 19, 2025, the date these consolidated financial statements were available for issuance and there were no other items to disclose.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Note 13. Supplemental Oil and Gas Information (unaudited)

Net Proved Oil, NGL and Natural Gas Reserves

For the year ended December 31, 2024, Sabinal Energy Operating, LLC utilized Netherland, Sewell & Associates, Inc. in the preparation of its oil and gas reserves. In accordance with Securities and Exchange Commission (SEC) regulations, the reserves as of December 31, 2024 were estimated using realized prices, which reflect adjustments to the benchmark prices for quality, certain transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the delivery point. The reserves of Sabinal Energy are reported in three streams; crude oil, natural gas and NGLs.

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

The following tables provide an analysis of the changes in estimated proved reserve quantities of crude oil, natural gas and NGLs for the year ended December 31, 2024, all of which are located within the United States:

	Year ended December 31, 2024			
	Oils (BBL)	Natural Gas (MCF)	NGLs (BBL)	Total BOE
Proved reserves as of December 31, 2023	56,363,200	11,304,500	2,833,500	61,080,783
Revisions of previous estimates	3,140,095	(2,426,350)	(229,586)	2,506,117
Extensions, discoveries, and other additions	-	-	-	-
Purchase of minerals in place	-	-	-	-
Sale of minerals in place	-	-	-	-
Production	(4,068,995)	(805,750)	(154,214)	(4,357,501)
Proved reserves as of December 31, 2024	<u>55,434,300</u>	<u>8,072,400</u>	<u>2,449,700</u>	<u>59,229,399</u>
Proved developed reserves				
Beginning of year	49,778,045	8,312,335	2,020,331	53,183,765
End of year	47,339,568	6,292,526	1,887,259	50,275,581
Proved undeveloped reserves				
Beginning of year	6,585,155	2,992,165	813,169	7,897,018
End of year	8,094,732	1,779,874	562,441	8,953,819

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

For the year ended December 31, 2024, there were no extensions, discoveries, acquisitions or divestitures. There were 13 PUDS converted to PDP during the year resulting in a gain of 2,506,117 Boe.

Standardized measure of discounted future net cash flows relating to proved crude oil and natural gas reserves

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

The estimates of future cash flows and future production and development costs as of December 31, 2024 are based on realized prices, which reflect adjustments to the benchmark prices for quality, certain transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the delivery point. All realized prices are held flat over the forecast period for all reserve categories in calculating the discounted future net cash flows. In accordance with SEC regulations, the proved reserves were anticipated to be economically producible from the "as of date" forward based on existing economic conditions, including prices and costs at which economic producibility from a reservoir was determined. These costs, held flat over the forecast period, include development costs, operating costs, ad valorem and production taxes and abandonment costs after salvage. The estimated future net cash flows are then discounted at a rate of 10%.

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

	December 31, 2024
Future cash inflows	\$ 4,181,606
Future production costs	(1,843,048)
Future development and abandonment costs	(385,673)
Future income tax expense	(21,285)
Future net cash inflows	1,931,600
10% Annual discount for estimated timing of cash flows	(958,286)
Standardized measure of discounted future net cash flows	\$ 973,314

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

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

	December 31, 2024
Standardized measure of discounted future cash flows at January 1	\$ 1,064,515
Net change in prices and production costs	(8,844)
Changes in estimated future development and abandonment costs	(506)
Sales of crude oil and natural gas produced, net of production costs	(180,312)
Revisions of previous quantity estimates	49,015
Development costs incurred during the period	23,213
Change in Income Taxes	1,109
Accretion of discount	107,622
Change in timing of estimated future production and other	(82,498)
	<u>(91,201)</u>
Net change	<u>(91,201)</u>
Standardized measure of discounted future cash flows at December 31	<u>\$ 973,314</u>

Price and cost revisions are primarily the net result of changes in prices, based on beginning of the year reserve estimates. Future development costs revisions are primarily the result of the extended economic life of proved reserves and proved undeveloped reserve additions attributable to increased development activity.

Average oil prices used in the estimation of proved reserves and calculation of the standardized measure were \$74.47, average realized gas prices was \$0.95, and average NGL price was \$18.74 for the year ended December 31, 2024. The Company used 12-month average oil, gas, and NGL prices, based on the first-day-of-the-month price for each month in the period.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Balance Sheets

<i>(in thousands of dollars)</i>	June 30, 2025 (Unaudited)	December 31, 2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,616	\$ 2,782
Accounts receivable	34,416	32,832
Prepaid expenses and other current assets	6,486	6,964
Derivative assets, current	11,949	4,678
Total current assets	<u>56,467</u>	<u>47,256</u>
OIL AND GAS PROPERTIES, SUCCESSFUL EFFORTS		
Proved properties	1,006,804	983,552
Unproved properties	35,880	38,640
Total oil and gas properties	<u>1,042,684</u>	<u>1,022,192</u>
Less accumulated depletion, depreciation, and amortization	<u>353,853</u>	<u>327,953</u>
Total oil and gas properties, net	<u>688,831</u>	<u>694,239</u>
LONG TERM ASSETS		
Other property, plant, and equipment, net	2,225	2,270
Derivative assets, non current	10,017	7,517
Right-of-use assets	1,996	2,901
Deferred financing costs, net	3,034	3,825
Total long term assets	<u>17,272</u>	<u>16,513</u>
TOTAL ASSETS	<u>\$ 762,570</u>	<u>\$ 758,008</u>
LIABILITIES AND MEMBERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable	\$ 5,025	\$ 19,430
Revenue payable	10,714	11,618
Derivative liabilities, current	1,378	6,940
Lease liability, current	865	1,823
Accrued expenses	23,114	21,926
Asset retirement obligations, current	3,004	3,004
Total current liabilities	<u>44,100</u>	<u>64,741</u>
LONG-TERM LIABILITIES		
Revolving credit facility	155,000	171,000
Asset retirement obligations, non current	95,988	94,032
Derivative liabilities	1,370	3,250
Lease liabilities, non current	1,474	1,474
Total long-term liabilities	<u>253,832</u>	<u>269,756</u>
MEMBERS' CAPITAL	<u>464,638</u>	<u>423,511</u>
TOTAL LIABILITIES AND MEMBERS' CAPITAL	<u>\$ 762,570</u>	<u>\$ 758,008</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

(in thousands of dollars)

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
REVENUE				
Oil sales	\$ 62,920	\$ 82,356	\$ 132,463	\$ 157,787
Natural gas sales	55	(23)	493	223
Natural gas liquids sales	930	719	2,038	1,217
Total revenue	63,905	83,052	134,994	159,227
OPERATING EXPENSES				
Lease operating expenses	17,128	15,884	33,898	31,563
Workover expenses	5,888	8,299	10,761	17,077
Depletion, depreciation, and amortization	13,395	13,158	26,516	25,516
Production tax	6,003	6,737	12,050	12,625
Accretion expenses	1,364	1,321	2,706	2,622
Exploration and abandonment expenses	225	256	437	720
General and administrative expenses	3,797	3,772	7,461	7,846
Total operating expenses	47,800	49,427	93,829	97,969
Income from operations	16,105	33,625	41,165	61,258
OTHER INCOME (EXPENSES)				
Interest expense	(4,234)	(5,021)	(8,374)	(10,161)
Loss on settlement of asset retirement obligations	(1,228)	(719)	(614)	(719)
Realized and unrealized (loss) gain on derivatives	16,090	(2,368)	17,851	(33,982)
Gain on sale of properties	-	-	2,996	-
Other income (expense)	787	(14)	992	415
Total other income (expenses)	11,415	(8,122)	12,851	(44,447)
Income before taxes	27,520	25,503	54,016	16,811
Tax expense	-	-	400	400
NET INCOME	<u>\$ 27,520</u>	<u>\$ 25,503</u>	<u>\$ 53,616</u>	<u>\$ 16,411</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Members' Capital
(Unaudited)

<i>(in thousands of dollars)</i>	Members' Capital
BALANCE, at January 1, 2024	\$ 369,164
Dividends	(4,995)
Share-based compensation	3
Net loss	(9,092)
BALANCE, at March 31, 2024	355,080
Dividends	(4,995)
Share-based compensation	2
Net income	25,503
BALANCE, at June 30, 2024	\$ 375,590
BALANCE, at January 1, 2025	\$ 423,511
Dividends	(12,489)
Net income	26,096
BALANCE, at March 31, 2025	437,118
Net income	27,520
BALANCE, at June 30, 2025	\$ 464,638

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of dollars)

	Six months ended June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 53,616	\$ 16,411
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred financing costs	791	791
Accretion of asset retirement obligations	2,706	2,622
Settlement of asset retirement obligations	(750)	(505)
Amortization of operating leases in excess of cash paid	274	254
Share-based compensation	-	5
Depletion, depreciation, and amortization	26,516	25,515
Unrealized gain on derivative instruments	(17,213)	9,602
Changes in operating assets and liabilities		
Accounts receivable	(1,584)	(4,178)
Prepaid expenses and other current assets	478	261
Accounts payable	(14,405)	(10,875)
Revenue payable	(904)	1,373
Accrued expenses	(3,113)	(132)
Lease liabilities	(836)	(725)
Net cash provided by operating activities	45,576	40,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Development of oil and natural gas properties	(16,191)	(29,267)
Net cash used in investing activities	(16,191)	(29,267)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving credit facility	56,000	89,000
Payments on revolving credit facility	(72,000)	(90,000)
Payments on finance leases	(62)	(65)
Dividends	(12,489)	(9,990)
Net cash used in financing activities	(28,551)	(11,055)
Net change in cash and cash equivalents	834	97
CASH AND CASH EQUIVALENTS, beginning of period	2,782	4,980
CASH AND CASH EQUIVALENTS, end of period	\$ 3,616	\$ 5,077
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	\$ 7,206	\$ 9,015
SUPPLEMENTAL DISCLOSURES OF NON-CASH ITEMS		
Capital expenditures in accounts payable and accrued expenses	\$ 4,301	\$ 8,874
Finance lease liabilities	\$ 61	\$ 64

The Notes to Consolidated Financial Statements are an integral part of these statements.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Organization and Business Operations

Sabinal Energy Operating, LLC and Subsidiaries (the Company), a Delaware limited liability company, was formed on July 11, 2017. The Company's activities include acquiring and developing large, long-life producing oil and natural gas assets in the Permian Basin in western Texas.

The Company is controlled by Sabinal Energy, LLC, in its capacity as the sole member of the Company (the Member). The Company is a limited liability company (LLC). As an LLC, the amount of loss at risk for each individual member is limited to the amount of capital contributed to the LLC. The term of the Company is to continue until it is dissolved and terminated in accordance with the terms of the Agreement.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Sabinal Energy Operating, LLC and the accounts of the Company's two wholly owned subsidiaries: Sabinal Resources, LLC, and Sabinal CBP, LLC (collectively, the Company). All intercompany transactions are eliminated in consolidation.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, accounts payables and accrued expenses, derivatives, and revolving credit facility. The carrying amounts of the Company's financial instruments other than derivatives and long-term debt approximate fair value because of the short-term nature of the items. Derivatives are recorded at fair value. The carrying value of the Company's debt approximates fair value because the credit facility's variable interest rate resets frequently and approximates current market rates available to the Company.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with maturities, at the date of purchase, of three months or less. At times, the amount of cash and cash equivalents on deposit in financial institutions exceeds federally insured limits. Management monitors the soundness of the financial institutions and believes the Company's risk is negligible.

Accounts Receivable

Accounts receivable consists of oil and natural gas revenues that are uncollateralized and due under normal trade terms, generally requiring payment within 60 days of sale. The Company adheres to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13: Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 2016-13) and its subsequent amendments (collectively, ASC Topic 326), which requires that financial assets measured at cost be presented at the net amount expected to be collected. Management reviews receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The Company has no allowances for expected credit losses or uncollectable accounts receivable as of June 30, 2025 and December 31, 2024.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities. Costs incurred by the Company related to the acquisition of oil and gas properties and the cost of drilling development wells and successful exploratory wells are capitalized, while the costs of unsuccessful exploratory wells are expensed when determined to be unsuccessful. Costs incurred to maintain wells and related equipment, lease and well operating costs and other exploration costs, such as geological and geophysical are charged to expense as incurred. Gains and losses arising from sales of properties are generally included as operating income or expense.

The Company records depletion, depreciation, and amortization of capitalized costs of proved oil and natural gas properties using the unit-of-production method. Capitalized costs of proved mineral acquisition interests are depleted over total estimated proved reserves, and capitalized costs to drill and complete wells and related equipment and facilities are depreciated over estimated proved developed reserves.

Capitalized costs are evaluated for impairment in accordance with FASB ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable.

To determine if a depletable unit is impaired, the carrying value of the depletable unit is compared to the undiscounted future net cash flows by applying management's estimates of future oil and gas prices to the estimated future production of oil and gas reserves over the economic life of the property and deducting future costs. Future net cash flows are based upon reservoir engineers' estimates of proved reserves. For a property determined to be impaired, an impairment loss equal to the difference between the carrying value and the estimated fair value of the impaired property will be recognized. Fair value, on a depletable unit basis, is estimated to be the present value of the aforementioned expected future net cash flows. Each part of this calculation is subject to a large degree of judgment, including the determination of the depletable units' estimated reserves, future net cash flows, and fair value. There were no impairments on proved properties recognized for the three and six month periods ended June 30, 2025 and 2024.

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. Unproved oil and gas leases are generally for a term of three to five years. In most cases, the term of the unproved leases can be extended by option payments to extend the leases, meeting contractual drilling obligations or by producing reserves on the leases. As properties are evaluated through exploration, they will be included in the amortization base. Unproved properties are assessed periodically to determine whether they have been impaired. The prospects and their related costs are evaluated individually. There were no impairments on unproved properties for the three and six month periods ended June 30, 2025 and 2024.

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Other Property, Plant, and Equipment

The Company records other property, plant, and equipment at cost and depreciates them on a straight-line basis over the individual asset's estimated useful life, which ranges from 1-10 years, once placed in service. Other property, plant and equipment consisted of the following at June 30, 2025 and December 31, 2024 (in thousands):

	June 30, 2025	December 31, 2024
Other property, plant, and equipment		
Gathering lines	\$ 7,224	\$ 7,224
Buildings	2,577	2,577
Other property, plant, and equipment	5,571	5,571
Total	15,372	15,372
Accumulated depletion, depreciation, and amortization	(13,147)	(13,102)
Other property, plant, and equipment, net	<u>\$ 2,225</u>	<u>\$ 2,270</u>

Depreciation expense for property, plant, and equipment amounted to \$0.03 million and \$0.04 million for the three and six months ended June 30, 2025, respectively, and \$0.31 million and \$0.61 million for the three and six months ended June 30, 2024, respectively.

Asset Retirement Obligation

Asset retirement obligations (ARO) consist of future plugging and abandonment expenses on oil and natural gas properties. The Company records the estimated fair value of its ARO when the related wells are acquired or once a new well is placed on production with a corresponding increase in the carrying amount of oil and natural gas. The liability is accreted to its present value each period. Management estimates the fair value of additions to the asset retirement obligation liability using a valuation technique that converts future cash flows to a single discounted amount. Significant inputs to the valuation include: (i) estimated plug and abandonment cost per well based on management's experience; (ii) estimated remaining life per well; and (iii) the Company's credit-adjusted risk-free rate. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Revenue Recognition

The Company accounts for revenues under FASB ASC Topic 606, *Revenue from Contracts with Customers* (ASC Topic 606). The Company recognized revenues from the sales of oil, natural gas, and natural gas liquids to its customers and presents them as individual line items on the Company's consolidated statements of operations. All revenues are recognized in Texas and New Mexico.

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

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Crude Oil

The Company sells its crude oil production at the wellhead or further downstream at a contractually specified delivery point. Revenue is recognized when control transfers to the customer based on contract terms which reflect prevailing market prices. Any costs incurred prior to the transfer of control, such as gathering and transportation, are recognized as operating expenses. The Company recognized revenues from oil contracts with customers of \$62.92 million and \$132.46 million for the three and six months ended June 30, 2025, respectively, and \$82.36 million and \$157.79 million for the three and six months ended June 30, 2024.

Natural Gas Liquids

The Company sells its natural gas production to customers with processing facilities, where extraction of natural gas liquids (NGL) occurs. Revenue is recognized upon the transfer of control to the customer at the inlet of the processing plant. The Company recognizes revenues based on contract terms which reflect prevailing market prices, with processing fees recognized as a deduction from NGL revenue. The Company recognized revenues from natural gas liquids contracts with customers of \$0.93 million and \$2.04 million for the three and six months ended June 30, 2025, respectively, and \$0.72 million and \$1.22 million for the three and six months ended June 30, 2024.

Natural Gas

The Company sells its natural gas production at the wellhead or further downstream at a contractually specified delivery point. In this case, the Company transfers title and risk of loss to the customer at the inlet of the processing plant and receives a portion of the proceeds after the customer has sold the treated product. The Company recognizes revenues when control transfers to the customer, based on the contract terms which reflect prevailing market prices.

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry; therefore, the Company's customers may be similarly affected by changes in economic and other conditions within the industry.

The Company presents natural gas processing fees relating to certain processing and marketing agreements as a deduction to revenues within its consolidated statements of operations. The Company recognized revenues from natural gas contracts with customers of \$0.06 million and \$0.49 million for the three and six months ended June 30, 2025, respectively, and \$(0.02) million and \$0.22 million for the three and six months ended June 30, 2024.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with ASC 606. The exemption, as described in ASC 606-10-50-14(a), applies to variable consideration that is recognized as control of the product is transferred to the customer.

Contract Balances

Under the Company's sales contracts, customers are invoiced once performance obligations have been satisfied, at which point, payment is unconditional. Accordingly, the Company's product sales do not rise to contract assets or liabilities. Accounts receivable attributable to the Company's revenue contracts with customers was \$32.83 million and \$31.97 million at January 1, 2025 and 2024, respectively.

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Income Taxes

The Company is organized as a limited liability company and is considered a pass-through entity for federal income tax purposes. As a result, income or losses are taxable or deductible to the members rather than at the Company level; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements. In certain instances, the Company is subject to state taxes on income arising in or derived from the state tax jurisdictions in which it operates.

The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not threshold, it is then measured to determine the amount of expense to record in the consolidated financial statements. The tax expense recorded would equal the largest amount of expense related to the outcome that is 50% or greater likely to occur. The Company classifies any potential accrued interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as operating expense. Management of the Company has not taken a tax position that, if challenged, would be expected to have a material effect on the consolidated financial statements as of June 30, 2025 and December 31, 2024.

The Company did not incur any penalties or interest related to its state tax returns during the three and six months ended June 30, 2025 and 2024.

Under the centralized partnership audit rules effective for tax years beginning after 2018, the Internal Revenue Service (IRS) assesses and collects underpayments of tax from the Company instead of from each member. The collection of tax from the Company is only an administrative convenience for the IRS to collect any underpayment of income taxes including interest and penalties. Income taxes on membership income, regardless of who pays the tax or when the tax is paid, is attributed to the members. Any payment made by the Company as a result of an IRS examination will be treated as a distribution from the Company to the members in the consolidated financial statements.

Deferred Tax

The Company uses the asset and liability method for accounting for margin taxes. Under this method, margin tax assets and liabilities are determined based on the differences between the consolidated financial statements carrying value of the assets and liabilities and their respective margin tax bases (temporary differences). Tax assets and liabilities are measured using the margin tax rates expected to be in effect when the temporary differences are likely to reverse. The effect of a change in tax rates on margin tax assets or liabilities is included in earnings in the period in which the change is enacted. The book value of margin tax assets is limited to the amount of tax benefit that is more likely than not to be realized in the future.

In assessing the need for a valuation allowance on the Company's deferred tax asset, we consider whether or not it is more likely than not that some portion or all of the deferred tax assets will be realized. In making this assessment, we consider the scheduled reversal of deferred tax liabilities, available taxes in carryback periods, tax planning strategies, and projected future margin tax. If the ultimate realization of deferred tax assets is dependent on future book income, assessing the need for, or the sufficiency of, a valuation allowance requires the evaluation of all available evidence, both negative and positive, as to whether it is more likely than not that a deferred tax asset will be realized. The Company has no deferred tax asset valuation allowance as of June 30, 2025 and December 31, 2024.

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Deferred Financing Costs

Debt issuance costs consist of fees incurred to secure debt financing and are amortized over the life of the related credit facility using the straight-line method. Debt issuance costs, net were \$3.03 million and \$3.83 million at June 30, 2025 and December 31, 2024, respectively. Amortization of debt issuance costs totaled \$0.40 million and \$0.79 million for the three and six months ended June 30, 2025, respectively, and \$0.40 million and \$0.79 million for the three and six months ended June 30, 2024, respectively, and was recorded in interest expense in the consolidated statements of operations. Debt issuance costs are presented as a long-term asset on the consolidated balance sheets.

Commodity Derivative Financial Instruments

The Company's derivative financial instruments are used to manage commodity price risk attributable to expected oil and gas production. While there is risk the financial benefit of rising oil and gas prices or declining interest rates may not be captured, the Company believes the benefits of stable and predictable cash flows outweigh the potential risks.

The Company accounts for derivative financial instruments using fair value accounting and recognizes gains and losses in earnings during the year in which they occur. Unsettled derivative instruments are recorded in the accompanying consolidated balance sheets as either a current or non-current asset or a liability measured at its fair value. The Company only offsets derivative assets and liabilities for arrangements with the same counterparty when right of offset exists. Derivative assets and liabilities with different counterparties are recorded gross in the consolidated balance sheets. Derivative contract settlements are reflected in operating activities in the accompanying consolidated statements of cash flows.

The Company uses certain pricing models to determine the fair value of its derivative financial instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties.

Company management validates the data provided by third parties by understanding the pricing models used, obtaining market values from other pricing sources, analyzing pricing data and confirming that those securities trade in active markets. See further disclosure regarding commodity hedging at Note 9.

Leases

The Company accounts for leases in accordance with FASB ASC Topic 842, *Leases*, (ASC Topic 842), which requires lessees to recognize operating and finance leases with terms greater than 12 months on the consolidated balance sheets. The Company evaluates a contractual arrangement at its inception to determine if it is a lease or contains an identifiable lease component. Certain leases may contain both lease and non-lease components together and accounts for the arrangement as a single lease.

Certain assumptions and judgements are made by the Company when evaluating a contract that meets the definition of a lease under ASC Topic 842, which include those to determine the discount rate and lease term. Unless implicitly defined, the Company determines the present value of the future lease payments using the risk-free rate option. The Company evaluates each contract containing a lease arrangement at inception to determine the length of the lease term when recognizing a right-of-use asset and corresponding lease liability. The Company excludes from the consolidated balance sheets leases with terms that are less than one year.

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The Company's leases generally have remaining terms of one to ten years, and typically include one or more renewal options, with renewal terms that can generally extend the lease term. The exercise of lease renewal options is at the Company's sole discretion. The Company includes options to renew in the expected term when they are reasonably certain to be exercised. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the leases. Right of use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. If a lease does not have a stated or implicit discount rate, the Company will use its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. Right of use assets are amortized on a straight-line basis over the lease term.

The leases typically contain rent escalations over the lease term. The Company recognizes expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce the right of use asset related to the lease. These tenant incentives are amortized as reduction of rent expense over the lease term. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has certain non-real estate leases that are accounted for as finance leases under ASC 842, which is similar to the accounting for capital leases under the previous standard.

Note 3. Fair Value Measurements

The Company has determined the fair value of certain assets and liabilities through application of FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820). Under ASC 820, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure the fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1 inputs	Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2 inputs	Inputs, other than quoted prices in active markets, which are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
Level 3 inputs	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgement. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the asset or liability existed.

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In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Valuation techniques utilized to determine fair value are consistently applied. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company uses fair value to measure certain assets and liabilities on a recurring basis and on a nonrecurring basis.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of June 30, 2025 and December 31, 2024 (in thousands):

As of June 30, 2025				
	Level 1	Level 2	Level 3	Total
Assets				
Commodity hedges, current	\$ -	\$ 11,949	\$ -	\$ 11,949
Commodity hedges, non current	-	10,017	-	10,017
Total assets	\$ -	\$ 21,966	\$ -	\$ 21,966
Liabilities				
Commodity hedges, current	\$ -	\$ 1,378	\$ -	\$ 1,378
Commodity hedges, non current	-	1,370	-	1,370
Total liabilities	\$ -	\$ 2,748	\$ -	\$ 2,748
As of December 31, 2024				
	Level 1	Level 2	Level 3	Total
Assets				
Commodity hedges, current	\$ -	\$ 4,678	\$ -	\$ 4,678
Commodity hedges, non current	-	7,517	-	7,517
Total assets	\$ -	\$ 12,195	\$ -	\$ 12,195
Liabilities				
Commodity hedges, current	\$ -	\$ 6,940	\$ -	\$ 6,940
Commodity hedges, non current	-	3,250	-	3,250
Total liabilities	\$ -	\$ 10,190	\$ -	\$ 10,190

Fair Value on a Nonrecurring Basis

Asset Retirement Obligation

The asset retirement obligation estimates are derived from historical costs and management's expectation of future cost environments and, therefore, the Company has designated these liabilities as Level 3 measurements. The significant inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs, well life, inflation and credit-adjusted risk-free rate. See Note 5 for a reconciliation of the beginning and ending balances of the liability for the Company's asset retirement obligations.

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Note 4. Revolving Credit Facility

On July 1, 2019, the Company entered into a new revolving credit agreement with a commercial bank for a credit facility of up to \$750,000,000. At June 30, 2025 and December 31, 2024, the borrowing base under the credit agreement is \$290 million. The credit agreement was amended in June 2023 with adjustments to certain terms and adjusting the Alternate Base Rate to include SOFR.

The credit agreement provides that the borrowing base under the facility is to be redetermined biannually based on the oil and natural gas reserves of the Company. The first such scheduled redetermination occurred on September 1, 2023, and thereafter shall occur biannually on March 1st and September 1st of each year beginning on March 1, 2024. Borrowings are secured by the Company's oil and natural gas properties and bear interest at the option of the Company at the Alternate Base Rate, which is the highest of the Prime Rate, the Federal Funds Effective Rate plus 0.50% and the Adjusted term SOFR for a one month tenor in effect on such day plus 1.0%. The Alternate Base Rate advance margins range from 2.00% for outstanding loan balances less than 25% of the borrowing base up to 3.00% for outstanding loan balances greater than 90% of the borrowing base. The SOFR rate advance margins range from 3.00% for outstanding loan balances less than 25% of the borrowing base up to 4.00% for outstanding loan balances greater than 90% of the borrowing base. As of June 30, 2025 and December 31, 2024, the Company had \$155 million and \$171 million drawn on the revolving credit agreement at a weighted average interest rate of 7.93% and 8.049% respectively. The Company's revolving credit agreement matures on June 1, 2027.

The Company is subject to certain restrictive financial and non-financial covenants under the Loan. The financial covenants include a minimum current and consolidated total leverage ratio.

The Company incurred commitment fees of \$0.48 million and \$0.49 million associated with the unused portion of the borrowing base under the facility as of June 30, 2025 and December 31, 2024, respectively.

Note 5. Asset Retirement Obligations

The following is a summary of the activity for asset retirement obligations as of June 30, 2025 and December 31, 2024 (in thousands):

	June 30, 2025	December 31, 2024
Asset retirement obligations, beginning of period	\$ 97,036	\$ 92,995
Liabilities incurred/assumed	-	85
Settlement of asset retirement obligations	(750)	(1,358)
Accretion expense	2,706	5,314
Asset retirement obligations, end of period	<u>\$ 98,992</u>	<u>\$ 97,036</u>

Changes in estimates are determined based on several factors, including updating abandonment cost estimates using recent actual costs for abandonment activity, credit-adjusted risk-free discount rates, economic well life estimates and forecast timing of abandoning wells. Based on the expected timing of payments, the Company recorded \$3.0 million as a current liability in the consolidated balance sheets as of June 30, 2025 and December 31, 2024. The Company recorded a long-term liability of \$95.99 million and \$94.03 million in the consolidated balance sheets as of June 30, 2025 and December 31, 2024, respectively.

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Note 6. Oil and Gas Properties

Capitalized costs related to the Company's oil and gas producing activities and the related amount of accumulated depletion, depreciation, and amortization as of June 30, 2025 and December 31, 2024, are as follows (in thousands):

	June 30, 2025	December 31, 2024
Oil and Natural Gas properties		
Proved	\$ 1,006,804	\$ 983,552
Unproved	35,880	38,640
Total Oil and Gas properties	1,042,684	1,022,192
Accumulated depletion, depreciation, and amortization	(353,853)	(327,953)
Oil and natural Gas properties, net	<u>\$ 688,831</u>	<u>\$ 694,239</u>

Depletion, depreciation and amortization expense related to oil and gas properties was \$13.1 million and \$25.9 million for the three and six months period ended June 30, 2025, respectively, and \$12.6 million and \$24.4 million for the three and six months period ended June 30, 2024, respectively.

Note 7. Profit Units

The Company established a Series B Profits Units Award Plan (the Plan) to provide economic incentives to certain of its employees for providing services to the Company and its subsidiaries. Distributions are allocated to the Company's Series A Units and Series B Profit Units according to a waterfall stipulated in the Company's LLC Agreement. The Company is authorized to issue up to 6,000,000 Profits Units of which none were granted in 2024 and 2023.

As of June 30, 2025 and December 31, 2024, a total of 4,099,295, Series B Profits Units are outstanding.

The Company's Series B Profit Units are deemed to be a substantive class of equity and are accounted for as shared-based compensation under ASC 718, Share-Based Compensation. The Series B Profit Units are subject to service vesting conditions and vest only to the extent a person issued such Series B Profit Units continues to provide services to or remain employed by the Company through the applicable vesting periods. The Series B Profit Units are divided into two tranches including "Time Vesting Units" and "Exit Vesting Units" representing 70% and 30% of the granted units, respectively. The Time Vesting Units are subject to graded vesting over five years or are accelerated upon a Change of Control or sale of the Company (Exit Event), and the Exit Vesting Units become vested in full upon the earlier of an Exit Event or Qualified Initial Public Offering. In case of termination for any reason other than cause, Series B Profits Units holders' vested units remain outstanding and eligible for distributions, subject to a repurchase option by the Company at a price equal to fair market value, while the Series B Profits Units holders' unvested units are forfeited for no consideration. The Company has elected to account for forfeitures as they occur. Compensation expense is recorded as the units are earned over time, with the offset to additional paid-in capital. The Company incurred shared-based compensation expense of \$0 for the three and six months period ended June 30, 2025, and \$0.005 million for the three and six months period ended June 30, 2024. This expense is presented within general and administrative expenses in the Company's consolidated statements of operations.

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The Company uses the Black Scholes option pricing method to estimate the fair value of the Series B Profits Units. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of each reporting period commensurate with the Series B Profits Units' estimated time horizon. Expected volatilities are based on historical equity volatilities of comparable companies in the oil and natural gas industry. At June 30, 2025 and December 31, 2024, the remaining unamortized incentive compensation was approximately \$0.

Note 8. Commodity Derivative Financial Instruments

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

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

Commodity derivative instruments may take the form of collars, swaps or other derivatives indexed to WTI, NYMEX or other commodity price indexes. Volumes hedged through derivative instruments cannot exceed total production volumes due to lending covenants and are expected to have a reasonable correlation between price movements in the futures market and the spot markets where the Company's production is sold and are authorized by the Board of Managers. Derivatives are expected to be realized as related production occurs but may be terminated earlier if anticipated downward price movement occurs or if the Company believes the potential for such movement has abated.

The Company's crude oil derivative positions consist of fixed-price swaps, collars, and physical basis swaps. Fixed price swaps are designed so that the Company receives or makes payments based on a differential between fixed and variable prices for crude oil and natural gas. Collars are designed so that the Company pays the counterparty if the market price exceeds the ceiling price and the counterparty pays the Company if the market price is below the floor on a notional volume. Basis swap contracts guarantee a price differential between NYMEX prices for crude oil and natural gas and the Company's physical pricing points.

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The periods covered, notional amounts, fixed price and related commodity pricing index of the Company's outstanding crude oil derivative contracts as of June 30, 2025 and December 30, 2024, are set forth in the table below (in thousands).

June 30, 2025			
Crude Oil			
Period	Volume BBLs	Average Contract Price	Asset / (Liability)
NYMEX Swaps			
07/01/2025 - 12/31/2025	92	\$ 57.55	(461)
07/01/2025 - 12/31/2025	92	67.50	443
07/01/2025 - 12/31/2025	92	70.05	674
07/01/2025 - 12/31/2025	92	71.50	806
01/01/2026 - 12/31/2026	183	70.30	1,566
01/01/2026 - 12/31/2026	183	70.45	1,592
01/01/2026 - 06/30/2026	91	70.20	513
07/01/2025 - 12/31/2025	92	70.00	670
01/01/2026 - 06/30/2026	91	67.06	503
01/01/2026 - 06/30/2026	91	67.90	577
07/01/2025 - 12/31/2025	92	70.20	688
01/01/2026 - 06/30/2026	91	67.70	559
07/01/2025 - 12/31/2025	92	72.50	896
07/01/2026 - 12/31/2026	92	70.15	768
01/01/2026 - 12/31/2026	183	69.31	1,394
07/01/2026 - 12/31/2026	92	79.39	801
01/01/2027 - 06/31/2027	181	65.35	647
01/01/2027 - 06/31/2027	181	65.92	744
01/01/2027 - 06/31/2027	199	\$ 66.18	866
Total NYMEX swaps			14,246

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Collars			
07/01/2025 - 12/31/2025	92	57.50-64.50	(87)
07/01/2025 - 12/31/2025	92	57.50-67.54	8
07/01/2025 - 12/31/2025	92	55.00-78.15	82
07/01/2025 - 12/31/2025	92	55.00-75.90	70
07/01/2025 - 12/31/2025	92	60.00-76.75	196
07/01/2025 - 12/31/2025	92	60.00-84.70	220
07/01/2025 - 12/31/2025	92	60.00-86.75	224
01/01/2026 - 12/31/2026	183	60.00-79.30	841
01/01/2026 - 06/30/2026	91	60.00-74.90	343
07/01/2025 - 12/31/2025	92	60.00-83.80	219
07/01/2026 - 12/31/2026	92	60.00-79.40	450
07/01/2026 - 12/31/2026	92	60.00-76.00	400
07/01/2026 - 12/31/2026	92	60.00-79.39	449
01/01/2027 - 06/31/2027	181	62.50-71.25	773
Total oil collars			4,188

Crude Oil

Basis swaps			
08/01/2025 - 12/31/2025	153	\$ 1.10	80
08/01/2025 - 12/31/2025	77	1.05	36
08/01/2025 - 12/31/2025	153	1.21	97
08/01/2025 - 12/31/2025	306	1.24	205
01/01/2026 - 12/31/2026	548	1.25	96
07/01/2025 - 12/31/2025	184	1.25	90
07/01/2025 - 12/31/2025	184	1.25	90
07/01/2025 - 12/31/2025	184	\$ 1.25	90
Total basis swaps			784
Total open positions			19,218

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December 31, 2024

Crude Oil				
Period	Volume BBLs	Average Contract Price	Asset / (Liability)	
NYMEX Swaps				
07/01/2025 - 12/31/2025	92	\$ 70.50	131	
01/01/2026-12/31/2026	183	69.31	489	
07/01/2025 - 12/31/2025	92	67.50	(96)	
01/01/2025 - 12/31/2025	183	71.50	340	
01/01/2026 - 12/31/2026	183	70.30	658	
01/01/2026 - 12/31/2026	91	67.18	16	
01/01/2025 - 12/31/2025	183	70.20	109	
01/01/2025 - 12/31/2025	91	67.70	60	
01/01/2026 - 12/31/2026	91	67.90	78	
01/01/2026 - 12/31/2026	183	70.00	73	
01/01/2026 - 12/31/2026	183	70.45	684	
01/01/2026 - 12/31/2026	91	67.06	6	
07/01/2026 - 12/31/2026	92	70.15	362	
01/01/2025 - 12/31/2025	183	72.50	519	
01/01/2025 - 12/31/2025	183	57.55	(2,147)	
01/01/2025 - 12/31/2025	91	70.35	(23)	
01/01/2025 - 12/31/2025	91	69.55	(94)	
07/01/2026 - 12/31/2026	92	\$ 70.53	394	
Total NYMEX swaps			1,559	
Collars				
1/1/2025 - 12/1/2025	183	55.00-78.15	(129)	
7/1/2025 - 12/1/2025	92	60.00-76.75	9	
1/1/2026 - 6/1/2026	91	60.00-74.90	49	
1/1/2025 - 12/1/2025	183	60.00-83.80	178	
7/1/2025 - 12/1/2025	92	60.00-84.70	161	
1/1/2025 - 12/1/2025	183	60.00-86.75	227	
1/1/2026 - 12/1/2026	183	60.00-79.30	398	
7/1/2026 - 12/1/2026	92	60.00-79.40	238	
7/1/2026 - 12/1/2026	92	60.00-79.39	238	
7/1/2025 - 12/1/2025	92	55.00-75.90	(122)	
1/1/2025 - 12/1/2025	183	57.50-67.54	(1,189)	
1/1/2025 - 12/1/2025	183	57.50-64.50	(830)	
1/1/2025 - 6/1/2025	91	60.00-78.90	(16)	
7/1/2026 - 12/1/2026	92	60.00-76.00	157	
1/1/2025 - 6/1/2025	91	60.00-79.75	(6)	
1/1/2025 - 6/1/2025	91	60.00-78.70	(20)	
1/1/2027 - 6/1/2027	181	62.50-71.25	285	
Total oil collars			(372)	

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Crude Oil

Basis swaps				
2/1/2025 - 12/1/2025	334	\$	1.10	67
2/1/2025 - 12/1/2025	542		1.05	106
7/1/2025 - 12/1/2025	184		1.25	45
2/1/2025 - 12/1/2025	334		1.21	103
7/1/2025 - 12/1/2025	368		1.24	102
2/1/2025 - 6/1/2025	75		1.25	30
1/1/2026 - 12/1/2026	548		1.25	155
1/1/2025 - 12/1/2025	365		1.25	105
1/1/2025 - 12/1/2025	365	\$	1.25	105
Total basis swaps				818
Total open positions				2,005

The following table summarizes the location and fair value amounts of all derivative instruments in the consolidated balance sheets as well as the gross recognized derivative assets and liabilities as of June 30, 2025 and December 31, 2024 (in thousands):

Derivatives not designed as hedging contracts under ASC Topic 815	Consolidated Balance Sheet Location	Fair Value
June 30, 2025		
Commodity derivatives	Derivative assets / (liability) - current	\$ 10,571
Commodity derivatives	Derivative assets / (liability) - non current	8,647
	Total commodity derivatives	\$ 19,218
December 31, 2024		
Commodity derivatives	Derivative assets / (liability) - current	\$ (2,262)
Commodity derivatives	Derivative assets / (liability) - non current	4,267
	Total commodity derivatives	\$ 2,005

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

The following table sets forth the cash settlements and non-cash fair value adjustments for derivative instruments not designated as hedges as of June 30, 2025 and December 31, 2024 (in thousands), which is presented as realized and unrealized losses on derivative contracts in the accompanying consolidated statement of operations:

Derivatives not designed as hedging contracts under ASC Topic 815	Consolidated Statement of Operations Location	Fair Value
June 30, 2025		
Realized gain on hedges	Realized and unrealized (loss) gain on derivatives	\$ (638)
Unrealized gain on hedges	Realized and unrealized (loss) gain on derivatives	(17,213)
	Total commodity derivatives	<u>\$ (17,851)</u>
June 30, 2024		
Realized loss on hedges	Realized and unrealized (loss) gain on derivatives	\$ 24,380
Unrealized gain on hedges	Realized and unrealized (loss) gain on derivatives	9,602
	Total commodity derivatives	<u>\$ 33,982</u>

Note 9. Commitments and Contingencies

Legal Matters

In the ordinary course of business, the Company may at times be subject to claims and legal actions. Management does not believe the impact of such matters will have a material adverse effect on the Company's financial position or results of operations. The Company had no legal matters requiring specific disclosure or recognition of a liability as of June 30, 2025 and December 31, 2024.

Environmental Issues

The Company's operations are subject to risks normally incidental to the exploration for and the production of oil and gas, including blowouts, fires, and environmental risks such as oil spills or gas leaks that could expose the Company to liabilities associated with these risks.

In the Company's 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. The Company maintains comprehensive insurance coverage that it believes is adequate to mitigate the risk of any adverse financial effects associated with these risks.

However, should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could fall upon the Company.

No claim has been made, nor is the Company aware of the assertion of any liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations relating thereto. In addition, the Company is subject to extensive regulation at the federal and state levels that may materially affect its operations.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Standby Letters of Credit

As of June 30, 2025 and December 31, 2024, the Company had \$1 million in letters of credit outstanding. For these letters of credit, the Company incurred interest of \$0.02 million for the three and six months ended June 30, 2025 and 2024. No amounts have been drawn under the standby letters of credit.

Performance Bonds

The Company has performance bonds with an outside operator and U.S. state and federal entities in the amount of approximately \$12.66 million and \$12.59 million as of June 30, 2025 and December 31, 2024, respectively. Should the Company fail to plug and abandon uneconomical wells, the Company would default on the mentioned performance bonds. Until that liability becomes probable, the amount of the performance bonds is not recognized on the Company's consolidated balance sheets.

Operating Lease Commitments

As disclosed in Note 2, the Company leases office space set to expire on December 31, 2025. The Company is obligated to pay executory costs (real estate taxes, insurance, and repairs) on certain leases based on lessors' estimates. Due to this variability, the cash flows associated with these costs are not included in the minimum lease payments used in determining the right-of-use asset and associated lease liability. Lease expense totaled \$0.29 million and \$0.57 million for the three and six months ended June 30, 2025, respectively, and \$0.25 million and \$0.51 million for the three and six months ended June 30, 2024, respectively.

Operating lease assets and liabilities as of June 30, 2025 and December 31, 2024, are presented in the table below (in thousands):

	June 30, 2025	December 31, 2024
Right-of-use assets:		
Lease assets	\$ 1,759	\$ 1,759
Total right-of-use asset	<u>\$ 1,759</u>	<u>\$ 1,759</u>
Current liabilities:		
Current lease liabilities	\$ 390	\$ 770
Long-term liabilities:		
Operating lease liabilities	-	-
Total lease liabilities	<u>\$ 390</u>	<u>\$ 770</u>

At June 30, 2025, the remaining lease term is 0.5 year and the risk-free rate is 5%.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Total future minimum lease payments under ASC 842 for operating leases as of December 31, 2025 are approximated as follows (in thousands):

Year Ending December 31, 2024

2025	\$ 390
Total minimum lease payments	390
Less current portion of capital lease obligations	390
Capital lease obligations, net of current portion	\$ -

Finance Leases

Certain equipment has been leased under terms which constitute a finance lease in accordance with ASC 842 (previously disclosed as a capital lease under ASC 840). The assets are amortized using the straight-line method over the term of the lease and interest expense is recognized using the effective interest method based on outstanding lease obligations. The cost of the assets capitalized under the lease agreement is as follows as of June 30, 2025 and December 31, 2024 (in thousands):

	June 30, 2025	December 31, 2024
Vehicles	\$ 4,309	\$ 4,309
Accumulated depreciation	(4,072)	(3,167)
Vehicles under finance leases	\$ 237	\$ 1,142

Note 10. Related Parties

Management Services Agreement (MSA)

The Company pays management fees to the Member, which are included in general and administrative expenses. Management fees incurred were \$3.31 million and \$6.58 million for the three and six months ended June 30, 2025, respectively, and \$3.18 million and \$6.53 million for the three and six months ended June 30, 2024, respectively.

The Company had related party payables of \$4.4 million and \$6.39 million as of June 30, 2025 and December 31, 2024, respectively to the Member.

Note 11. Significant Concentrations

As of June 30, 2025 and December 31, 2024, substantially all of the Company's operations and business efforts were related to the oil and gas industry. This concentration may impact the Company's business risk, either positively or negatively, in that commodity prices, future customers and suppliers may be similarly affected by changes in economic, political or other conditions related to the industry.

Sabinal Energy Operating, LLC and Subsidiaries
Notes to Consolidated Financial Statements

The Company regularly maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses with respect to the related risks to cash and cash equivalents and does not believe its exposure to such risk is more than nominal.

The Company had revenues from three purchasers which accounted for 83% of the six months ended June 30, 2025 and 2024 oil and gas revenues. The Company's three main purchasers have investment-grade credit ratings. This concentration of customers may impact the Company's overall business risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. The Company believes this risk is mitigated by the size, reputation and nature of its purchasers.

Major vendors are defined as those individually comprising more than 10% of the Company's accounts payable. As of June 30, 2025 and December 31, 2024, the Company had no major vendor which accounted for 10% of total purchases.

Note 12. Subsequent Events

On July 10, 2025, the Company entered into an agreement with Mach Natural Resources (Mach) for the sale of its oil and gas properties in the Permian Basin for cash considerations of \$200 million and 20.60 million shares of Company common stock. Upon signing, Mach paid \$37.5 million as a deposit into third-party escrow accounts. The transaction is structured as the acquisition by Mach of 100% of the interest in Sabinal Energy Operating, LLC. Closing of the transaction is expected to occur in September 2025, subject to completion of various customary conditions.

The Company has evaluated subsequent events from June 30, 2025, the date of the consolidated balance sheet, through September 18, 2025, the date these consolidated financial statements were available for issuance and there were no other items to disclose.

Report of Independent Auditors

To the Management of SJ INVESTMENT OPPTS LLC

Opinion

We have audited the accompanying financial statements of SJ INVESTMENT OPPTS LLC (the “Company”), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of operations, of changes in member’s capital and of cash flows for the year ended December 31, 2024 and for the period from June 27, 2023 (Inception) to December 31, 2023, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the year ended December 31, 2024 and for the period from June 27, 2023 to December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors’ 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 auditors’ 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas
May 30, 2025

SJ INVESTMENT OPPS LLC
(A Delaware Limited Liability Company)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2024 AND 2023
(dollars in thousands)

	2024	2023
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,338	\$ 2,275
Accounts receivable	3,514	8,096
Derivative asset	5,440	16,672
Prepays and other current assets	150	40
Total current assets	<u>14,442</u>	<u>27,083</u>
Property, Plant and Equipment:		
Oil and natural gas properties, successful efforts method	87,818	85,791
Total property, plant and equipment	<u>87,818</u>	<u>85,791</u>
Less: accumulated depreciation, depletion and amortization	<u>(27,390)</u>	<u>(6,313)</u>
Property, plant and equipment, net	<u>60,428</u>	<u>79,478</u>
Long-term derivative asset	-	3,427
Other non-current assets	314	81
Total Assets	<u><u>\$ 75,184</u></u>	<u><u>\$ 110,069</u></u>
LIABILITIES AND MEMBER'S CAPITAL		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 8,523	\$ 15,391
Accrued liabilities – related party	82	2,263
Current portion of debt	<u>13,500</u>	<u>14,850</u>
Total current liabilities	<u>22,105</u>	<u>32,504</u>
Long-term debt, net	11,567	33,029
Asset retirement obligations	171	158
Derivative instrument – non-current liability	2,371	-
Other non-current liabilities	<u>4,926</u>	<u>-</u>
Total liabilities	<u>41,140</u>	<u>65,691</u>
Commitments and Contingencies (Note 13)		
Member's Capital:		
Member's capital	18,800	18,800
Accumulated income	<u>15,244</u>	<u>25,578</u>
Total member's capital	<u>34,044</u>	<u>44,378</u>
Total Liabilities and Member's Capital	<u><u>\$ 75,184</u></u>	<u><u>\$ 110,069</u></u>

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

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2024 AND
PERIOD FROM JUNE 27, 2023 (INCEPTION) TO DECEMBER 31, 2023
(dollars in thousands)

	2024	2023
Revenues:		
Natural gas	\$ 37,237	\$ 19,237
Total revenues	<u>37,237</u>	<u>19,237</u>
Operating expenses:		
Lease operating expenses	6,870	1,800
Workover	86	17
Severance and ad valorem taxes	2,977	1,511
Gathering, transportation and marketing	12,535	4,987
General and administrative expenses	787	289
General and administrative expenses – related party	5,729	2,492
Accretion expense	13	5
Depreciation, depletion and amortization	21,077	6,313
Total operating expenses	<u>50,074</u>	<u>17,414</u>
Operating income (loss)	(12,837)	1,823
Other income (expenses):		
Interest expense	(5,460)	(2,095)
Gain on derivatives, net	7,963	25,850
Total other income	<u>2,503</u>	<u>23,755</u>
Net income (loss)	<u>\$ (10,334)</u>	<u>\$ 25,578</u>

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

SJ INVESTMENT OPPS LLC
(A Delaware Limited Liability Company)

STATEMENTS OF CHANGES IN MEMBER’S CAPITAL
YEAR ENDED DECEMBER 31, 2024 AND
PERIOD FROM JUNE 27, 2023 (INCEPTION) TO DECEMBER 31, 2023
(dollars in thousands)

	Member’s Capital
Balance – June 27, 2023	\$ —
Contributions	18,800
Net income(loss)	25,578
Balance – December 31, 2023	44,378
Net income(loss)	(10,334)
Balance – December 31, 2024	\$ 34,044

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

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024 AND
PERIOD FROM JUNE 27, 2023 (INCEPTION) TO DECEMBER 31, 2023
(dollars in thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Net income	\$ (10,334)	\$ 25,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	21,077	6,313
Accretion expense	13	5
Amortization of debt issuance costs, discount and premium	624	208
Unrealized (gain)/loss on derivatives	17,030	(20,099)
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	(1,453)	7,551
Accounts receivable	4,582	(8,096)
Prepays and other current assets	(109)	(40)
Other non-current assets	(233)	(81)
Other non-current liabilities	4,926	—
Net cash provided by operating activities	<u>36,123</u>	<u>11,339</u>
Cash flows from investing activities:		
Acquisition of natural gas properties	—	(43,043)
Addition of natural gas properties	(9,623)	(32,492)
Net cash used in investing activities	<u>(9,623)</u>	<u>(75,535)</u>
Cash flows from financing activities:		
Contributions	—	18,800
Proceeds from long-term debt	—	49,125
Debt issuance costs	(3,437)	(1,454)
Payment on long term debt	(20,000)	—
Net cash provided by financing activities	<u>(23,437)</u>	<u>66,471</u>
(Decrease)Increase in cash and cash equivalents	3,063	2,275
Cash and cash equivalents – beginning of period	<u>2,275</u>	<u>—</u>
Cash and cash equivalents – end of period	<u>\$ 5,338</u>	<u>\$ 2,275</u>

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

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS YEAR
ENDED DECEMBER 31, 2024 AND
PERIOD FROM JUNE 27, 2023 (INCEPTION) TO DECEMBER 31, 2023

1. ORGANIZATION AND BUSINESS

SJ INVESTMENT OPPTS LLC (“SJ INVESTMENT” or the “Company”) was formed in the state of Delaware on June 27, 2023. SJ INVESTMENT is an oil and natural gas exploration and production company primarily involved in the acquisition, exploration, development, and operation of oil and natural gas leasehold interests.

The Company’s asset base was acquired through a farm-out with SIMCOE LLC (“SIMCOE”) on July 1, 2023. There are approximately 28 wellbores all of which are operated by others with average working interest of approximately 50%. The proved values are in San Juan, Rio Arriba and La Plata counties in the San Juan Basin in New Mexico and Colorado. The Company conducts all its activities in the United States of America.

SJ INVESTMENT has a management service agreement (“MSA”) with IKAV Energy Inc. (“IKAV”). Through the MSA, IKAV oversees the operations of SJ INVESTMENT and provides all general management services reasonably required in day-to-day activities of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties — The Company’s revenue, profitability and future growth are substantially dependent upon the oil and natural gas sector, which is dependent upon numerous factors beyond its control, such as economic and regulatory developments and competition from other energy sources. The energy markets have historically been volatile, and there can be no assurance that unhedged commodity prices for oil, natural gas liquids (“NGL”) and natural gas (“commodities”) will not be subject to wide fluctuations in the future.

Basis of Presentation — The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In the Notes to Financial Statements, all dollar amounts in tabulations are in thousands of dollars, unless otherwise indicated.

Use of Estimates — The preparation of the financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur because of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Estimates regarding the financial statements include proved oil, NGL and gas reserve volumes and the related present value of estimated future net cash flows used in the impairment test applied to capitalized oil and natural gas properties, asset retirement obligations, valuation of acquisition and derivative assets and liabilities, depreciation, depletion, and amortization, accrued liabilities, revenue, and related receivables.

Cash and Cash Equivalents — The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. Any cash or cash equivalent that are restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash in the financial statements. As of December 31, 2024 and 2023, the Company held no restricted cash.

Accounts Receivable — The Company’s accounts receivable balance primarily consists of net receivables from an unrelated third party during the transaction settlement period and operators’ sales of commodities to their customers. Accounts receivable are recorded at contractual amounts and do not bear interest. The Company’s commodities receivable is generally collected.

The Company establishes provisions for losses on accounts receivable if determined that it will not collect all or part of an outstanding receivable balance. The Company regularly reviews collectability and establishes or adjusts the allowance as necessary using the specific identification method. As of December 31, 2024, the Company reviewed its outstanding balances and made the determination that nothing should be recognized in the allowance for doubtful accounts.

As a result of adopting ASU 2016-13 (defined below in the *Recently Issued Accounting Pronouncements* section of this note), the Company establishes allowances for credit losses equal to the estimable portions of accounts receivable for which failure to collect is expected to occur. The Company establishes allowances for credit losses equal to the estimable portions of accounts receivable for which failure to collect is expected to occur. The Company estimates uncollectible amounts based on the length of time that the accounts receivables have been outstanding, historical collection experience, current conditions, and reasonable and supportable forecast that affect the collectability of the reported amount. The guidance did not have a significant impact on the financial statements. The Company did not incur credit loss expense or bad debt expense related to its accounts receivable during the period ended December 31, 2024 or the year ended December 31, 2023. The Company does not have any off-balance sheet credit exposure related to its customers.

Oil and Natural Gas Properties — The Company follows the successful efforts method of accounting for its oil and natural gas properties. Under this method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of certain non-producing leasehold costs are expensed as incurred. The costs of all development wells and related equipment used in the production of oil and natural gas are capitalized.

Sales proceeds are credited to the carrying value of the properties and no gains or losses are recognized upon the disposition of proved oil and natural gas properties except in transactions such as the significant disposition of an amortizable base that significantly affects the unit-of- production amortization rate.

The capitalized costs of producing oil and natural gas properties (including plugging, abandonment, and site restoration costs) are charged to expense as depreciation, depletion, and amortization using the units-of-production method based on the ratio of current production to estimated total net proved oil and natural gas reserves as estimated by independent petroleum engineers. Proved developed reserves are used in computing unit rates for drilling and development costs and total proved reserves are used for depletion rates of acquisition, leasehold, and pipeline costs. Depreciation, depletion and amortization for the year ended December 31, 2024 and the period ended December 31, 2023 were \$21.1 million and \$6.3 million respectively.

Impairment of Oil and Natural Gas Properties — The Company reviews its proved oil and natural gas properties for impairment whenever events or changes in circumstances indicate that the carrying amounts of such properties may not be recoverable. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. For the year ended December 31, 2024, a triggering event of significant decline in natural gas commodity prices occurred, as such management performed an impairment analysis as of year end, comparing the carrying value of its property, plant and equipment assets against the total undiscounted cash flows as taken from the future net revenues in the third party proved developed producing reserves report. The undiscounted cash flows exceeded the carrying value, thus no impairment of its property, plant and equipment assets occurred during the years ended December 31, 2024 and 2023.

Interest Cost Capitalization — Interest costs related to financing exploration activities in progress are capitalized as a cost of such activity until the projects are evaluated or until the projects are substantially complete and ready for their intended use if the projects are determined to be commercially successful.

Other Property and Equipment — Other property and equipment consist of vehicles, computer hardware, and software. It is stated at cost less accumulated depreciation, which is computed using the straight-line method based on the estimated economic life of the respective asset. The Company expenses costs for maintenance and repairs in the period incurred. Significant improvements and betterments are capitalized if they extend the useful life of the asset. Gains or losses on the sale of other property and equipment are included in other income (expense) in the period in which the transaction occurs. When the Company retires other property and equipment, it charges accumulated depreciation for the original cost, plus the cost to remove, sale or dispose, less its salvage value. As of December 31, 2024 and 2023, the Company did not incur any cost for other property and equipment.

Asset Retirement Obligations — Asset retirement obligations (“ARO”) represent the future abandonment costs of tangible assets, such as wells, service assets and other facilities. The Company records an ARO and capitalizes the asset retirement cost in oil and natural gas properties in the period in which the retirement obligation is incurred based upon the estimated fair value of the obligation to perform site reclamation, dismantle facilities, or plug and abandon wells. After recording these amounts, the ARO is accreted to its future estimated value using an assumed cost of funds and the additional capitalized costs are depreciated on a unit-of-production basis. Revisions in estimated liabilities can result from changes in retirement costs or the estimated timing of settling asset retirement obligations. If the ARO is settled for an amount other than the recorded amount, a gain or loss is recognized.

The Company determines the ARO by calculating the present value of estimated cash flows related to the liability. Estimating the ARO requires management to make estimates and judgments regarding timing and existence of a liability, as well as what constitutes adequate restoration. Inherent in the fair value calculation are numerous assumptions and judgments including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset.

Deferred Financing Costs — Debt financing cost consists of costs directly associated with obtaining the debt financing. These costs are capitalized and are presented as a reduction of indebtedness on the Statement of Financial Position. The capitalized costs are amortized over the life of the debt. Amortization expense for debt financing costs for the years ended December 31, 2024 and 2023, was \$0.4 million and \$0.1 million. See *NOTE 7 – Debt* for additional discussion.

Environmental Liabilities — The Company records environmental liabilities related to future costs on an undiscounted basis when environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefit, are expensed. Estimates are based on current available facts, existing technology and presently enacted laws and regulations considering the likely effects of inflation and estimated legal costs. These estimates are subject to revision in future periods based on actual costs or new circumstances. The Company evaluates recoveries from insurance coverage separately from liability and, when recovery is assured, it records an asset separately from the associated liability in the financial statements. The Company has no environmental liabilities on December 31, 2024 and 2023.

Revenue Recognition — The Company derives revenue largely from the sale of commodities. The Company enters into contracts with unrelated third parties to sell its production. Revenue on these contracts is recognized when the Company’s performance obligations under these contracts are satisfied, which generally occurs with the transfer of control of the commodities to the purchaser. Control is generally considered transferred when the following criteria are met: (i) transfer of physical custody, (ii) transfer of title, (iii) transfer of risk of loss, and (iv) relinquishment of any repurchase rights or other similar rights. Given the nature of the products sold, revenue is recognized at a point in time based on the amount of consideration the Company expects to receive in accordance with the price specified under the contract. Consideration under the commodities marketing contracts is typically received from the purchaser in the month following production. As of December 31, 2024 and 2023, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was \$1.7 million and \$2.8 million. Variances between estimated sales and actual amounts received are insignificant and are recorded in the month payment is received.

The Company recognizes revenues based on the actual volume of natural gas sold to purchasers.

The Company does not currently have any oil or NGL sales.

Risk Management — The Company may periodically enter into derivative contracts to manage its exposure to commodity price changes. These derivative contracts may take the form of forward contracts, swaps, collars, or other options. The company does not use derivative contracts for speculative purposes and has not designated any commodity derivative instruments as hedging instruments for accounting purposes. As such, unrealized gains and losses from changes in the valuation of our unsettled derivative contracts, as well as realized gains and losses on the settlement of derivative contracts, are reported in ‘Gain (loss) on derivatives, net’ in our Statement of Operations.

Such derivative instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. Derivatives are carried as assets when the fair value is positive or as liabilities when the fair value is negative and are classified as current and long term based on the delivery periods of the financial instruments. If the right of offset exists and certain other criteria are met, derivative assets and liabilities with the same counterparty are netted on the Statement of Financial Position.

See *NOTE 5 – Commodity Derivative Instruments* and *NOTE 6 – Fair Value Measurements* for additional discussion.

Other Financial Instruments — The Company's other financial instruments consist of cash and cash equivalents, receivables, payables, and long-term debt. The carrying amounts of the Company's other financial instruments, other than long-term debt, approximate fair value due to the highly liquid or short-term nature of the items.

Income Taxes — The Company is not a taxpaying entity for federal income tax purposes, and it does not recognize any expense for such taxes, accordingly.

Recently Issued Accounting Pronouncements — In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). ASU 2020-04 provides optional guidance, for a limited period of time, to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships and other transactions that reference LIBOR, or another reference rate, expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform - Scope, which clarified the scope and application of the original guidance. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848, which extends the sunset date for relief under ASU 2020-04 from December 31, 2022 to December 31, 2024. The Company does not expect a material impact on its financial statements as a result of applying the guidance provided by ASU 2020-04.

On January 1, 2023, the Company adopted Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance did not have a significant impact on the financial statements or notes accompanying the financial statements

Subsequent Events — The Company evaluated subsequent events through May 30, 2025, the date that the financial statements were issued.

On March 24, 2025, the Company entered amendment to the delayed draw term loan. This amendment adjusted the total draw for the facility from \$80 million to \$70 million, of which \$40 million would be new money and \$30 million existing principle from the 2023 agreement.

On April 16 and May 6th 2025, the Company entered into natural gas commodity swaps with ICBC and Macquarie. These swaps total 4,294,969 MMTBU at a weighted average price of \$3.70 for 2027 and total 3,274,022 MMTBU at a weighted average price of \$3.64 for 2028

3. ACQUISITION

On July 1, 2023, the Company's parent SIMLOG LLC ("SIMLOG") closed a farm-out to acquire a proportion of working interests in certain oil and natural gas developed and undeveloped properties located in the San Juan Basin in New Mexico and Colorado from an unrelated third party, SIMCOE. At the time of close, SIMLOG further had assigned its interest in properties developed or currently under development to SJ INVESTMENT. SIMCOE will continue to operate and provide gas and water gathering services to the properties. Additionally, the Company had agreed to provide \$100 million of capital towards the development of these properties and share general and administrative costs with SIMCOE. The effective date of the transaction is January 1, 2022. Purchase accounting was applied, and the payable due to SIMCOE at acquisition, after adjustments for expenses incurred and revenue received from the effective date through the initial closing date, liabilities assumed, and other customary post-closing purchase price adjustments was \$45.4 million. This amount was capitalized as assets for the Company. The results of operations from the acquisition are included in the Company's Statement of Operations since the acquisition date. No goodwill was recognized for this acquisition. Subsequent to July 2023, SJ INVESTMENT paid down the outstanding payable by \$43.0 million with operating cash flow of \$4.1 million, debt of \$25.9 million and equity of \$13.0 million.

Fair value of assets acquired:

Proved properties	\$	45,368
Total amount attributable to assets acquired	\$	45,368

4. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2024, the Company's property, plant and equipment consisted of the following:

	2024	2023
Proved properties	\$ 87,818	\$ 85,791
Accumulated depreciation, depletion and amortization	(27,390)	(6,313)
Total property, plant and equipment	\$ 60,428	\$ 79,478

5. COMMODITY DERIVATIVE INSTRUMENTS

The Company's business activities expose it to risks associated with changes in the market price of oil, natural gas, and natural gas liquids. As such, future earnings are subject to change due to changes in the market price of oil and natural gas. The Company uses derivatives to reduce its risk of changes in commodity prices.

The Company uses commodity derivative instruments known as fixed price swaps to realize a known price for a specific volume of production. All transactions are settled in cash with one party paying the other for the net difference in the agreed upon published third party index price and the swap fixed price, multiplied by the contract volume.

As of December 31, 2024, the Company had entered into natural gas contracts with the following terms:

Period Covered	Hedged Volume	Weighted Average Fixed Price
Natural gas (MMBTU):		
Swaps - 2025	9,790,368	3.87
Swaps - 2026	16,754,835	3.68
Swaps - 2027	4,193,899	3.53
Swaps - 2028	2,682,186	2.72

The fair value and classification of the Company's outstanding derivatives as of December 31, 2024 the Company's outstanding derivatives include \$5.4 million current assets and \$2.4 million non-current liability respectively. As of December 31, 2023 the Company's outstanding derivatives include \$16.7 million of current assets and \$3.4 million of noncurrent assets.

The amount of realized and unrealized gain (loss) for derivative instruments not designated as hedges for accounting purposes recognized in 'Gain (loss) on derivatives, net' in the Statement of Operations was as follows for the period ended December 31, 2024 and 2023:

	2024	2023
Realized gain (loss) on natural gas positions	\$ 24,993	\$ 5,751
Unrealized gain (loss) on natural gas positions	(17,030)	20,099
Total gain (loss) on derivatives	\$ 7,963	\$ 25,580

	Fair Value Measurements				
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts offset in the Balance Sheet	Net Amounts Of Assets / Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amount
December 31, 2024:					
Natural gas derivatives:					
Current assets	\$ 5,790	\$ (350)	\$ 5,440	\$ —	\$ 5,440
Long term liabilities	(3,183)	812	2,371	—	(2,371)
For the period ended December 31, 2023:					
Natural gas derivatives:					
Current assets	\$ 16,962	\$ (290)	\$ 16,672	\$ —	\$ 16,672
Long term assets	3,587	(160)	3,427	—	3,427

The Company has entered into master netting arrangement with its counterparty. The amounts above are presented on a net basis in its Statement of Financial Position when such amounts are with the same counterparty. In addition, the Company has recorded accounts payable and receivable balances related to its settled derivatives that are subject to its master netting arrangements. These amounts are not included in the above table; however, under its master netting agreements, the Company has the right to offset these positions against its forward exposure related to outstanding derivatives.

Credit Risk

All the Company's derivative transactions have been carried out in the over-the-counter market. The use of derivative instruments involves the risk that either counterparty may be unable to meet the financial terms of the transactions. The Company monitors the creditworthiness of each of its counterparties and assesses the possibility of whether each counterparty to the derivative contract would default by failing to make any contractually required payments as scheduled in the derivative instrument in determining the fair value. The derivative transactions are placed with major financial institutions with an external investment grade rating and therefore presents minimal credit risks to the Company.

6. FAIR VALUE MEASUREMENT

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values determined based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 refers to fair values determined based on our own assumptions used to measure assets and liabilities at fair value.

The following table presents the fair value hierarchy table for the Company's assets and liabilities that are required to be measured at fair value on a recurring basis:

		Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
For the period ended December 31, 2024:				
Assets:				
Natural gas derivatives	\$ 3,069	\$ —	\$ 3,069	\$ —
For the period ended December 31, 2023:				
Assets:				
Natural gas derivatives	\$ 20,099	\$ —	\$ 20,099	\$ —

The Company's derivatives consist of over-the-counter ("OTC") contracts which are not traded on a public exchange. As the fair value of these derivatives is based on a third-party industry-standard pricing model that uses contract terms, prices, assumption, and inputs that are substantially observable in active markets throughout the full term of the instruments including forward oil and gas price curves, discount rates and volatility factors, the Company has categorized these derivatives as Level 2. Furthermore, fair values are adjusted to reflect the credit risk inherent in the transactions, which may include amounts to reflect counterparty credit quality and/or the effect of our own creditworthiness. These assumed credit risk adjustments are based on published credit ratings, public bond yield spreads and credit default swap spreads.

Nonrecurring basis

The fair value measurement of assets acquired, and liabilities assumed are measured on a nonrecurring basis on the acquisition date using an income valuation technique based on inputs that are not observable in the market and therefore represent Level 3 inputs. Significant inputs to the valuation of acquired oil and gas properties include estimates of: (i) reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity process, including price differentials; (v) future cash flows; and (vi) a market participant-based weighted average cost of capital rate. These inputs require significant judgments and estimates by the Company's management at the time of the valuation.

The initial measurement of ARO at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property, plant, and equipment. Significant Level 3 inputs used in the calculation of ARO include plugging costs and reserves lives.

7. DEBT

On September 8, 2023, the Company entered into a long-term debt agreement (“Long-Term Debt”) in an aggregate principal amount of \$50 million, bearing interest at adjusted term SOFR plus an applicable margin. Pursuant to the credit agreement, the Company recognized original issue discount (OID) of \$0.9 million. Fees of \$1.5 million were capitalized as deferred financing costs. The discount and fees are amortized over the term of the long-term debt on a straight-line basis, which approximates the effective interest method. In addition, on November 5, 2024 the Company entered into an amendment to its existing long-term debt agreement to include a delayed draw term loan (DDTL), allowing a total draw of up to \$80 million. Fees of \$3.4 million were capitalized as deferred financing costs and will be amortized over the term of the agreement. The Company has not made additional draws on the term loan as of December 31, 2024. As of December 31, 2024 and 2023, the deferred financing costs had a balance of \$4.3 million and \$1.3 million . The unamortized balance of the discount was \$0.6 million and \$0.8 million on December 31, 2024 and 2023.

The proceeds from the 2023 long-term debt agreement were used for working capital. The Company utilized \$25.9 million for outstanding accounts payable and retained \$21.8 million after adjustments for financing costs as of December 31, 2023.

Additionally, on March 24, 2025, a subsequent amendment to the Long-Term Debt was executed, which adjusted to the total draw of the DDTL from \$80 million to \$70 million, of which \$40 million would be new money.

The Company has several key financial covenants associated with its Long-Term Debt, including, but not limited to a Proved Developed Producing (“PDP”) Coverage Ratio, Current Ratio, and Net Leverage Ratio. As of December 31, 2024, the Company must achieve a PDP Coverage Ratio less than a set ratio as of the last day of each fiscal quarter. The Company must achieve a PDP Coverage Ratio less than 1.85 to 1.00, a Current Ratio of at least 1.00 to 1.00, and a Leverage Ratio of 1.75 to 1.00 for the fiscal quarters ending December 31, 2024.

The Company was in compliance with all covenants as of December 31, 2024.

Principal payments on Long-Term Debt became due starting June 30, 2024 and summarized by year as of December 31, 2024, are as follows:

	<u>Debt Payment</u>	
Year:		
2024	\$	20,000
2025		13,500
2026		12,000
2027		4,500
Total debt payments	\$	<u>50,000</u>

8. ASSET RETIREMENT OBLIGATIONS

Changes in the ARO liability for 2024 are as follows:

	2024	2023
ARO liability – January 1	\$ 158	\$ 134
Additions	—	3
Revisions	2	16
Accretion expense	11	5
Retirements	—	—
ARO liability - December 31	<u>\$ 171</u>	<u>\$ 158</u>

9. MEMBER'S CAPITAL

The Company was formed with capital contribution from SIMLOG of \$18.8 million of which \$13.0 million was directly transferred to SIMCOE to pay down outstanding accounts payable on the acquired oil and gas properties and the Company retained \$5.8 million.

As of December 31, 2024, the Company has made no distributions and received no contributions.

10. RELATED PARTY TRANSACTIONS

SJ INVESTMENT has an MSA with IKAV through which IKAV oversees the day-to-day operations of SJ INVESTMENT and provides all general management services to the Company. This includes operating the assets as prescribed under the joint operating agreements, negotiating vendor, revenue and hedging contracts, keeping accounting records, and adherence to legal and regulatory compliance matters among other services.

Pursuant to the MSA, IKAV submits an invoice relevant for each calendar quarter to SJ INVESTMENT. The invoice is comprised of two charges: (i) an MSA fee and (ii) an allocation for operating and general and administrative expenses ("O&A expenses"). This allocation is calculated on the basis of gross revenue attributable to hydrocarbon production between SJ INVESTMENT and the other party to the agreement, SIMCOE. The agreement defines O&A expenses to include labor costs, costs and expenses for professional services, licensing and permitting fees and expenses, travel costs, capital expenditures, occupancy costs, including telephone, rent, office equipment and insurance costs, and other similar costs and expenses generally considered general and administrative expenses. As of December 31, 2024 and 2023, the Company owed IKAV \$0.1 and \$2.3 million respectively.

11. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2024 and 2023, consist of the following:

	2024	2023
Accrued revenue	\$ 2,229	2,823
Midstream	466	195
Derivative settlements	819	5,078
Total accounts receivable	<u>\$ 3,514</u>	<u>\$ 8,096</u>

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2024 and 2023, consist of the following:

	2024	2023
Accounts payable	\$ 3,139	\$ 4,196
Accrued liabilities:		
Revenue payable and suspense	1,500	659
Severance and ad valorem tax	2,043	1,475
Lease operating expense	1,047	1,248
Accrued capital expenditures	181	7,778
Workover expense	-	17
General and administrative expense	613	18
Total accrued liabilities	5,384	11,195
Total accounts payable and accrued liabilities	\$ 8,523	\$ 15,391

13. COMMITMENTS AND CONTINGENCIES

Pursuant to the MSA with IKAV, the Company is under contractual obligation to utilize IKAV as service provider until February 28, 2031. See *NOTE 10 – Related Party Transactions* for additional discussion.

From time to time, the Company may be involved in disputes or legal actions arising in the ordinary course of business. The Company does not believe the outcome of such disputes or legal actions will have a material effect on its financial statements. No amounts were accrued as of December 31, 2023 and 2024.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest for the years ended December 31, 2024 and 2023, was \$5.5 million and \$0, respectively.

Noncash investing activities for the years ended December 31, 2024 and 2023 include the following:

	2024	2023
Accrued capital expenditure activity	\$ 7,596	\$ (7,777)
Non Cash O&G properties purchase	—	(2,324)
Asset retirement obligation activities	—	(153)
Total noncash investing activities	\$ 7,596	\$ (10,254)

Unaudited Supplementary Information

SUPPLEMENTAL INFORMATION (UNAUDITED)
YEAR ENDED DECEMBER 31, 2024 AND
PERIOD FROM JUNE 27, 2023 (INCEPTION) TO DECEMBER 31, 2023

SUPPLEMENTAL OIL AND GAS PRODUCING ACTIVITIES (Unaudited)

Proved Reserves

Our proved oil and gas reserves have been estimated by independent petroleum engineers. Proved reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods in which the cost of the required equipment is relatively minor compared with the cost of a new well. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history and from changes in economic factors.

Proved reserves. Reserves of oil and natural gas that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by volumetric analysis of adequate geological and engineering data.

Proved developed reserves. Proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.

Proved undeveloped reserves or PUDs. Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Standardized Measure

The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by the US GAAP. Such assumptions include the use of 12-month average prices for oil and gas, based on the first-day-of-the-month price for each month in the period, and year end costs for estimated future development and production expenditures to produce year-end estimated proved reserves. Discounted future net cash flows are calculated using a 10% rate. No provision is included for federal income taxes since our future net cash flows are not subject to taxation.

Estimated well abandonment costs, net of salvage values, are deducted from the standardized measure using year-end costs and discounted at the 10% rate. Such abandonment costs are recorded as a liability on the consolidated balance sheet, using estimated values as of the projected abandonment date and discounted using a risk-adjusted rate at the time the well is drilled or acquired. See Note 8 for additional information related to asset retirement obligations.

The standardized measure does not represent management's estimate of our future cash flows or the fair value of proved oil and natural gas reserves. Probable and possible reserves, which may become proved in the future, are excluded from the calculations. Furthermore, prices used to determine the standardized measure are influenced by supply and demand as affected by recent economic conditions as well as other factors and may not be the most representative in estimating future revenues or reserve data. Due to rounding, tabular amounts presented below may not add up precisely to the totals indicated.

Proved Reserves Summary

All of the Company's reserves are located in the United States. The following table sets forth the changes in the Company's net proved reserves for the periods ended December 31, 2024 and 2023. The Company had no proved undeveloped reserves as of December 31, 2024 and 2023. Reserves estimates as of December 31, 2024 and 2023 were estimated by our independent petroleum consulting firm Netherland Sewell & Associates, Inc.

<i>Proved Reserves</i>	Oil (MBbl)	Natural Gas (MMcf)	NGL (MBbl)	Gas Equivalents (MMcfe)
June 27, 2023 (Inception)	—	—	—	—
Purchases in place	—	60,836	—	60,836
Extensions and discoveries	—	41,877	—	41,877
Production	—	(8,095)	—	(8,095)
December 31, 2023	—	94,618	—	94,618
Revisions of previous estimates	—	(22,936)	—	(22,936)
Production	—	(19,134)	—	(19,134)
December 31, 2024	—	52,548	—	52,548

<i>Proved Developed Reserves</i>	Oil (MBbl)	Natural Gas (MMcf)	NGL (MBbl)	Gas Equivalents (MMcfe)
December 31, 2023	—	94,618	—	94,618
December 31, 2024	—	52,548	—	52,548

In 2023, the 60,836 MMcfe of purchases in place and 41,877 MMcfe of extensions and discoveries represent the reserves acquired as part of the establishment of the Company, which occurred in 2023. See Note 3 for more information.

In 2024, The 22,936 MMcfe of downward revisions were primarily the result of lower SEC prices year-over-year creating shorter economic life and estimated ultimate recoveries.

The following table sets forth the standardized measure of discounted future net cash flow from projected production of the Company's oil and natural gas reserves:

<i>Standardized Measure of Discounted Future Net Cash Flows</i>	As of December 31,	
	2024	2023
Future cash inflows	\$ 83,499	\$ 318,192
Future costs:		
Production ⁽¹⁾	(67,828)	(106,284)
Development ⁽²⁾	(1,040)	(1,040)
Income taxes	—	—
Future net cash flows	14,631	210,868
10% annual discount	(2,718)	(74,517)
Standardized measure	\$ 11,913	\$ 136,351

(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.

<i>Changes in Standardized Measure of Discounted Future Net Cash Flows</i>	Period Ended December 31,	
	2024	2023
Standardized measure, beginning of period	\$ 136,351	\$ —
Revisions of previous quantity estimates	(33,095)	—
Extensions, discoveries, and improved recovery, net of related costs	—	63,154
Purchases of reserves in place	—	84,119
Net changes in prices and production costs	(93,812)	—
Accretion of discount	13,635	—
Sales of oil and natural gas produced, net of production costs	(14,769)	(10,922)
Change in timing of estimated future production and other	3,603	—
Standardized measure, end of period	<u>\$ 11,913</u>	<u>\$ 136,351</u>

Price and cost revisions are primarily the net result of changes in prices, based on beginning of the year reserve estimates.

Average gas prices used in the estimation of proved reserves and calculation of the standardized measure were \$1.712 per Mcf and \$4.046 per Mcf for the periods ended December 31, 2024 and 2023, respectively. We used 12-month average oil and gas prices, based on the first-day-of-the-month price for each month in the period.

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
AS OF JUNE 30, 2025 and DECEMBER 31, 2024
(dollars in thousands)

	June 30, 2025	December 31, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,333	\$ 5,338
Accounts receivable	3,032	3,514
Derivative asset	1,067	5,440
Prepays and other current assets	2,744	150
Total current assets	<u>41,176</u>	<u>14,442</u>
Property, plant and equipment:		
Oil and natural gas properties, successful efforts method	103,697	87,818
Total property, plant and equipment	103,697	87,818
Less: accumulated depreciation, depletion and amortization	<u>(34,509)</u>	<u>(27,390)</u>
Property, plant and equipment, net	<u>69,188</u>	<u>60,428</u>
Other non-current assets	<u>252</u>	<u>314</u>
Total assets	<u>\$ 110,616</u>	<u>\$ 75,184</u>
LIABILITIES AND MEMBER'S CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 14,872	\$ 8,523
Accrued liabilities – related party	976	82
Current portion of debt	11,000	13,500
Derivative liability	2,185	—
Total current liabilities	<u>29,033</u>	<u>22,105</u>
Long-term debt, net	45,315	11,567
Asset retirement obligations	180	171
Long-term derivative liability	7,260	2,371
Other non-current liabilities	6,254	4,926
Total liabilities	<u>88,042</u>	<u>41,140</u>
Commitments and contingencies (Note 11)		
Member's capital	22,574	34,044
Total liabilities and member's capital	<u>\$ 110,616</u>	<u>\$ 75,184</u>

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

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Six Months Ended June 30,	
	2025	2024
Revenues:		
Natural gas	\$ 16,287	\$ 23,513
Total revenues		
Operating expenses:		
Lease operating expenses	2,202	3,667
Workover	158	—
Severance and ad valorem taxes	1,663	2,361
Gathering, transportation and marketing	4,489	7,144
General and administrative expenses	448	165
General and administrative expenses – related party	2,460	3,280
Accretion expense	9	6
Depreciation, depletion and amortization	7,119	9,461
Total operating expenses	18,548	26,084
Operating loss	(2,261)	(2,571)
Other income (expense):		
Interest expense	(2,838)	(3,331)
Gain (loss) on derivatives, net	(6,371)	4,820
Total other income (expense)	(9,209)	1,489
Net loss	\$ (11,470)	\$ (1,082)

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

SJ INVESTMENT OPPS LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF CHANGES IN MEMBER’S CAPITAL (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Member’s Capital
Balance – December 31, 2023	\$ 44,378
Net loss	(1,082)
Balance – June 30, 2024	\$ 43,296
Balance – December 31, 2024	\$ 34,044
Net loss	(11,470)
Balance – June 30, 2025	\$ 22,574

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

SJ INVESTMENT OPPTS LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Six Months Ended June 30,	
	2025	2024
Cash flows from operating activities:		
Net loss	\$ (11,470)	\$ (1,082)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Accretion expense	9	6
Depreciation, depletion and amortization	7,119	9,461
Amortization of debt issuance costs, discount and premium	1,247	312
Unrealized gain on derivatives	11,447	13,422
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	6,490	10,062
Accrued liabilities – related party	893	(932)
Accounts receivable	483	5,125
Prepays and other current assets	(2,594)	(332)
Other non-current assets	62	15
Other non-current liabilities	1,327	3,139
Net cash provided by operating activities	<u>15,013</u>	<u>39,196</u>
Cash flows from investing activities:		
Additions to oil and natural gas properties	(16,018)	(9,386)
Net cash used in investing activities	<u>(16,018)</u>	<u>(9,386)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	30,000	—
Payment on long-term debt	—	(4,950)
Net cash provided by (used in) financing activities	<u>30,000</u>	<u>(4,950)</u>
Increase in cash, cash equivalents and restricted cash	28,995	24,860
Cash, cash equivalents and restricted cash – beginning of period	5,338	2,275
Cash, cash equivalents and restricted cash – end of period	<u>\$ 34,333</u>	<u>\$ 27,135</u>

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

AS OF JUNE 30, 2025 AND DECEMBER 31, 2024 AND FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024

1. ORGANIZATION AND BUSINESS

SJ INVESTMENT OPPTS LLC (“SJ INVESTMENT” or the “Company”) was formed in the state of Delaware on June 27, 2023. SJ INVESTMENT is an oil and natural gas exploration and production company primarily involved in the acquisition, exploration, development, and operation of oil and natural gas leasehold interests.

The Company’s asset base was acquired through a farm-out with SIMCOE LLC (“SIMCOE”) on July 1, 2023. There are approximately 28 wellbores all of which are operated by others with average working interest of approximately 50%. The proved values are in San Juan, Rio Arriba and La Plata counties in the San Juan Basin in New Mexico and Colorado. The Company conducts all its activities in the United States of America.

SJ INVESTMENT has a management service agreement (“MSA”) with IKAV Energy Inc. (“IKAV”). Through the MSA, IKAV oversees the operations of SJ INVESTMENT and provides all general management services reasonably required in day-to-day activities of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties — The Company’s revenue, profitability and future growth are substantially dependent upon the oil and natural gas sector, which is dependent upon numerous factors beyond its control, such as economic and regulatory developments and competition from other energy sources. The energy markets have historically been volatile, and there can be no assurance that unhedged commodity prices for oil, natural gas liquids (“NGL”) and natural gas will not be subject to wide fluctuations in the future.

Basis of Presentation — The condensed financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (“GAAP”). These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2024, as included in the Company’s annual financial statements. Results for interim periods are not necessarily indicative of results to be expected for the full year ending December 31, 2025. In the opinion of management, all adjustments, consisting primarily of normal recurring accruals that are considered necessary for a fair statement of the financial information, have been included. In the Notes to Condensed Financial Statements, all dollar amounts in tabulations are in thousands of dollars, unless otherwise indicated.

Use of Estimates — The preparation of the condensed financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur because of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Estimates regarding the condensed financial statements include proved oil, NGL and gas reserve volumes and the related present value of estimated future net cash flows used in the impairment test applied to capitalized oil and natural gas properties, asset retirement obligations, valuation of acquisition and derivative assets and liabilities, depreciation, depletion, and amortization, accrued liabilities, revenue, and related receivables.

Accounting Policies — Refer to the Company’s annual financial statements for a discussion of the Company’s accounting policies, as updated below and for recently adopted accounting standards.

Recently Issued Accounting Pronouncements — The Company considers the applicability and impact of all Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”). ASUs not discussed below were assessed and determined to be either not applicable or are expected to have minimal impact on our condensed financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) – Improvements to Income Tax Disclosures* (“ASU 2023-09”). ASU 2023-09 requires that an entity, on an annual basis, disclose additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The ASU’s amendments are effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that adoption of ASU 2023-09 will have on its financial statements.

In November 2024, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses (DISE)* (“ASU 2024-03”) which requires disclosure of certain costs and expenses on an interim and annual basis in the notes to the financial statements. The guidance is effective for the first annual reporting period beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. The amendments in this update are to be applied on a prospective basis, with the option for retrospective application. Early adoption is permitted. Management is currently evaluating this ASU to determine its impact on the Company’s disclosures but does not believe the adoption of the update will impact the Company’s financial position, results of operations or liquidity.

With the exception of the new standards discussed above, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2025, as compared to the recent accounting pronouncements described in the Company’s annual financial statements as of and for the years ended December 31, 2024, that are of significance or potential significance to the Company.

Subsequent Events — The Company evaluated subsequent events through September 2, 2025, the date that the condensed financial statements were issued.

On July 10, 2025, SIMLOG LLC (“SIMLOG”) entered into a definitive agreement to sell SJ INVESTMENT’s San Juan assets to Mach Natural Resources LP (“Mach”). The effective date of the transaction is April 1, 2025, and is expected to close late in the third quarter of 2025. Mach announced the acquisition in combination with other San Juan assets for a total deal value of approximately \$787 million of which SJ INVESTMENT represents not less than approximately 35%. The final transaction value is subject to a number of purchase price adjustments which will be calculated at close.

3. PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2025 and December 31, 2024, the Company’s property, plant and equipment consisted of the following:

	June 30, 2025	December 31, 2024
Proved properties	\$ 103,697	\$ 87,818
Accumulated depreciation, depletion and amortization	(34,509)	(27,390)
Total property, plant and equipment, net	<u>\$ 69,188</u>	<u>\$ 60,428</u>

Depreciation, depletion and amortization relating to oil and natural gas properties for the six months ended June 30, 2025 and 2024 were \$7.1 million and \$9.5 million, respectively.

4. COMMODITY DERIVATIVE INSTRUMENTS

The Company’s business activities expose it to risks associated with changes in the market price of oil, natural gas, and natural gas liquids. As such, future earnings are subject to change due to changes in the market price of oil and natural gas. The Company uses derivatives to reduce its risk of changes in commodity prices.

The Company uses commodity derivative instruments known as fixed price swaps to realize a known price for a specific volume of production. All transactions are settled in cash with one party paying the other for the net difference in the agreed upon published third party index price and the swap fixed price, multiplied by the contract volume.

As of June 30, 2025, the Company had entered into natural gas contracts with the following terms:

Period Covered	Hedged Volume	Weighted Average Fixed Price
Natural gas – El Paso San Juan (MMBTU):		
Swaps - 2025	5,015,112	\$ 3.91
Swaps - 2026	16,754,835	3.68
Swaps - 2027	4,193,899	3.53
Swaps - 2028	2,682,186	2.72
Natural gas – NYMEX Henry Hub (MMBTU):		
Swaps – 2027	4,294,969	\$ 3.70
Swaps – 2028	3,757,852	3.68
Swaps - 2029	4,544,390	3.43

As of June 30, 2025, the fair value and classification of the Company's outstanding derivatives include \$1.1 million current asset, \$2.2 million current liability and \$7.3 million non-current liability respectively. As of December 31, 2024, the Company's outstanding derivatives include \$5.4 million current asset and \$2.4 million non-current liability.

The amount of realized and unrealized gain (loss) for derivative instruments not designated as hedges for accounting purposes recognized in 'Gain (loss) on derivatives, net' in the Condensed Statements of Operations was as follows for the six months ended June 30, 2025 and 2024:

	Six Months Ended June 30,	
	2025	2024
Realized loss on natural gas positions	\$ 5,076	\$ 18,242
Unrealized gain on natural gas positions	(11,447)	(13,422)
Total gain (loss) on derivatives	<u>\$ (6,371)</u>	<u>\$ 4,820</u>

The following table presents the fair value hierarchy table for the Company's assets and liabilities that are required to be measured at fair value on a recurring basis as of June 30, 2025:

	Fair Value Measurements				
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts offset in the Balance Sheet	Net Amounts Of Assets / Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amount
June 30, 2025:					
Natural gas derivatives:					
Assets:					
Derivatives - current asset	\$ 2,710	\$ (1,643)	\$ 1,067	\$ —	\$ 1,067
Derivatives - non-current asset	928	(928)	—	—	—
Total assets	<u>\$ 3,638</u>	<u>\$ (2,571)</u>	<u>\$ 1,067</u>	<u>\$ —</u>	<u>\$ 1,067</u>
Liabilities:					
Derivatives - current liability	\$ (3,828)	\$ 1,643	\$ (2,185)	\$ —	\$ (2,185)
Derivatives - non-current liability	(8,188)	928	(7,260)	—	(7,260)
Total liabilities	<u>\$ (12,016)</u>	<u>\$ 2,571</u>	<u>\$ (9,445)</u>	<u>\$ —</u>	<u>\$ (9,445)</u>
December 31, 2024:					
Natural gas derivatives:					
Assets:					
Derivatives - current asset	\$ 5,790	\$ (350)	\$ 5,440	\$ —	\$ 5,440
Derivatives - non-current asset	812	(812)	—	—	—
Total assets	<u>\$ 6,602</u>	<u>\$ (1,162)</u>	<u>\$ 5,440</u>	<u>\$ —</u>	<u>\$ 5,440</u>
Liabilities:					
Derivatives - current liability	\$ (350)	\$ 350	\$ —	\$ —	\$ —
Derivatives - non-current liability	(3,183)	812	(2,371)	—	(2,371)
Total liabilities	<u>\$ (3,533)</u>	<u>\$ 1,162</u>	<u>\$ (2,371)</u>	<u>\$ —</u>	<u>\$ (2,371)</u>

The Company has entered into master netting arrangements with its counterparties. The amounts above are presented on a net basis in its Condensed Statements of Financial Position when such amounts are with the same counterparty. In addition, the Company has recorded accounts payable and receivable balances related to its settled derivatives that are subject to its master netting arrangements. These amounts are not included in the above table; however, under its master netting agreements, the Company has the right to offset these positions against its forward exposure related to outstanding derivatives.

Credit Risk

All the Company's derivative transactions have been carried out in the over-the-counter ("OTC") market. The use of derivative instruments involves the risk that either counterparty may be unable to meet the financial terms of the transactions. The Company monitors the creditworthiness of each of its counterparties and assesses the possibility of whether each counterparty to the derivative contract would default by failing to make any contractually required payments as scheduled in the derivative instrument in determining the fair value. The derivative transactions are placed with major financial institutions with an external investment grade rating and therefore presents minimal credit risks to the Company.

5. FAIR VALUE MEASUREMENT

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values determined based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 refers to fair values determined based on our own assumptions used to measure assets and liabilities at fair value.

The following table presents the fair value hierarchy table for the Company's assets and liabilities that are required to be measured at fair value on a recurring basis:

		Fair Value Measurements			
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2025:					
Assets:					
Natural gas derivatives	\$	1,067	\$	—	\$ 1,067 \$ —
Liabilities:					
Natural gas derivatives	\$	(9,445)	\$	—	\$ (9,445) \$ —
December 31, 2024:					
Assets:					
Natural gas derivatives	\$	5,440	\$	—	\$ 5,440 \$ —
Liabilities:					
Natural gas derivatives	\$	(2,371)	\$	—	\$ (2,371) \$ —

The Company's derivatives consist of OTC contracts which are not traded on a public exchange. As the fair value of these derivatives is based on a third-party industry-standard pricing model that uses contract terms, prices, assumption, and inputs that are substantially observable in active markets throughout the full term of the instruments including forward oil and gas price curves, discount rates and volatility factors, the Company has categorized these derivatives as Level 2. Furthermore, fair values are adjusted to reflect the credit risk inherent in the transactions, which may include amounts to reflect counterparty credit quality and/or the effect of our own creditworthiness. These assumed credit risk adjustments are based on published credit ratings, public bond yield spreads and credit default swap spreads.

Nonrecurring basis

The fair value measurement of assets acquired, and liabilities assumed are measured on a nonrecurring basis on the acquisition date using an income valuation technique based on inputs that are not observable in the market and therefore represent Level 3 inputs. Significant inputs to the valuation of acquired oil and gas properties include estimates of: (i) reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity process, including price differentials; (v) future cash flows; and (vi) a market participant-based weighted average cost of capital rate. These inputs require significant judgments and estimates by the Company's management at the time of the valuation.

The initial measurement of asset retirement obligation ("ARO") at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property, plant, and equipment. Significant Level 3 inputs used in the calculation of ARO include plugging costs and reserves lives.

6. DEBT

On September 8, 2023, the Company entered into a long-term debt agreement in an aggregate principal amount of \$50.0 million, bearing interest at adjusted term SOFR plus an applicable margin. Pursuant to the credit agreement, the Company recognized original issue discount ("OID") of \$0.9 million. Fees of \$1.5 million were capitalized as deferred financing costs. The discount and fees are amortized over the term of the long-term debt on a straight-line basis, which approximates the effective interest method.

On November 5, 2024 the Company entered into an amendment to its existing long-term debt agreement to include a delayed draw term loan ("DDTL"), allowing an additional \$50.0 million to be drawn. Fees of \$3.4 million were capitalized as deferred financing costs and will be amortized over the term of the agreement. On March 24, 2025, a subsequent amendment to the long-term debt agreement was executed, which adjusted the draw capacity of the DDTL from \$50.0 million to \$40.0 million.

As of June 30, 2025 and December 31, 2024, outstanding amounts for the term loan were \$30.0 million and \$30.0 million, respectively, and borrowings under the DDTL were \$30.0 million and \$0, respectively. As of June 30, 2025 and December 31, 2024, unamortized deferred financing costs were \$3.2 million and \$4.3 million, respectively. The unamortized balance of the discount as of June 30, 2025 and December 31, 2024 was \$0.5 million and \$0.6 million, respectively.

The Company has several key financial covenants associated with its long-term debt, including, but not limited to a Proved Developed Producing (“PDP”) Coverage Ratio, Current Ratio, and Net Leverage Ratio. As of June 30, 2025, the Company must achieve a PDP Coverage Ratio less than 1.75 to 1.00, a Current Ratio of at least 1.00 to 1.00, and a Leverage Ratio of 2.00 to 1.00 for the fiscal quarter ending June 30, 2025.

The Company was in compliance with all covenants as of June 30, 2025.

7. ASSET RETIREMENT OBLIGATIONS

Changes in the ARO liability for the six months ended June 30, 2025 are as follows:

	Six Months Ended June 30, 2025
ARO liability at beginning of period	\$ 171
Accretion expense	9
ARO liability at end of period	<u>\$ 180</u>

8. RELATED PARTY TRANSACTIONS

SJ INVESTMENT has an MSA with IKAV through which IKAV oversees the day-to-day operations of SJ INVESTMENT and provides all general management services to the Company. This includes operating the assets as prescribed under the joint operating agreements, negotiating vendor, revenue and hedging contracts, keeping accounting records, and adherence to legal and regulatory compliance matters among other services.

Pursuant to the MSA, IKAV submits an invoice relevant for each calendar quarter to SJ INVESTMENT. The invoice is comprised of two charges: (i) an MSA fee and (ii) an allocation for operating and general and administrative expenses (“O&A expenses”). For the six months ended June 30, 2025 and 2024, the Company incurred \$0.8 million and \$1.2 million, respectively, in MSA fees. For the six months ended June 30, 2025 and 2024, the Company incurred \$1.7 million and \$2.1 million in O&A expenses, respectively. This allocation is calculated on the basis of gross revenue attributable to hydrocarbon production between SJ INVESTMENT and the other party to the agreement, SIMCOE. The agreement defines O&A expenses to include labor costs, costs and expenses for professional services, licensing and permitting fees and expenses, travel costs, capital expenditures, occupancy costs, including telephone, rent, office equipment and insurance costs, and other similar costs and expenses generally considered general and administrative expenses. As of June 30, 2025 and December 31, 2024, the Company owed IKAV \$1.0 million and \$0.1 million, respectively.

9. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2025 and December 31, 2024 consist of the following:

	June 30, 2025	December 31, 2024
Accrued revenue	\$ 2,487	\$ 2,229
Midstream	9	466
Derivative settlements	536	819
Total accounts receivable	<u>\$ 3,032</u>	<u>\$ 3,514</u>

The Company determined there was no allowance for doubtful accounts needed as of June 30, 2025 and December 31, 2024. The Company does not have any off-balance sheet credit exposure related to its customers.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2025 and December 31, 2024 consist of the following:

	June 30, 2025	December 31, 2024
Accounts payable	\$ 3,065	\$ 3,139
Accrued liabilities:		
Revenue payable and suspense	6,799	1,500
Severance and ad valorem tax	3,628	2,043
Lease operating expense	794	1,047
Accrued capital expenditures	43	181
Interest	129	—
General and administrative expense	414	613
Total accrued liabilities	11,807	5,384
Total accounts payable and accrued liabilities	\$ 14,872	\$ 8,523

11. COMMITMENTS AND CONTINGENCIES

Pursuant to the MSA with IKAV, the Company is under contractual obligation to utilize IKAV as service provider until February 28, 2031. See *NOTE 8 – Related Party Transactions* for additional discussion.

From time to time, the Company may be involved in disputes or legal actions arising in the ordinary course of business. The Company does not believe the outcome of such disputes or legal actions will have a material effect on its condensed financial statements. No amounts were accrued as of June 30, 2025 and December 31, 2024.

The Company records environmental liabilities related to future costs on an undiscounted basis when environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to existing conditions caused by past operations, and that do not have future economic benefit, are expensed. Estimates are based on current available facts, existing technology and presently enacted laws and regulations considering the likely effects of inflation and estimated legal costs. These estimates are subject to revision in future periods based on actual costs or new circumstances. The Company evaluates recoveries from insurance coverage separately from liability and, when recovery is assured, it records an asset separately from the associated liability in the condensed financial statements. The Company had no environmental liabilities as of June 30, 2025 and December 31, 2024.

12. SUPPLEMENTAL CASH FLOW INFORMATION

For the six months ended June 30, 2025 and 2024, the Company held no restricted cash.

Cash paid for interest for the six months ended June 30, 2025 and 2024 was \$1.8 million and \$3.0 million, respectively.

Noncash investing activities for the six months ended June 30, 2025 and 2024, include the following:

	Six Months Ended June 30, 2025	2024
Accrued capital expenditures	\$ 139	\$ 7,520
Total noncash investing activities	\$ 139	\$ 7,520

Report of Independent Auditors

To the Management of SIMCOE LLC

Opinion

We have audited the accompanying financial statements of SIMCOE LLC (the “Company”), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of operations and comprehensive income (loss), of changes in member’s capital and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, 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 audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Company has restated its 2023 financial statements to correct errors. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors’ 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 auditors’ 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas
August 1, 2025

SIMCOE LLC
(A Delaware Limited Liability Company)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2024 AND 2023
(dollars in thousands)

	<u>2024</u>	<u>2023</u> (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 18,630	\$ 14,550
Accounts receivable	49,345	53,304
Inventories	25,305	21,811
Prepays and other current assets	13,988	15,192
Total current assets	<u>107,268</u>	<u>104,857</u>
Property, Plant and Equipment:		
Oil and natural gas properties, successful efforts method	811,600	802,586
Other property and equipment	12,895	7,810
Total property, plant and equipment	824,495	810,396
Less: accumulated depreciation, depletion and amortization	(287,386)	(209,508)
Property, plant and equipment, net	<u>537,109</u>	<u>600,888</u>
Intangible assets, net	8,671	10,117
Other non-current assets	9,080	7,112
Total Assets	<u>\$ 662,128</u>	<u>\$ 722,974</u>
LIABILITIES AND MEMBER'S CAPITAL		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 71,802	\$ 95,692
Accrued liabilities – related party	20,242	12,510
Short-term debt, net	48,651	44,770
Derivative liability	—	13,746
Other current liabilities	5,595	4,996
Total current liabilities	<u>146,290</u>	<u>171,714</u>
Long-term debt, net	114,589	158,456
Asset retirement obligations	98,339	93,010
Gas off-take liability	98,851	122,116
Other non-current liabilities	21,105	16,678
Total liabilities	<u>479,174</u>	<u>561,974</u>
Commitments and Contingencies (Note 14)		
Member's Capital:		
Member's capital	182,687	162,031
Other comprehensive income (loss)	267	(1,031)
Total member's capital	<u>182,954</u>	<u>161,000</u>
Total Liabilities and Member's Capital	<u>\$ 662,128</u>	<u>\$ 722,974</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2024 AND 2023
(dollars in thousands)

	<u>2024</u>	<u>2023</u> (Restated)
Revenues:		
Oil, gas and plant products	\$ 233,905	\$ 326,002
Midstream revenues	16,901	15,695
Gas off-take agreement amortization	23,265	25,332
Saltwater disposal revenues	386	337
Other revenues	2,805	802
Total revenues	<u>277,262</u>	<u>368,168</u>
Operating expenses:		
Lease operating expenses	84,327	108,691
Workover	10,471	15,535
Severance and ad valorem taxes	22,482	30,950
Gathering, transportation and marketing	53,236	75,913
General and administrative expenses	6,588	8,761
General and administrative expenses – related party	13,609	9,868
Accretion expense	5,688	5,320
Depreciation, depletion and amortization	79,323	61,243
(Gain) loss on sale/transfer of assets	(36)	35,797
Rig cancellation expense	—	2,634
Total operating expenses	<u>275,688</u>	<u>354,712</u>
Operating income	1,574	13,456
Other income (expense):		
Interest expense	(12,287)	(14,824)
Foreign currency gain	17	13
Amortization of BP deferred discount	—	(437)
Gain (loss) on derivatives, net	(4,536)	5,738
Total other expense	<u>(16,806)</u>	<u>(9,510)</u>
Net income (loss)	(15,232)	3,946
Other comprehensive income (loss):		
Income on foreign currency cash flow hedge	1,298	3,902
Comprehensive income (loss)	<u>\$ (13,934)</u>	<u>\$ 7,848</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

STATEMENTS OF CHANGES IN MEMBER'S CAPITAL
YEARS ENDED DECEMBER 31, 2024 AND 2023
(dollars in thousands)

	Member's Capital	Accumulated Other Comprehensive Income (Loss)	Total Capital (Deficit)
Balance – December 31, 2022 (Restated)	\$ 233,976	\$ (4,933)	\$ 229,043
Contributions	60	—	60
Distributions	(75,951)	—	(75,951)
Net income (restated)	3,946	—	3,946
Other comprehensive income	—	3,902	3,902
Balance – December 31, 2023 (Restated)	\$ 162,031	\$ (1,031)	\$ 161,000
Contributions	35,888	—	35,888
Net loss	(15,232)	—	(15,232)
Other comprehensive income	—	1,298	1,298
Balance – December 31, 2024	<u>\$ 182,687</u>	<u>\$ 267</u>	<u>\$ 182,954</u>

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

SIMCOE, LLC
(A Delaware Limited Liability Company)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 and 2023
(dollars in thousands)

	<u>2024</u>	<u>2023</u> (Restated)
Cash flows from operating activities:		
Net income (loss)	\$ (15,232)	\$ 3,946
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Accretion expense	5,688	5,320
Depreciation, depletion and amortization	77,877	59,797
Amortization of debt issuance costs, discount and premium	627	1,064
Cash paid for ARO settlement	—	461
(Gain) loss on asset retirement obligation	(359)	289
Amortization of BP gas offtake agreement	(23,265)	(25,332)
Amortization of Indian tribe ROW intangible asset	1,445	1,445
Loss on sale/transfer of assets	36	35,797
Unrealized gain on derivatives	(13,746)	(22,908)
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	(22,290)	(43,782)
Accrued liabilities – related party	7,732	8,694
Accounts receivable	3,959	74,321
Inventories	(3,493)	(13,211)
Prepays and other current assets	1,203	(4,005)
Other non-current assets	(1,968)	(140)
Other current liabilities	599	(18)
Other non-current liabilities	(1,347)	(890)
Net cash provided by operating activities	<u>17,466</u>	<u>80,848</u>
Cash flows from investing activities:		
Additions to oil and natural gas properties	(10,649)	(46,480)
Additions to other property, plant and equipment	(5,085)	(7,263)
Proceeds from sale/transfer of assets	—	43,106
Net cash used in investing activities	<u>(15,734)</u>	<u>(10,637)</u>
Cash flows from financing activities:		
Contributions – related parties	35,888	60
Distributions – related parties	—	(59,300)
Payment of long-term debt	(33,540)	(79,883)
Net cash provided by (used in) financing activities	<u>2,348</u>	<u>(139,123)</u>
Increase (decrease) in cash, cash equivalents and restricted cash	4,080	(68,912)
Cash, cash equivalents and restricted cash – beginning of period	<u>14,550</u>	<u>83,462</u>
Cash, cash equivalents and restricted cash – end of period	<u>\$ 18,630</u>	<u>\$ 14,550</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

1. ORGANIZATION AND BUSINESS

SIMCOE LLC (“SIMCOE” or the “Company”) was formed in the state of Delaware on October 21, 2019. SIMCOE is an oil and natural gas exploration and production company primarily involved in the acquisition, exploration, development, and operation of oil and natural gas leasehold interests.

The Company’s asset base is comprised primarily of approximately 563,000 net acres acquired on February 28, 2020, from an unrelated third party for \$640 million exclusive of usual and customary post close purchase price adjustments. There are approximately 9,400 wellbores of which 39% are operated with average working interest of 73% and overall, 42% in the entire field. The proved value is in San Juan, Rio Arriba and La Plata counties in the San Juan Basin in New Mexico and Colorado. The Company conducts all its activities in the United States of America.

SIMCOE has a management service agreement (“MSA”) with IKAV Energy Inc. (“IKAV”). Through the MSA, IKAV oversees the operations of SIMCOE and provides all general management services reasonably required in day-to-day activities of the Company. SIMCOE also has service agreement with IKAV General Partner S.a.r.l (“IKAV GP”). Through the agreement, IKAV GP provides consulting and various other services to SIMCOE.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern.

Natural gas prices are determined by many factors that are outside of the Company’s control. Historically, these prices have been volatile, and the Company expects them to remain volatile. During 2023, prices for natural gas declined precipitously, and prices remained low through 2024. Continued depression of prices could have a material adverse effect on SIMCOE’s liquidity. Continued volatility or further declines in prices could also have a significant adverse impact on the value and quantities of reserves.

As discussed in *NOTE 7 – Debt*, the Company’s long-term debt provides for certain covenants measured quarterly. As of March 31, 2024, the Company failed to meet the minimum EBITDAX to Scheduled Debt Service Ratio test, and based on current forward commodity prices, the Company projects that it would likely have a minimum EBITDAX to Scheduled Debt Service Ratio below the level prescribed in the credit agreements, and therefore SIMCOE would not be in compliance with this covenant during 2024. Furthermore, as of August 1, 2025, the Company has not made its scheduled Tranche 2 principal payments, which were due on April 22, 2024, due to a continuing working capital deficit. Noncompliance with its covenant and failure to make a scheduled principal payment are both events of default and could result in the acceleration of all the Company’s indebtedness under the credit agreements. If the lenders under the credit agreements were to accelerate the loans outstanding thereunder, the Company would not have sufficient liquidity to repay the amounts due under the credit agreements.

On July 31, 2024, the Company received a waiver from its lenders which waives the failure to make the Tranche 2 principal payment and to achieve the EBITDAX to Scheduled Debt Service Ratio covenant. This waiver is in effect until August 1, 2025. On July 31, 2025, the Company received an additional waiver from its lenders which waives the failure to make the Tranche 2 principal payment, delayed quarterly reporting to lenders, and waives the EBITDAX to Scheduled Debt Service Ratio covenant through October 31, 2026, or until an amendment is put in place.

During 2025, the Company’s Management has observed improvements in market conditions notably the increase in natural gas prices and the forecasted 2025 natural gas prices has positively impacted the Company’s revenue and financial liquidity.

Considering the waiver obtained in July 2025, along with improving market conditions and increase in forecasted natural gas prices, the Company’s management has concluded that the Company will meet its financial obligations as they come due twelve months from the financial statement issuance date.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company restated its previously issued financial statements as of and for the year ended December 31, 2023, in accordance with ASC Topic 250, *Accounting Changes and Error Corrections*. The Company has also restated impacted amounts within the notes to the consolidated financial statements, as applicable.

In connection with the preparation of the Company's financial statements as of and for the year ended December 31, 2024, the following errors related to previously issued financial statements were identified and corrected:

Description of Misstatement Adjustments

- (a) The Company recorded an adjustment to correct a misstatement in revenues related to the duplication of fuel gain/loss in 2023 and prior periods.
- (b) The Company recorded an adjustment to correct an overstatement in accounts receivable and revenue related to recording production volumes in excess of sales and corrections to gathering, transportation and marketing expense in 2023 and prior periods. Additionally, the Company recorded adjustments to correct misstatements related to prior period accruals for certain receivables deemed uncollectable.
- (c) The Company recorded an adjustment to correct an overstatement of depreciation, depletion and amortization relating to the production volume differences in 2023 and prior periods as described above in (b).
- (d) The Company recorded an adjustment to correct amounts payable related to tribal and federal royalties as well as to correct reversals of the prepaid royalties which were recorded in the wrong period and reclassified those reversals to 2023 and prior periods. Additionally, the Company recorded an adjustment to accrue interest for underpaid royalties.

Management prepared a quantitative and qualitative analysis of these errors, along with certain other immaterial accounting errors, and concluded the aggregate impact of all the errors are material to the Company's previously reported annual financial statements as of and for the year ended December 31, 2023. As a result, the accompanying financial statements as of and for the year ended December 31, 2023, and related notes hereto, have been restated to correct these errors.

Description of Restatement Tables

Below, we have presented a reconciliation from the previously reported to the restated values for our financial statements as of and for the year ended December 31, 2023. The values as previously reported were derived from our financial statements as of and for the year ended December 31, 2023, issued on August 3, 2024:

	December 31, 2023			
	As Previously Reported	Adjustment	Ref	Restated
Statement of Financial Position				
Assets:				
Cash	12,093	2,457	(d)	14,550
Accounts receivable	85,612	(32,308)	(a)(b)(d)	53,304
Prepays and other current assets ⁽¹⁾	32,475	(17,283)	(d)	15,192
Total current assets	151,991	(47,134)		104,857
Less: Accumulated depreciation, depletion and amortization	(213,616)	4,108	(c)	(209,508)
Total property, plant & equipment, net	596,780	4,108		600,888
Total assets	766,000	(43,026)		722,974
Liabilities:				
Accounts payable and accrued liabilities	83,075	12,617	(b)(d)	95,692
Total current liabilities	159,097	12,617		171,714
Total liabilities	549,357	12,617		561,974

	December 31, 2023			
	As Previously Reported	Adjustment	Ref	Restated
Member's Capital:				
Member's capital	217,674	(55,643)	(a)(b)(c)(d)	162,031
Total member's capital ⁽²⁾	216,643	(55,643)		161,000
Total Liabilities and Member's Capital	766,000	(43,026)		722,974
Statement of Operations and Comprehensive Income (Loss)				
Oil, gas and plant products	334,959	(8,957)	(a)(b)(d)	326,002
Total revenue	377,125	(8,957)		368,168
Severance and Ad Valorem taxes	28,905	2,045	(d)	30,950
Gathering, transportation and marketing	74,530	1,383	(b)	75,913
Depreciation, depletion and amortization	62,299	(1,056)	(c)	61,243
Total operating expenses	352,340	2,372		354,712
Operating income (loss)	24,785	(11,329)		13,456
Net income (loss)	15,275	(11,329)		3,946
Comprehensive income (loss)	19,177	(11,329)		7,848
Statement of Changes in Member's Capital				
Balance on December 31, 2022	273,357	(44,314)		229,043
Net income	15,275	(11,329)		3,946
Balance on December 31, 2023	216,643	(55,643)		161,000
Statement of Cash Flows				
Net income (loss)	15,275	(11,329)		3,946
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation, depletion and amortization	60,853	(1,056)	(c)	59,797
Accounts payable and accrued liabilities	(40,122)	(3,660)	(b)(d)	(43,782)
Accounts receivable	64,251	10,070	(a)(b)	74,321
Prepays and other current assets	(12,437)	8,432	(d)	(4,005)
Net cash provided by operating activities	78,391	2,457		80,848
Increase (decrease) in cash, cash equivalents and restricted cash	(71,369)	2,457		(68,912)
Cash, cash equivalents and restricted cash – end of period	12,093	2,457		14,550

- (1) Effective in 2024, the Company changed the presentation of “Prepays and other current assets” in its Statements of Financial Position to present inventories as a separate financial statement line item (“FSLI”) labeled “Inventories”. The change in presentation in FSLI has been applied retrospectively and does not affect the total amount previously reported.
- (2) Effective in 2024, the Company changed the presentation of “Member's capital” and “Accumulated income” in its Statements of Financial Position to combine the FSLIs into one FSLI labeled “Member's capital”. The change in presentation in FSLI has been applied retrospectively and does not affect the member's capital and accumulated income amounts previously reported.

The description of each error is described above. The impact of each error for the corresponding period in the above table is described below:

- (a) The correction of these misstatements from 2022 and prior periods resulted in an increase to beginning 2023 member's capital of \$1.9 million and a decrease to revenue of \$1.0 million for the year ended December 31, 2023, resulting in a net increase to accounts receivable of \$0.9 million as of December 31, 2023.
- (b) The correction of these misstatements from 2022 and prior periods resulted in a decrease to beginning 2023 member's capital of \$48.8 million. Revenues decreased by \$5.7 million and gathering, transportation and marketing expense increased \$1.4 million for the year ended December 31, 2023. The correction of these misstatements from 2023 and prior periods resulted in an overall decrease to accounts receivable of \$67.6 million, accounts payable of \$11.7 million, and member's capital of \$55.9 million as of December 31, 2023.
- (c) The correction of the misstatement as described above in (b) resulted in a decrease to accumulated depreciation, depletion and amortization of \$4.1 million as of December 31, 2023, including an increase to the beginning 2023 member's capital of \$3.1 million, and a decrease to depletion and amortization expense of \$1.0 million for the year ended December 31, 2023.

- (d) The correction of these misstatements relating to royalties resulted in an increase to beginning 2023 member's capital of \$0.9 million for 2022 and prior periods, a decrease to revenue of \$2.2 million for the year ended December 31, 2023, and increases to accounts receivable of \$34.4 million and accounts payable of \$35.8 million as of December 31, 2023. The correction to accrue unpaid interest relating to the underpayment of royalties resulted in a decrease to the beginning 2023 member's capital of \$1.4 million, an increase to severance and ad valorem tax expense of \$2.0 million for the year ended December 31, 2023, and an increase to accounts payable of \$3.4 million. The correction to reflect the reversals of these prepaids to the correct periods resulted in a decrease to prepaids and other current assets of \$17.3 million and a decrease in accounts payable and accrued liabilities of \$17.3 million as of December 31, 2023. Lastly, the correction to remove a duplicated cash reconciling item resulted in an increase to cash of \$2.5 million and a corresponding increase in accounts payable.

The restatement also affected the disclosures in the following notes: *NOTE 3 – Significant Accounting Policies*, *NOTE 4 – Property, Plant and Equipment*, *NOTE 11 – Accounts Receivable* and *NOTE 12 – Accounts Payable and Accrued Liabilities* to the financial statements, which have been updated to reflect the corrected information.

3. SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties — The Company's revenue, profitability and future growth are substantially dependent upon the oil and natural gas sector, which is dependent upon numerous factors beyond its control, such as economic and regulatory developments and competition from other energy sources. The energy markets have historically been volatile, and there can be no assurance that unhedged commodity prices for oil, natural gas liquids ("NGL") and natural gas ("commodities") will not be subject to wide fluctuations in the future.

Basis of Presentation — The financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles ("GAAP"). In the Notes to Financial Statements, all dollar amounts in tabulations are in thousands of dollars, unless otherwise indicated.

Use of Estimates — The preparation of the financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur because of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Estimates regarding the financial statements include proved oil, NGL and gas reserve volumes and the related present value of estimated future net cash flows used in the impairment test applied to capitalized oil and natural gas properties, asset retirement obligations, valuation of acquisition and derivative assets and liabilities, depreciation, depletion, and amortization, accrued liabilities, revenue, and related receivables.

Cash and Cash Equivalents — The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. Any cash or cash equivalent that is restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash in the financial statements. As of December 31, 2024 and 2023, the Company held no restricted cash.

Accounts Receivable — The Company's accounts receivable balance primarily consists of net receivables from an unrelated third party during the transaction settlement period, operators' sales of commodities to their customers, and from joint interest owners on properties the Company operates. Accounts receivable are recorded at contractual amounts and do not bear interest.

The Company's revenues for the years ended December 31, 2024 and 2023, were from two purchasers which were evaluated for credit worthiness.

For the receivables from joint interest owners, the Company typically can withhold future revenue disbursements to recover nonpayment of joint interest billings.

Accordingly, the Company's accounts receivable is generally collected.

The Company establishes provisions for losses on accounts receivable if determined that it will not collect all or part of an outstanding receivable balance. The Company regularly reviews collectability and establishes or adjusts the allowance as necessary using the specific identification method. As of December 31, 2024, the Company reviewed its outstanding balances and made the determination that \$1.0 million should be recognized in the allowance for doubtful accounts. As of December 31, 2023, we reviewed our outstanding balances and made the determination that \$0.9 million should be recognized in the allowance of doubtful accounts, and the full amount was written off at the end of 2023.

As a result of adopting ASU 2016-13 (defined below in the *Recently Issued Accounting Pronouncements* section of this note), the Company establishes allowances for credit losses equal to the estimable portions of accounts receivable for which failure to collect is expected to occur. The Company estimates uncollectible amounts based on the length of time that the accounts receivables have been outstanding, historical collection experience, current conditions, and reasonable and supportable forecast that affect the collectability of the reported amount. The guidance did not have a significant impact on the financial statements. The Company reviewed its outstanding balances at year end and determined that \$1.0 million and \$0.9 million in allowance for doubtful accounts related to its accounts receivable during the years ended December 31, 2024 and 2023, was reasonable. The Company does not have any off-balance sheet credit exposure related to its customers.

Inventories — Inventories are stated at the lower of cost or net realizable value. Inventories are assessed periodically for obsolescence. Valuation allowances for inventories are recorded as reductions to the carrying values of inventories included in the Company's Condensed Statements of Financial Position and as charges in other expense in the Condensed Statements of Operations and Comprehensive Income (Loss).

As of December 31, 2024 and 2023, the components of inventories are as follows:

	<u>2024</u>	<u>2023</u>
Pipe	\$ 14,715	\$ 15,696
Materials and other	10,590	6,115
Total inventories	<u>\$ 25,305</u>	<u>\$ 21,811</u>

Oil and Natural Gas Properties — The Company follows the successful efforts method of accounting for its oil and natural gas properties. Under this method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of certain non-producing leasehold costs are expensed as incurred. The costs of all development wells and related equipment used in the production of oil and natural gas are capitalized.

Sales proceeds are netted against the carrying value of oil and gas properties when a property is sold in the normal course of business. In the event of one time transactions, such as the significant disposition of an amortizable base that significantly affects the unit-of- production amortization rate, gains or losses will be recognized as part of the transaction.

The capitalized costs of producing oil and natural gas properties (including plugging, abandonment, and site restoration costs) are charged to expense as depreciation, depletion, and amortization using the units-of-production method based on the ratio of current production to estimated total net proved oil and natural gas reserves as estimated by independent petroleum engineers. Proved developed reserves are used in computing unit rates for drilling and development costs and total proved reserves are used for depletion rates of acquisition, leasehold, and pipeline costs. Depreciation, depletion and amortization for the years ended December 31, 2024 and 2023, were \$75.5 million and \$57.7 million (restated), respectively.

Impairment of Oil and Natural Gas Properties — The Company reviews its proved oil and natural gas properties for impairment whenever events or changes in circumstances indicate that the carrying amounts of such properties may not be recoverable. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. For the year ended December 31, 2024, Management identified a triggering event related to the steep decline in the spot price of natural gas during 2024. At year end, the Company performed a two-step impairment analysis. The carrying value of all the Company's property, plant and equipment assets were compared to the total undiscounted cash flows as taken from the future net revenues in the third party proved developed producing reserves report. The carrying value was not in excess of the undiscounted cash flows, thus there was no impairment of proved oil and natural gas properties for the year ended December 31, 2024.

Interest Cost Capitalization — Interest costs related to financing exploration activities in progress are capitalized as a cost of such activity until the projects are evaluated or until the projects are substantially complete and ready for their intended use if the projects are determined to be commercially successful.

Other Property and Equipment — Other property and equipment consist of vehicles, computer hardware, and software. It is stated at cost less accumulated depreciation, which is computed using the straight-line method based on the estimated economic life of the respective asset. The Company expenses costs for maintenance and repairs in the period incurred. Significant improvements and betterments are capitalized if they extend the useful life of the asset. Gains or losses on the sale or transfer of other property and equipment are included in other income (expense) in the period in which the transaction occurs. When the Company retires other property and equipment, it charges accumulated depreciation for the original cost, plus the cost to remove, sale or dispose, less its salvage value. For the years ended December 31, 2024 and 2023, the Company incurred \$2.4 million and \$2.1 million in depreciation expense, respectively.

Asset Retirement Obligations — Asset retirement obligations (“ARO”) represent the future abandonment costs of tangible assets, such as wells, service assets and other facilities. The Company records an ARO and capitalizes the asset retirement cost in oil and natural gas properties in the period in which the retirement obligation is incurred based upon the estimated fair value of the obligation to perform site reclamation, dismantle facilities, or plug and abandon wells. After recording these amounts, the ARO is accreted to its future estimated value using an assumed cost of funds and the additional capitalized costs are depreciated on a unit-of-production basis. Revisions in estimated liabilities can result from changes in retirement costs or the estimated timing of settling asset retirement obligations. If the ARO is settled for an amount other than the recorded amount, a gain or loss is recognized.

The Company determines the ARO by calculating the present value of estimated cash flows related to the liability. Estimating the ARO requires management to make estimates and judgments regarding timing and existence of a liability, as well as what constitutes adequate restoration. Inherent in the fair value calculation are numerous assumptions and judgments including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset. For the years ended December 31, 2024 and 2023, the liability to the Company was \$98.3 million and \$93.0 million, respectively. See *NOTE 8 – Asset Retirement Obligation* for additional discussion.

Deferred Financing Costs — Debt financing cost consists of costs directly associated with obtaining the debt financing. These costs are capitalized and are presented as a reduction of indebtedness on the Statements of Financial Position. The capitalized costs are amortized over the life of the debt. Amortization expense for debt financing costs for the years ended December 31, 2024 and 2023, were \$0.8 million and \$0.8 million, respectively. See *NOTE 7 – Debt* for additional discussion.

Environmental Liabilities — The Company records environmental liabilities related to future costs on an undiscounted basis when environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefit, are expensed. Estimates are based on current available facts, existing technology and presently enacted laws and regulations considering the likely effects of inflation and estimated legal costs. These estimates are subject to revision in future periods based on actual costs or new circumstances. The Company evaluates recoveries from insurance coverage separately from liability and, when recovery is assured, it records an asset separately from the associated liability in the financial statements. The Company had no environmental liabilities as of December 31, 2024 and 2023.

Revenue Recognition — The Company derives revenue largely from the sale of commodities. The Company enters into contracts with unrelated third parties to sell its production. Revenue on these contracts is recognized when the Company’s performance obligations under these contracts are satisfied, which generally occurs with the transfer of control of the commodities to the purchaser. Control is generally considered transferred when the following criteria are met: (i) transfer of physical custody, (ii) transfer of title, (iii) transfer of risk of loss, and (iv) relinquishment of any repurchase rights or other similar rights. Given the nature of the products sold, revenue is recognized at a point in time based on the amount of consideration the Company expects to receive in accordance with the price specified under the contract. Consideration under the commodities marketing contracts is typically received from the purchaser in the month following production. As of December 31, 2024 and 2023, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers were \$31.0 million and \$22.3 million (restated), respectively. Variances between estimated sales and actual amounts received are insignificant and are recorded in the month payment is received.

The Company owns pipelines and gathering and processing facilities which largely support the Company's oil and gas well production. Any third-party gas transported or processed is recorded as Midstream revenue when gas and NGLs have been delivered to a custody transfer point or at the tailgate of processing facility. The Company also generates revenue through saltwater disposal services. The Company receives funds from outside interests that offset the costs associated with their working interests.

The Company applies the sales method of accounting for natural gas revenue. Under this method, revenues are recognized based on the actual volume of natural gas sold to purchasers. Natural gas production operations may include joint owners who take more or less than the production volumes entitled to them on certain properties. Production volume is monitored to minimize these natural gas imbalances. Under this method, a natural gas imbalance liability is recorded if the Company's excess takes of natural gas exceeds its estimated remaining proved developed reserves for these properties at the actual price realized upon the gas sale. A receivable is recognized only to the extent an imbalance cannot be recouped from the reserves in the underlying properties. The Company's aggregate imbalance positions as of December 31, 2024 and 2023, were considered immaterial.

The Company's oil marketing contracts transfer physical custody and title at or near the wellhead, which is generally when the control of the oil has been transferred to the purchaser. The contracted sales price is variable and determined based on the market index prices, adjusted for quality, transportation, marketing fee and other market-reflective differentials. Revenue is recognized when the control transfers to the purchaser at the delivery point based on the net price received from the purchaser. Any downstream transportation costs incurred by purchasers are reflected as a net reduction in oil sales revenue.

Under the Company's gas processing contracts, liquids are delivered to a midstream processing entity. After processing, residue gas and NGLs are sold to unrelated third parties at the tailgate of the plant by the Company at which point the custody transfers to the purchaser. The contracted sales price is variable and determined based on the market index prices, and adjusted for transportation, fractionation, and other market-reflective differentials. As control transfers downstream of those costs, revenue is recognized on a gross basis and the related costs are classified in gathering, processing and transportation on the Company's Statements of Operations.

Through acquisition of oil and gas assets, the Company entered into a gas purchase agreement ("off-take") with an unrelated third party (credit rating of A- by S&P and A2 by Moody's) which was valued at \$206.1 million at acquisition and is recorded under other long-term liabilities in the Statements of Financial Position. The value of the off-take is amortized through the term of the agreement. The balance of the gas purchase agreement liability as of December 31, 2024 and 2023, were \$98.9 million and \$122.1 million, respectively. For the years ended December 31, 2024 and 2023, \$23.3 million and \$25.3 million was amortized in the Statements of Operations. See significant accounting policy for *Intangible Assets* below for additional discussion.

Under the Company's current contracts with customers, the Company invoices customers once the performance obligations have been satisfied. Accordingly, the Company's sales contracts do not give rise to contract assets or liabilities.

Risk Management — The Company periodically enters into derivative contracts to manage its exposure to commodity price and foreign currency exchange rate changes. These derivative contracts may take the form of forward contracts, swaps, collars, or other options. The Company does not use derivative contracts for speculative purposes and has not designated any commodity derivative instruments as hedging instruments for accounting purposes. As such, unrealized gains and losses from changes in the valuation of our unsettled derivative contracts, as well as realized gains and losses on the settlement of derivative contracts, are reported in 'Gain (loss) on derivatives, net' in our Statements of Operations.

Such derivative instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. Derivatives are carried as assets when the fair value is positive or as liabilities when the fair value is negative and are classified as current and long term based on the delivery periods of the financial instruments. If the right of offset exists and certain other criteria are met, derivative assets and liabilities with the same counterparty are netted on the Statements of Financial Position.

See *NOTE 5 – Commodity Derivative Instruments* and *NOTE 6 – Fair Value Measurements* for additional discussion.

Income Taxes — The Company is not a taxpaying entity for federal income tax purposes, and it does not recognize any expense for such taxes, accordingly. The Company does make tax distributions to its tax paying parent, VEPU Inc ("VEPU"). See *NOTE 10 – Related Party Transactions* for additional discussion.

Remeasurement for Debt Held in Foreign Currency — Monetary assets and liabilities held in a currency other than the functional currency are remeasured to the functional currency equivalent at the balance sheet date exchange rate. The effects of remeasurement are reported as foreign currency gains or losses. The Company’s functional currency is USD but has (“Tranche 1”) debt denominated in EUR. The Company remeasures this debt using the current exchange rate at year end. Exchange gain/loss in the Statements of Operations further reclassifies to Other Comprehensive Income (“OCI”) in equity section of the Statements of Financial Position as part of the cash flow hedge entries related to (“Tranche 1”) EUR debt.

Intangible Assets — The Company recorded the new “rights-of-way” received with Southern Ute Indian Tribe as an intangible asset at its fair value of \$14.5 million in 2021. The intangible asset is amortized one tenth on a straight-line basis over the term of the agreement. For the years ended December 31, 2024 and 2023, the amortization expenses were \$1.4 million and \$1.4 million, respectively. As of December 31, 2024 and 2023, the unamortized balances of intangible assets were \$8.7 million and \$10.1 million, respectively. See *NOTE 16 – Intangible asset from right-of-way agreement with Southern Ute Indian Tribe* for additional discussion.

Recently Issued Accounting Pronouncements — In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”). ASU 2020-04 provides optional guidance, for a limited period of time, to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships and other transactions that reference LIBOR, or another reference rate, expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform - Scope, which clarified the scope and application of the original guidance. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848, which extends the sunset date for relief under ASU 2020-04 from December 31, 2022 to December 31, 2024. The Company did not experience a material impact on its financial statements as a result of applying the guidance provided by ASU 2020-04.

Subsequent Events — The Company evaluated subsequent events through August 1, 2025, the date that the financial statements were issued.

On February 3, 2025, the Company received a \$7.0 million contribution from its parent company VEPU, as an equity injection.

On July 10, 2025, VEPU entered into a definitive agreement to sell SIMCOE’s San Juan assets to Mach Natural Resources (“Mach”). The effective date of the transaction is April 1, 2025, and is expected to close late in the third quarter of 2025. Mach announced the acquisition in combination with other San Juan assets for a total deal value of approximately \$787 million of which SIMCOE represents not less than 65%. Final transaction value is subject to a number of purchase price adjustments which will be calculated at close.

4. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2024 and 2023, the Company’s property, plant and equipment consisted of the following:

	2024	2023 (Restated)
Proved properties	\$ 811,600	\$ 802,586
Accumulated depreciation, depletion and amortization	(283,987)	(208,491)
Oil and gas properties, net	<u>527,613</u>	<u>594,095</u>
Other property and equipment	12,895	7,810
Accumulated depreciation and amortization	(3,399)	(1,017)
Other property and equipment, net	<u>9,496</u>	<u>6,793</u>
Total property, plant and equipment, net	<u>\$ 537,109</u>	<u>\$ 600,888</u>

In early 2021, the Company agreed in principle with SIMLOG LLC (“SIMLOG”) to sell 97.5% of its undivided interest in certain properties for \$81.6 million, and an agreement from SIMLOG to provide \$100 million of capital towards the development of the properties (the “Transaction”). The Transaction closed on July 1, 2023, with an effective date of January 1, 2021 (the “Effective Date”). At close, SIMLOG assigned its interest in the properties to its wholly owned subsidiary SJ Investment. The company will retain a 2.5% working interest in the properties, will operate the properties, and will provide gas and water gathering services to SJ Investments.

After adjustments for expenses incurred and revenue received from the Effective Date, and customary post-closing adjustments, the Company recorded a receivable for the net sale price of \$45.7 million. At both December 31, 2024 and 2023, the remaining receivable was \$2.7 million.

5. COMMODITY DERIVATIVE INSTRUMENTS

The Company's business activities expose it to risks associated with changes in the market price of oil, natural gas, and natural gas liquids. As such, future earnings are subject to change due to changes in the market price of oil and natural gas. The Company uses derivatives to reduce its risk of changes in the prices of oil and natural gas.

The Company uses commodity derivative instruments known as fixed price swaps to realize a known price for a specific volume of production. All transactions are settled in cash with one party paying the other for the net difference in the agreed upon published third party index price and the swap fixed price, multiplied by the contract volume.

As of December 31, 2024, the Company had no outstanding commodity contracts on its balance sheet. As of December 31, 2023, the Company's outstanding positions generated a current liability of \$13.7 million.

The amount of realized and unrealized gain (loss) for derivative instruments not designated as hedges for accounting purposes recognized in 'Gain (loss) on derivatives, net' in the Statements of Operations was as follows for the years ended December 31, 2024, and 2023:

	2024	2023
Realized loss on plant products positions	\$ (18,282)	\$ (17,170)
Unrealized gain on plant products positions	13,746	22,908
Total gain (loss) on derivatives	<u>\$ (4,536)</u>	<u>\$ 5,738</u>

The Company has entered into a master netting arrangement with its counterparty. The amounts above are presented on a net basis in its Statements of Financial Position when such amounts are with the same counterparty. In addition, the Company has recorded accounts payable and receivable balances related to its settled derivatives that are subject to its master netting arrangements. These amounts are not included in the above table; however, under its master netting agreements, the Company has the right to offset these positions against its forward exposure related to outstanding derivatives.

Credit Risk

All the Company's derivative transactions have been carried out in the over-the-counter market. The use of derivative instruments involves the risk that either counterparty may be unable to meet the financial terms of the transactions. The Company monitors the creditworthiness of each of its counterparties and assesses the possibility of whether each counterparty to the derivative contract would default by failing to make any contractually required payments as scheduled in the derivative instrument in determining the fair value. The derivative transactions are placed with major financial institutions with an external investment grade rating and therefore presents minimal credit risks to the Company.

6. FAIR VALUE MEASUREMENT

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values determined based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 refers to fair values determined based on our own assumptions used to measure assets and liabilities at fair value.

As of December 31, 2024, there were no outstanding derivatives held by the Company. The following table presents the fair value hierarchy table for the Company's assets and liabilities that are required to be measured at fair value on a recurring basis as of December 31, 2023:

	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
For the year ended December 31, 2023:				
Liabilities:				
Plant products derivatives	\$ 13,746	\$ —	\$ 13,746	\$ —

The Company's derivatives consist of over-the-counter ("OTC") contracts which are not traded on a public exchange. As the fair value of these derivatives is based on a third-party industry-standard pricing model that uses contract terms, prices, assumption, and inputs that are substantially observable in active markets throughout the full term of the instruments including forward oil and gas price curves, discount rates and volatility factors, the Company has categorized these derivatives as Level 2. There were no changes in valuation techniques or related inputs in 2024. Furthermore, fair values are adjusted to reflect the credit risk inherent in the transactions, which may include amounts to reflect counterparty credit quality and/or the effect of our own creditworthiness. These assumed credit risk adjustments are based on published credit ratings, public bond yield spreads and credit default swap spreads.

Nonrecurring basis

The fair value measurement of assets acquired, and liabilities assumed are measured on a nonrecurring basis on the acquisition date using an income valuation technique based on inputs that are not observable in the market and therefore represent Level 3 inputs. Significant inputs to the valuation of acquired oil and gas properties include estimates of: (i) reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity process, including price differentials; (v) future cash flows; and (vi) a market participant-based weighted average cost of capital rate. These inputs require significant judgments and estimates by the Company's management at the time of the valuation.

The initial measurement of ARO at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property, plant, and equipment. Significant Level 3 inputs used in the calculation of ARO include plugging costs and reserves lives.

Inventory, which consists of materials held for use in the development and production of oil and natural gas are carried at lower of cost and net realizable value with adjustments made as appropriate to recognize any reduction in value.

7. DEBT

On February 28, 2020, the Company entered into two long-term debt agreements ("Long-Term Debt") in an aggregate principal amount of €237.6 million EUR denominated ("Tranche 1") and \$130 million USD denominated ("Tranche 2"), bearing interest at 3.16% and 8.54%, respectively. Tranche 1 was issued at a price of 100.66% of par, resulting in a premium of \$1.7 million. Fees of \$7.9 million were capitalized as deferred financing costs. The premium and fees are amortized over the term of the long-term debt on a straight-line basis.

The most restrictive covenant associated with the Tranche 1 and Tranche 2 credit agreements include a minimum EBITDAX to Scheduled Debt Service Ratio test of 1.50:1.00.

As of March 31, 2024, the Company failed to meet the minimum EBITDAX to Scheduled Debt Service Ratio test, and based on current forward commodity prices, the Company projects that it would likely have a minimum EBITDAX to Scheduled Debt Service Ratio below the level prescribed in the credit agreements. Therefore, SIMCOE would not be in compliance with this covenant during 2024. Furthermore, the Company did not make its scheduled Tranche 2 principal payment on April 20, 2024, due to a working capital deficit. Noncompliance with its covenant and failure to make a scheduled principal payment are both events of default and could result in the acceleration of all the Company's debt amortization schedule under the credit agreements. If the lenders under the credit agreements were to accelerate the loans outstanding thereunder, the Company would not have sufficient liquidity to repay the amounts due under the credit agreements. As of the date of issuance, the lenders have waived the defaults through October 31, 2026.

As of December 31, 2024, the Company had an outstanding balance of €95.8 million (\$99.1 million) and \$67.3 million on Tranche 1 and Tranche 2, respectively, of which €23.6 million (\$24.5 million) on Tranche 1 and \$24.2 million on Tranche 2 have been presented as current liability in the Statement of Financial Position. As of December 31, 2023, the Company had an outstanding balance of €122.9 million (\$131.7 million) and \$71.2 million on Tranche 1 and Tranche 2, respectively, of which €27.1 million (\$29.9 million) on Tranche 1 and \$14.8 million on Tranche 2 have been presented as current liability in the statement of financial position. As of December 31, 2024 and 2023, the deferred financing costs had balances of \$4.1 million and \$4.9 million, respectively. The unamortized balances of premium were \$0.9 million and \$1.0 million as of December 31, 2024 and 2023, respectively.

Principal payments on Long-Term Debt for five years and thereafter from December 31, 2024, are as follows:

	Tranche 1			Tranche 2	
	Payment In Euros	Payment - Fixed FX Rate	FX Spot Rate as of December 31, 2024	Debt Payment	
Year:					
2025	€ 23,644	\$ 26,520	\$ 24,471	\$ 24,180	
2026	20,361	23,400	21,074	11,700	
2027	17,643	20,800	18,261	10,400	
2028	15,041	18,200	15,567	9,100	
2029	12,963	16,120	13,417	8,060	
Thereafter	6,133	7,800	6,348	3,900	
Total outstanding payments	€ 95,785	\$ 112,840	\$ 99,138	\$ 67,340	

Cash Flow Hedge

The Company is required to make quarterly payments of an aggregate principal amount beginning July 20, 2020, as defined in the debt service payment schedules of the respective debt agreements. To avoid the exposure of foreign exchange (“FX”) fluctuations on Tranche 1, the Company entered into a foreign exchange hedge agreement through which the exchange rate of EUR was fixed for future payments which includes both interest and principal. The foreign exchange hedge agreement qualifies for hedge accounting and has been designated as a cash flow hedge, for which the effective portion of the loss is reported as a component of OCI and reclassified into earnings during which the hedged transactions affect earnings. The Company’s cash flow hedge position as of December 31, 2024, is as follows:

	Current	Long-Term	Total
Outstanding Tranche 1 Debt in EUR	€ 23,644	€ 72,141	€ 95,785
Outstanding Tranche 1 Debt in Dollars (per fixed FX rate)	\$ 26,520	\$ 86,320	\$ 112,840
Fair value of Tranche 1 Debt	24,471	74,667	99,138
Difference in fair value and fixed FX rate	\$ (2,049)	\$ (11,653)	\$ (13,702)

	December 31,		Location on Financial Statements
	2024	2023	
Fair value of FX Hedge	\$ 3,818	\$ 1,815	Other current liabilities – Statements of Financial Position
Fair value of FX Hedge	9,616	5,845	Other non-current liabilities – Statements of Financial Position
Gain (loss) recognized in OCI	\$ 7,072	\$ (4,044)	
Reclass OCI to FX gain (loss)	(5,774)	7,946	
Income on FX cash flow hedge	\$ 1,298	\$ 3,902	Statements of Operations and Comprehensive Income (Loss) and OCI – Statements of Financial Position

8. ASSET RETIREMENT OBLIGATIONS

Changes in the ARO liability for 2024 and 2023 are as follows:

	2024	2023
ARO liability - January 1	\$ 93,010	\$ 87,948
Additions	—	903
Revisions	—	(898)
Accretion expense	5,688	5,319
Retirements	(359)	(262)
ARO liability - December 31	\$ 98,339	\$ 93,010

9. MEMBER'S CAPITAL

During the year ended December 31, 2022, the Company paid \$16.7 million toward expenses on behalf of its parent company VEPU, \$1.4 million of that amount was a payment towards the extinguishment of outstanding loans held by VEPU and \$15.3 million was towards prior year tax liabilities incurred. During the year ended December 31, 2023, it was determined that this money would not be repaid by VEPU and as such, this amount was reclassified and recorded as a non-cash distribution to VEPU. As of December 31, 2023, the Company distributed \$59.3 million.

During the year ended December 31, 2024, the Company did not make a distribution.

During the year ended December 31, 2024, the Company recorded contributions of \$35.9 million from VEPU. See *NOTE 10 – Related Party Transactions* for additional discussion.

10. RELATED PARTY TRANSACTIONS

SIMCOE has an MSA with IKAV through which IKAV oversees the day-to-day operations of SIMCOE and provides all general management services to the Company. This includes operating the assets as prescribed under the joint operating agreements, negotiating vendor, revenue and hedging contracts, keeping accounting records, and adherence to legal and regulatory compliance matters.

Pursuant to the MSA, IKAV submits an invoice relevant for each calendar quarter to the Company. The invoice is comprised of two charges: (1) MSA fee and (2) operating and general and administrative expenses (“O&A expenses”) allocation. For the year ended December 31, 2024, the Company did not incur any MSA fees as IKAV provided a waiver to SIMCOE for the MSA fees for 2024. For the year ended December 31, 2023, the Company incurred \$4.4 million in MSA fees. For the years ended December 31, 2024 and 2023, the Company incurred \$27.2 million and \$12.7 million in O&A Expenses, respectively. The Company was able to recover \$14.9 million and \$7.3 million of O&A expenses from our joint interest partners for the years ended December 31, 2024 and 2023, respectively, due to COPAS rules which resulted in O&A expenses on a net basis of \$12.3 million and \$5.4 million for the years ended December 31, 2024 and 2023, respectively. This allocation is calculated on the basis of gross revenue attributable to hydrocarbon production between SIMCOE and the other party to the agreement, SJ Investment. The agreement defines O&A expenses to include labor costs, costs and expenses for professional services, licensing and permitting fees and expenses, travel costs, capital expenditures, occupancy costs, including telephone, rent, office equipment and insurance costs, and other similar costs and expenses generally considered general and administrative expenses. As of December 31, 2024 and 2023, the Company owed IKAV \$20.2 million and \$12.5 million, respectively.

SIMCOE is a wholly owned subsidiary of VEPU Inc, which is a taxable entity. The Company paid in 2022 for the current estimated and prior year taxes on behalf of VEPU in an amount of \$15.3 million and paid off a loan on behalf of VEPU in the amount of \$1.4 million, for a total of \$16.7 million as of December 31, 2022 and as recorded in the Statements of Financial Position to ‘Accrued receivable – related party’. As of December 31, 2023, the Company determined the amounts would not be repaid within the next year, so they are classified as equity distributions and thus cleared the receivable balances.

In 2024, SIMCOE’s parent Company, VEPU made cash contributions to SIMCOE totaling \$35.9 million.

11. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2024 and 2023, consist of the following:

	2024	2023
		(Restated)
Accrued revenue	\$ 31,021	\$ 22,253
Joint interest billings	15,542	24,941
Midstream	2,276	3,385
Other	506	2,725
Total accounts receivable	<u>\$ 49,345</u>	<u>\$ 53,304</u>

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2024 and 2023, consist of the following:

	2024	2023
		(Restated)
Accounts payable	\$ 10,418	\$ 13,859
Accrued liabilities:		
Revenue payable and suspense	22,210	31,519
Severance and ad valorem tax	18,616	26,124
Lease operating expense	10,194	12,140
Accrued capital expenditures	2,770	4,370
Interest	2,037	2,581
Workover expense	1,143	1,638
General and administrative expense	4,414	3,461
Total accrued liabilities	<u>\$ 61,384</u>	<u>\$ 81,833</u>
Total accounts payable and accrued liabilities	<u>\$ 71,802</u>	<u>\$ 95,692</u>

13. FOREIGN CURRENCY EXCHANGE GAIN/LOSS

The Company's functional currency is USD but has ("Tranche 1") debt denominated in EUR outstanding €95.8 million and €122.9 million as of December 31, 2024 and 2023, respectively. As of December 31, 2024, the Company remeasured this debt using the current exchange rate of 1.035 and recorded a foreign currency exchange gain of \$7.1 million. As of December 31, 2023, the Company remeasured this debt using the current exchange rate of 1.1056 and recorded a foreign currency exchange loss of \$4.0 million. This exchange loss/gain was offset with the cash flow hedge the Company had in place related to "Tranche 1" debt. See *NOTE 7 – Debt* for additional discussion.

14. COMMITMENTS AND CONTINGENCIES

The Company leases certain real property and equipment under various leases. The Company’s service contracts and future non-cancelable commitments under certain leases as of December 31, 2024, are as follows:

	2024	
Year:		
2025	\$	327
2026		337
2027		347
2028		278
2029		918
Total lease commitments	\$	2,207

Our operating lease expenses for 2024 and 2023 were \$0.3 million and \$0.3 million, respectively. As is common within the industry, the Company has entered into various master service agreements related to the production from proved oil and gas properties. It is management’s belief that such commitments will be met without a material adverse effect on the financial position, results of operations or cash flows of the Company.

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of business. The Company has one open case with the Office of Natural Resources Revenue (“ONRR”). Please see *NOTE 18 – ONRR Penalty and Interest* for additional discussion. Outside this case, the Company is currently unaware of any other proceedings that, in the opinion of management, will individually or in the aggregate have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

15. LEASES

As of December 31, 2024 and 2023, the Company has leases that qualify under ASC 842. The majority of these leases are for rentals of towers which the Company uses to place communication equipment on for operational purposes. All of these leases have been considered operating leases. The Company does not have any variable leases. At inception of the lease, the operating lease Right of Use (“ROU”) assets and liabilities are calculated based on the present value of the future lease payments over the term of the lease. In addition to the present value of lease payments, the operating lease ROU asset would also include any lease payments made to the lessor prior to lease commencement less any lease incentives and initial direct costs incurred, if any.

The Company makes certain assumptions and judgments when evaluating a contract that meets the definition of a lease under Topic 842. The Company determines lease term by considering any option available to extend or to terminate early the lease which it believes is reasonably certain to be exercised. The Company elected to use a risk-free rate as the discount rate by class of underlying assets as its leases do not provide an implicit rate.

The components of lease costs, outstanding ROU asset and liabilities, and supplemental information for the years ended and as of December 31, 2024 and 2023, are below:

	2024	2023
Operating lease costs	\$ 276	\$ 263
Assets:		
ROU lease asset – operating	\$ 2,172	2,479
Liabilities:		
Current ROU lease liability – operating	319	316
Long-term ROU lease liability – operating	1,881	2,162
Total	\$ 2,200	\$ 2,478
	2024	2023
Operating Leases:		
Cash paid for amounts included in measurements of lease liabilities	\$ 338	\$ 339
Weighted average remaining lease term	7.4 years	8.4 years
Weighted average discount rate	1.33%	1.37%

16. INTANGIBLE ASSET FROM RIGHT-OF-WAY AGREEMENT WITH SOUTHERN UTE INDIAN TRIBE

In 2020, the Company and the Southern Ute Indian Tribe (“Tribe”) agreed on a renewal of the right-of-way with the Tribe’s lands for the upcoming 10 years. The effective date of the agreement is January 1, 2021 and ending December 31, 2030. The Company incurred its first part of the amortizing \$14.5 million cost in 2021. The Company recorded the new rights-of-way as an intangible asset and is amortized 1/10 on a straight-line basis over the term of the agreement. The useful life of the Southern Ute Right of Work Agreement is based on the number of years in which the asset is expected to economically contribute to the business.

SIMCOE’s intangible assets are comprised of right-of-way work agreement with Southern Ute Right. Gross intangible assets with accumulated amortization as of December 31, 2024 and 2023, are below:

	As of December 31, 2024		
	Intangible Asset, Gross	Accumulated Amortization	Intangible Asset, Net
Southern Ute Right of Work Agreement	\$ 14,452	\$ (5,781)	\$ 8,671
	As of December 31, 2023		
	Intangible Asset, Gross	Accumulated Amortization	Intangible Asset, Net
Southern Ute Right of Work Agreement	\$ 14,452	\$ (4,335)	\$ 10,117

Estimated future amortization expense related to the intangible assets as of December 31, 2024, is as follows:

	2024
Year:	
2025	\$ 1,445
2026	1,445
2027	1,445
2028	1,445
2029	1,445
Thereafter	1,446
Total estimated future amortization expense	<u>\$ 8,671</u>

17. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest for the years ended December 31, 2024 and 2023, was \$12.3 million and \$14.8 million, respectively.

Noncash investing activities for the years ended December 31, 2024 and 2023, include the following:

	2024	2023
Oil and gas properties costs not yet paid	\$ 1,600	\$ 668
Transfer of net other property, plant and equipment to IKAV	—	1,800
Asset retirement activities	—	742
Total noncash investing activities	<u>\$ 1,600</u>	<u>\$ 3,210</u>

Noncash financing activities for the year ended December 31, 2023, includes \$16.7 million in deemed distributions.

18. ONRR PENALTY AND INTEREST

In December 2021, the Company received a subpoena from the U.S. Department of the Interior (“DOI”) requesting information pertaining to royalties that had not been properly paid to the Office of Natural Resources Revenue (“ONRR”) with respect to one federal lease located in New Mexico. In September 2022, the Company received a Civil Investigative Demand issued from the U.S. Department of Justice (“DOJ”) requesting information pertaining to the Company’s reporting and payment of royalties on production of oil and gas from federal and tribal wells. Separately, the Company has received notices regarding reporting irregularities from ONRR, and the Company received interest invoices from ONRR for underpaid royalties related to periods prior to December 31, 2024, of \$5.2 million, of which, \$1.8 million and \$2.0 million were recognized during the years ended December 31, 2024 and 2023, respectively. The remaining amount of \$1.4 million was related to periods prior to 2023.

In June 2023, the Company settled a Failure to Correct Civil Penalty, resulting in a settlement payment of \$0.3 million. Matters with the ONRR remain pending and the Company maintains an active and cooperative dialogue with the ONRR in an effort to resolve matters. Regarding the DOJ investigation, the Company is unaware of any lawsuit that has been filed. We are unable to determine the potential impact or to estimate with a reasonable degree of accuracy the amount or range of any potential loss.

Unaudited Supplementary Information

SUPPLEMENTAL INFORMATION (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

SUPPLEMENTAL OIL AND GAS PRODUCING ACTIVITIES (Unaudited)

Proved Reserves

Our proved oil and gas reserves have been estimated by independent petroleum engineers. Proved reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods in which the cost of the required equipment is relatively minor compared with the cost of a new well. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history and from changes in economic factors.

Proved reserves. Reserves of oil and natural gas that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by volumetric analysis of adequate geological and engineering data.

Proved developed reserves. Proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.

Proved undeveloped reserves or PUDs. Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Standardized Measure

The standardized measure of discounted future net cash flows and changes in such cash flows are prepared using assumptions required by US GAAP. Such assumptions include the use of 12-month average prices for oil and gas, based on the first-day-of-the-month price for each month in the period, and year end costs for estimated future development and production expenditures to produce year-end estimated proved reserves. Discounted future net cash flows are calculated using a 10% rate. No provision is included for federal income taxes since our future net cash flows are not subject to taxation.

Estimated well abandonment costs, net of salvage values, are deducted from the standardized measure using year-end costs and discounted at the 10% rate. Such abandonment costs are recorded as a liability on the consolidated balance sheet, using estimated values as of the projected abandonment date and discounted using a risk-adjusted rate at the time the well is drilled or acquired. See Note 8 – *Asset Retirement Obligations* for additional information related to asset retirement obligations.

The standardized measure does not represent management's estimate of our future cash flows or the fair value of proved oil and natural gas reserves. Probable and possible reserves, which may become proved in the future, are excluded from the calculations. Furthermore, prices used to determine the standardized measure are influenced by supply and demand as affected by recent economic conditions as well as other factors and may not be the most representative in estimating future revenues or reserve data. Due to rounding, tabular amounts presented below may not add up precisely to the totals indicated.

Proved Reserves Summary

All of the Company's reserves are located in the United States. The following table sets forth the changes in the Company's net proved reserves for the years ended December 31, 2024 and 2023. The Company had no proved undeveloped reserves as of December 31, 2024 and 2023. Reserves estimates as of December 31, 2024 and 2023, were estimated by our independent petroleum consulting firm Netherland, Sewell & Associates, Inc.

	Oil (MBbl)	Natural Gas (MMcf)	NGL (MBbl)	Gas Equivalents (MMcfe)
<i>Proved Reserves</i>				
December 31, 2022	1,609	1,701,699	28,219	1,880,666
Revisions of previous estimates	(573)	(61,488)	(6,212)	(102,199)
Extensions and discoveries	—	5,706	5	5,734
Sales in place	—	(60,836)	—	(60,836)
Production	(46)	(135,663)	(1,582)	(145,429)
December 31, 2023	990	1,449,418	20,430	1,577,936
Revisions of previous estimates	(308)	(582,610)	(6,502)	(623,462)
Production	(64)	(109,777)	(1,538)	(119,393)
December 31, 2024	618	757,031	12,390	835,081

	Oil (MBbl)	Natural Gas (MMcf)	NGL (MBbl)	Oil Equivalents (MMcfe)
<i>Proved Developed Reserves</i>				
December 31, 2022	1,609	1,701,699	28,219	1,880,666
December 31, 2023	990	1,449,418	20,430	1,577,936
December 31, 2024	618	757,031	12,390	835,081

In 2023, the 5,734 MMcfe of extensions and discoveries was due to the inclusion of wells drilled and completed in 2022 and 2023 which had previously not been part of the 2022 reserves. The 102,199 MMcfe of downward revisions in proved reserves were primarily the result of lower commodity prices, as well as changes in current lease operating expenses and production pricing differentials.

In 2024, the 623,462 MMcfe of downward revisions in proved reserves were primarily the result of lower SEC prices, as well as changes in current lease operating expenses and production pricing differentials.

The following table sets forth the standardized measure of discounted future net cash flow from projected production of the Company's oil and natural gas reserves:

Standardized Measure of Discounted Future Net Cash Flows	As of December 31,	
	2024	2023
Future cash inflows	\$ 1,280,146	\$ 4,958,478
Future costs:		
Production ⁽¹⁾	(794,919)	(2,533,545)
Development ⁽²⁾	(245,689)	(214,543)
Income taxes	—	—
Future net cash flows	239,538	2,210,390
10% annual discount	(64,323)	(1,275,221)
Standardized measure	<u>\$ 175,215</u>	<u>\$ 935,169</u>

(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.

Changes in Standardized Measure of Discounted Future Net Cash Flows	Year Ended December 31,	
	2024	2023
Standardized measure, beginning of period	\$ 935,169	\$ 1,869,578
Revisions of previous quantity estimates	(686,312)	(247,881)
Changes in estimated future development costs	(15,042)	9,509
Extensions, discoveries, and improved recoveries, net of related costs	—	9,840
Net changes in prices and production costs	(127,104)	(917,642)
Divestiture of reserves	—	(84,119)
Accretion of discount	93,517	186,958
Sales of oil and natural gas produced, net of production costs	(63,389)	(94,913)
Development costs incurred during the period	—	—
Change in timing of estimated future production and other	38,376	203,839
Standardized measure, end of period	<u>\$ 175,215</u>	<u>\$ 935,169</u>

Price and cost revisions are primarily the net result of changes in prices, based on beginning of the year reserve estimates. Future development costs revisions are the result of the changes in the cost of plug and abandonment, and economic life of proved reserves.

Average oil prices used in the estimation of proved reserves and calculation of the standardized measure were \$70.16 and \$73.40 for the years ended December 31, 2024 and 2023, respectively. Average gas prices used in the estimation of proved reserves and calculation of the standardized measure were \$1.712 and \$4.046 for the years ended December 31, 2024 and 2023, respectively. We used 12-month average oil and gas prices, based on the first-day-of-the-month price for each month in the period.

SIMCOE LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
AS OF JUNE 30, 2025 and DECEMBER 31, 2024
(dollars in thousands)

	June 30, 2025	December 31, 2024
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 24,950	\$ 18,630
Accounts receivable	52,332	49,345
Accounts receivable – related party	230	—
Inventories	24,171	25,305
Prepays and other current assets	14,016	13,988
Total current assets	<u>115,699</u>	<u>107,268</u>
Property, Plant and Equipment:		
Oil and natural gas properties, successful efforts method	813,123	811,600
Other property and equipment	14,367	12,895
Total property, plant and equipment	<u>827,490</u>	<u>824,495</u>
Less: accumulated depreciation, depletion and amortization	<u>(324,379)</u>	<u>(287,386)</u>
Property, plant and equipment, net	<u>503,111</u>	<u>537,109</u>
Intangible assets, net	7,949	8,671
Other non-current assets	4,297	9,080
Total Assets	<u>\$ 631,056</u>	<u>\$ 662,128</u>
LIABILITIES AND MEMBER'S CAPITAL		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 51,265	\$ 71,802
Accrued liabilities – related party	23,550	20,242
Short-term debt, net	38,273	48,651
Derivative liability	526	—
Other current liabilities	2,134	5,595
Total current liabilities	<u>115,748</u>	<u>146,290</u>
Long-term debt, net	123,819	114,589
Asset retirement obligations	100,937	98,339
Derivative instrument - non-current liability	2,109	—
Gas off-take liability	88,385	98,851
Other non-current liabilities	12,048	21,105
Total liabilities	<u>443,046</u>	<u>479,174</u>
Commitments and Contingencies (Note 12)		
Member's Capital:		
Member's capital	188,231	182,687
Other comprehensive income (loss)	(221)	267
Total member's capital	<u>188,010</u>	<u>182,954</u>
Total Liabilities and Member's Capital	<u>\$ 631,056</u>	<u>\$ 662,128</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Six Months Ended June 30,	
	2025	2024
Revenues:		
Oil, gas and plant products	\$ 120,219	\$ 116,098
Midstream revenues	6,976	9,098
Gas off-take agreement amortization	10,466	11,830
Saltwater disposal revenues	220	181
Rental revenue	87	—
Other revenues	202	2,653
Total revenues	<u>138,170</u>	<u>139,860</u>
Operating expenses:		
Lease operating expenses	42,482	46,864
Workover	6,647	5,670
Severance and ad valorem taxes	10,100	11,515
Gathering, transportation and marketing	21,394	28,405
General and administrative expenses	2,097	2,769
General and administrative expenses – related party	10,362	8,726
Accretion expense	2,674	2,794
Depreciation, depletion and amortization	37,715	27,753
Gain on sale/transfer of assets	—	(24)
Total operating expenses	<u>133,471</u>	<u>134,472</u>
Operating income	4,699	5,388
Other income (expense):		
Interest expense	(5,688)	(6,251)
Foreign currency gain	27	8
Loss on derivatives, net	(494)	(5,729)
Total other expense	<u>(6,155)</u>	<u>(11,972)</u>
Net loss	(1,456)	(6,584)
Other comprehensive income (loss):		
Income (loss) on foreign currency cash flow hedge	(488)	364
Comprehensive loss	<u>\$ (1,944)</u>	<u>\$ (6,220)</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF CHANGES IN MEMBER'S CAPITAL (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Member's Capital	Accumulated Other Comprehensive Income (Loss)	Total Member's Capital
Balance – December 31, 2023	\$ 162,031	\$ (1,031)	\$ 161,000
Contributions	18,888	—	18,888
Net loss	(6,584)	—	(6,584)
Other comprehensive income	—	364	364
Balance – June 30, 2024	<u>\$ 174,335</u>	<u>\$ (667)</u>	<u>\$ 173,668</u>
Balance – December 31, 2024	\$ 182,687	\$ 267	\$ 182,954
Contributions	7,000	—	7,000
Net loss	(1,456)	—	(1,456)
Other comprehensive loss	—	(488)	(488)
Balance – June 30, 2025	<u>\$ 188,231</u>	<u>\$ (221)</u>	<u>\$ 188,010</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(dollars in thousands)

	Six Months Ended June 30,	
	2025	2024
Cash flows from operating activities:		
Net loss	\$ (1,456)	\$ (6,584)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Accretion expense	2,674	2,794
Depreciation, depletion and amortization	36,992	27,030
Amortization of debt issuance costs, discount and premium	313	313
Cash paid for ARO settlement	—	(132)
(Gain) loss on asset retirement obligation	(76)	97
Amortization of BP gas offtake agreement	(10,466)	(11,830)
Amortization of Indian tribe ROW intangible asset	723	723
Unrealized gain (loss) on derivatives	2,635	(3,830)
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	(18,937)	(9,842)
Accrued liabilities – related party	3,308	5,694
Accounts receivable	(2,988)	11,582
Accounts receivable - related party	(230)	—
Prepays and other current assets	(26)	(323)
Inventories	1,133	(670)
Other non-current assets	4,783	276
Other current liabilities	(4)	473
Other non-current liabilities	(423)	(890)
Net cash provided by operating activities	<u>17,955</u>	<u>14,881</u>
Cash flows from investing activities:		
Additions to oil and natural gas properties	(3,123)	(6,320)
Additions to other property, plant and equipment	(1,472)	(3,577)
Net cash used in investing activities	<u>(4,595)</u>	<u>(9,897)</u>
Cash flows from financing activities:		
Contributions – related parties	7,000	18,888
Payment of long-term debt	(14,040)	(19,500)
Net cash used in financing activities	<u>(7,040)</u>	<u>(612)</u>
Increase in cash, cash equivalents and restricted cash	6,320	4,372
Cash, cash equivalents and restricted cash – beginning of period	18,630	14,550
Cash, cash equivalents and restricted cash – end of period	<u>\$ 24,950</u>	<u>\$ 18,922</u>

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

SIMCOE LLC
(A Delaware Limited Liability Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF JUNE 30, 2025 AND DECEMBER 31, 2024 AND FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024

1. ORGANIZATION AND BUSINESS

SIMCOE LLC (“SIMCOE” or the “Company”) was formed in the state of Delaware on October 21, 2019. SIMCOE is an oil and natural gas exploration and production company primarily involved in the acquisition, exploration, development, and operation of oil and natural gas leasehold interests.

The Company’s asset base is comprised primarily of approximately 563,000 net acres acquired on February 28, 2020, from an unrelated third party for \$640 million exclusive of usual and customary post close purchase price adjustments. There are approximately 9,400 wellbores of which 39% are operated with average working interest of 73% and overall, 42% in the entire field. The proved value is in San Juan, Rio Arriba and La Plata counties in the San Juan Basin in New Mexico and Colorado. The Company conducts all its activities in the United States of America.

SIMCOE has a management service agreement (“MSA”) with IKAV Energy Inc. (“IKAV”). Through the MSA, IKAV oversees the operations of SIMCOE and provides all general management services reasonably required in day-to-day activities of the Company. SIMCOE also has a service agreement with IKAV General Partner S.a.r.l (“IKAV GP”). Through the agreement, IKAV GP provides consulting and various other services to SIMCOE.

Going Concern

The accompanying condensed financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business. The condensed financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern.

Natural gas prices are determined by many factors that are outside of the Company’s control. Historically, these prices have been volatile, and the Company expects them to remain volatile. During 2023, prices for natural gas declined precipitously, and prices remained low through 2024. Continued depression of prices could have a material adverse effect on SIMCOE’s liquidity. Continued volatility or further declines in prices could also have a significant adverse impact on the value and quantities of reserves.

As discussed in *NOTE 6 – Debt*, the Company’s long-term debt provides for certain covenants measured quarterly. As of March 31, 2024, the Company failed to meet the minimum EBITDAX to Scheduled Debt Service Ratio test. Based on current forward commodity prices, the minimum EBITDAX to Scheduled Debt Service Ratio was below the level prescribed in the credit agreements, and therefore SIMCOE was not in compliance with this covenant during 2024. Furthermore, as of September 2, 2025, the Company has not made its scheduled Tranche 2 principal payments, which were due on April 22, 2024, due to a continuing working capital deficit. Noncompliance with its covenant and failure to make a scheduled principal payment are both events of default and could result in the acceleration of all the Company’s indebtedness under the credit agreements. If the lenders under the credit agreements were to accelerate the loans outstanding thereunder, the Company would not have sufficient liquidity to repay the amounts due under the credit agreements.

On July 31, 2024, the Company received a waiver from its lenders which waived the failure to make the Tranche 2 principal payment and to achieve the EBITDAX to Scheduled Debt Service Ratio covenant. This waiver was in effect until August 1, 2025. On July 31, 2025, the Company received an additional waiver from its lenders which waives the failure to make the Tranche 2 principal payment, delayed quarterly reporting to lenders, and waives the EBITDAX to Scheduled Debt Service Ratio covenant through October 31, 2026, or until an amendment is put in place.

During 2025, the Company’s Management observed improvements in market conditions, notably the increase in natural gas prices, and the forecasted 2025 natural gas prices have positively impacted the Company’s revenue and financial liquidity.

Considering the waiver obtained in July 2025, along with improving market conditions and increase in forecasted natural gas prices, the Company’s management has concluded that the Company will meet its financial obligations as they come due twelve months from the condensed financial statements issuance date.

2. SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties — The Company’s revenue, profitability and future growth are substantially dependent upon the oil and natural gas sector, which is dependent upon numerous factors beyond its control, such as economic and regulatory developments and competition from other energy sources. The energy markets have historically been volatile, and there can be no assurance that unhedged commodity prices for oil, natural gas liquids (“NGL”) and natural gas will not be subject to wide fluctuations in the future.

Basis of Presentation — The condensed financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (“GAAP”). These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2024, as included in the Company’s annual financial statements. Results for interim periods are not necessarily indicative of results to be expected for the full year ending December 31, 2025. In the opinion of management, all adjustments, consisting primarily of normal recurring accruals that are considered necessary for a fair statement of the financial information, have been included. In the Notes to Condensed Financial Statements, all dollar amounts in tabulations are in thousands of dollars, unless otherwise indicated.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur because of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Estimates regarding the condensed financial statements include proved oil, NGL and gas reserve volumes and the related present value of estimated future net cash flows used in the impairment test applied to capitalized oil and natural gas properties, asset retirement obligations, valuation of acquisition and derivative assets and liabilities, depreciation, depletion, and amortization, accrued liabilities, revenue, and related receivables.

Inventories — Inventories are stated at the lower of cost or net realizable value. Inventories are assessed periodically for obsolescence. Valuation allowances for inventories are recorded as reductions to the carrying values of inventories included in the Company’s Condensed Statements of Financial Position and as charges in other expense in the Condensed Statements of Operations and Comprehensive Income (Loss).

The components of inventories are as follows:

	June 30, 2025	December 31, 2024
Pipe	\$ 12,277	\$ 14,715
Materials and other	11,894	10,590
Total inventories	<u>\$ 24,171</u>	<u>\$ 25,305</u>

Accounting Policies — Refer to the Company’s annual financial statements for a discussion of the Company’s accounting policies, as updated below, and for recently adopted accounting standards.

Recently Issued Accounting Pronouncements — The Company considers the applicability and impact of all Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”). ASUs not discussed below were assessed and determined to be either not applicable or are expected to have minimal impact on our condensed financial position or results of operations.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) – Improvements to Income Tax Disclosures* (“ASU 2023-09”). ASU 2023-09 requires that an entity, on an annual basis, disclose additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The ASU’s amendments are effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that adoption of ASU 2023-09 will have on its financial statements.

In November 2024, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses (DISE)* (“ASU 2024-03”) which requires disclosure of certain costs and expenses on an interim and annual basis in the notes to the financial statements. The guidance is effective for the first annual reporting period beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. The amendments in this update are to be applied on a prospective basis, with the option for retrospective application. Early adoption is permitted. Management is currently evaluating this ASU to determine its impact on the Company’s disclosures but does not believe the adoption of the update will impact the Company’s financial position, results of operations or liquidity.

With the exception of the new standards discussed above, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2025, as compared to the recent accounting pronouncements described in the Company’s annual financial statements as of and for the years ended December 31, 2024, that are of significance or potential significance to the Company.

Subsequent Events — The Company evaluated subsequent events through September 2, 2025, the date that the condensed financial statements were issued.

On July 10, 2025, VEPU Inc. (“VEPU”) entered into a definitive agreement to sell SIMCOE’s San Juan assets to Mach Natural Resources LP (“Mach”). The effective date of the transaction is April 1, 2025, and is expected to close late in the third quarter of 2025. Mach announced the acquisition in combination with other San Juan assets for a total deal value of approximately \$787 million of which SIMCOE represents not less than 65%. The final transaction value is subject to a number of purchase price adjustments which will be calculated at close.

3. PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2025 and December 31, 2024, the Company’s property, plant and equipment consisted of the following:

	June 30, 2025	December 31, 2024
Proved properties	\$ 813,123	\$ 811,600
Accumulated depreciation, depletion and amortization	(319,990)	(283,987)
Oil and natural gas properties, net	493,133	527,613
Other property and equipment	14,367	12,895
Accumulated depreciation and amortization	(4,389)	(3,399)
Other property and equipment, net	9,978	9,496
Total property, plant and equipment, net	\$ 503,111	\$ 537,109

Depreciation, depletion and amortization relating to oil and natural gas properties for the six months ended June 30, 2025 and 2024 were \$36.0 million and \$25.9 million, respectively. Depreciation, depletion and amortization relating to other property and equipment for the six months ended June 30, 2025 and 2024 were \$1.0 million and \$1.1 million, respectively.

4. COMMODITY DERIVATIVE INSTRUMENTS

The Company’s business activities expose it to risks associated with changes in the market price of oil, natural gas, and NGLs. As such, future earnings are subject to change due to changes in the market price of oil and natural gas. The Company uses derivatives to reduce its risk of changes in the prices of oil and natural gas.

The Company uses commodity derivative instruments known as fixed price swaps to realize a known price for a specific volume of production. All transactions are settled in cash with one party paying the other for the net difference in the agreed upon published third party index price and the swap fixed price, multiplied by the contract volume.

During the six months ended June 30, 2025, the Company entered into a new fixed price gas swap contract. Under fixed price swap contracts, the Company receives a fixed price for the contract and pays a floating market price to the counterparty over a specified period for a contracted volume. The fixed-price payment and the floating-price payment are netted, resulting in a net amount due to or from the counterparty. Natural gas derivative contracts are indexed and settled based on El Paso San Juan pricing.

As of June 30, 2025, the Company had entered into natural gas contracts with the following terms:

Period Covered	Hedged Volume	Weighted Average Fixed Price
Natural gas – El Paso San Juan (MMBTU):		
Swaps - 2025	6,011,000	\$ 2.985
Swaps - 2026	5,517,000	\$ 3.123

As of December 31, 2024, the Company had no outstanding commodity contracts on its Condensed Statements of Financial Position.

The amount of realized and unrealized gain (loss) for derivative instruments not designated as hedges for accounting purposes recognized in 'Gain (loss) on derivatives, net' in the Condensed Statements of Operations and Comprehensive Income (Loss) was as follows for the six months ended June 30, 2025 and 2024:

	Six Months Ended June 30,	
	2025	2024
Realized loss on plant products positions	\$ 2,141	\$ (9,559)
Unrealized gain (loss) on plant products positions	(2,635)	3,830
Total loss on derivatives	\$ (494)	\$ (5,729)

The Company has entered into a master netting arrangement with its counterparty. The amounts above are presented on a net basis in the Condensed Statements of Financial Position when such amounts are with the same counterparty. In addition, the Company has recorded accounts payable and receivable balances related to its settled derivatives that are subject to its master netting arrangements. These amounts are not included in the above table; however, under its master netting agreements, the Company has the right to offset these positions against its forward exposure related to outstanding derivatives.

Credit Risk

All the Company's derivative transactions have been carried out in the over-the-counter ("OTC") market. The use of derivative instruments involves the risk that either counterparty may be unable to meet the financial terms of the transactions. The Company monitors the creditworthiness of each of its counterparties and assesses the possibility of whether each counterparty to the derivative contract would default by failing to make any contractually required payments as scheduled in the derivative instrument in determining the fair value. The derivative transactions are placed with major financial institutions with an external investment grade rating and therefore presents minimal credit risks to the Company.

5. FAIR VALUE MEASUREMENT

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values determined based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 refers to fair values determined based on our own assumptions used to measure assets and liabilities at fair value.

As of December 31, 2024, there were no outstanding derivatives held by the Company. During the six months ended June 30, 2025, the Company entered into new commodity derivatives.

The following table presents the fair value hierarchy table for the Company's assets and liabilities that are required to be measured at fair value on a recurring basis as of June 30, 2025:

		Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
As of June 30, 2025:				
Liabilities:				
Natural gas derivatives	\$ 2,635	\$ —	\$ 2,635	\$ —

The Company's derivatives consist of OTC contracts which are not traded on a public exchange. As the fair value of these derivatives is based on a third-party industry-standard pricing model that uses contract terms, prices, assumption, and inputs that are substantially observable in active markets throughout the full term of the instruments including forward oil and gas price curves, discount rates and volatility factors, the Company has categorized these derivatives as Level 2. There were no changes in valuation techniques or related inputs in 2025. Furthermore, fair values are adjusted to reflect the credit risk inherent in the transactions, which may include amounts to reflect counterparty credit quality and/or the effect of our own creditworthiness. These assumed credit risk adjustments are based on published credit ratings, public bond yield spreads and credit default swap spreads.

Nonrecurring basis

The fair value measurement of assets acquired, and liabilities assumed are measured on a nonrecurring basis on the acquisition date using an income valuation technique based on inputs that are not observable in the market and therefore represent Level 3 inputs. Significant inputs to the valuation of acquired oil and gas properties include estimates of: (i) reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity process, including price differentials; (v) future cash flows; and (vi) a market participant-based weighted average cost of capital rate. These inputs require significant judgments and estimates by the Company's management at the time of the valuation.

The initial measurement of asset retirement obligations ("AROs") at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property, plant, and equipment. Significant Level 3 inputs used in the calculation of ARO include plugging costs and reserves lives.

Inventory, which consists of materials held for use in the development and production of oil and natural gas are carried at lower of cost and net realizable value with adjustments made as appropriate to recognize any reduction in value.

6. DEBT

On February 28, 2020, the Company entered into two long-term debt agreements in an aggregate principal amount of €237.6 million EUR denominated ("Tranche 1") and \$130 million USD denominated ("Tranche 2"), bearing interest at 3.16% and 8.54%, respectively. Tranche 1 was issued at a price of 100.66% of par, resulting in a premium of \$1.7 million. Fees of \$7.9 million were capitalized as deferred financing costs. The premium and fees are amortized over the term of the long-term debt on a straight-line basis.

The most restrictive covenant associated with the Tranche 1 and Tranche 2 credit agreements include a minimum EBITDAX to Scheduled Debt Service Ratio test of 1.50:1.00.

As of March 31, 2024, the Company failed to meet the minimum EBITDAX to Scheduled Debt Service Ratio test, and based on current forward commodity prices, the Company projects that it would likely have a minimum EBITDAX to Scheduled Debt Service Ratio below the level prescribed in the credit agreements. Therefore, SIMCOE was not in compliance with this covenant during 2024. Furthermore, the Company did not make its scheduled Tranche 2 principal payment on April 22, 2024, due to a working capital deficit. Noncompliance with its covenant and failure to make a scheduled principal payment are both events of default and could result in the acceleration of all the Company's debt amortization schedule under the credit agreements. If the lenders under the credit agreements were to accelerate the loans outstanding thereunder, the Company would not have sufficient liquidity to repay the amounts due under the credit agreements. As of the date of issuance, the lenders have waived the defaults through October 31, 2026.

As of June 30, 2025, the Company had an outstanding balance of €83.2 million (\$98.8 million) and \$67.3 million on Tranche 1 and Tranche 2, respectively, of which €22.0 million (\$25.0 million) on Tranche 1 and \$12.5 million on Tranche 2 have been presented as current liabilities in the Condensed Statements of Financial Position. As of December 31, 2024, the Company had an outstanding balance of €95.8 million (\$99.1 million) and \$67.3 million on Tranche 1 and Tranche 2, respectively, of which €23.6 million (\$24.5 million) on Tranche 1 and \$24.2 million on Tranche 2 have been presented as current liabilities in the Condensed Statements of Financial Position. As of June 30, 2025 and December 31, 2024, the deferred financing costs had balances of \$3.7 million and \$4.1 million, respectively. The unamortized balances of the premium were \$0.8 million and \$0.9 million as of June 30, 2025 and December 31, 2024, respectively.

Cash Flow Hedge

The Company is required to make quarterly payments of an aggregate principal amount beginning July 20, 2020, as defined in the debt service payment schedules of the respective debt agreements. To avoid the exposure of foreign exchange (“FX”) fluctuations on Tranche 1, the Company entered into a foreign exchange hedge agreement through which the exchange rate of EUR was fixed for future payments which includes both interest and principal. The foreign exchange hedge agreement qualifies for hedge accounting and has been designated as a cash flow hedge, for which the effective portion of the loss is reported as a component of accumulated other comprehensive income and reclassified into earnings during which the hedged transactions affect earnings. The Company’s cash flow hedge position as of June 30, 2025, is as follows:

	Current	Long-Term	Total
Outstanding Tranche 1 Debt in EUR	€ 21,973	€ 61,237	€ 83,210
Outstanding Tranche 1 Debt in USD (per fixed FX rate)	\$ 24,960	\$ 73,840	\$ 98,800
Fair value of Tranche 1 Debt	25,793	71,883	97,676
Difference in fair value and fixed FX rate	\$ 833	\$ (1,957)	\$ (1,124)

	June 30, 2025	December 31, 2024	Location on the Condensed Financial Statements
Fair value of FX Hedge	\$ 362	3,818	Other current liabilities – Condensed Statements of Financial Position
Fair value of FX Hedge	984	9,616	Other non-current liabilities – Condensed Statements of Financial Position

	Six Months Ended June 30,		
	2025	2024	
Gain (loss) recognized in OCI	\$ (12,578)	\$ 3,884	
Reclass OCI to FX gain (loss)	12,090	(3,520)	
Income (loss) on FX cash flow hedge	\$ (488)	\$ 364	Condensed Statements of Operations and Comprehensive Income (Loss) and AOCI – Condensed Statements of Financial Position

7. ASSET RETIREMENT OBLIGATIONS

Changes in the ARO liability for the six months ended June 30, 2025 are as follows:

ARO liability at beginning of period	\$	98,339
Accretion expense		2,674
Retirements		(76)
ARO liability at end of period	\$	<u>100,937</u>

8. RELATED PARTY TRANSACTIONS

SIMCOE has an MSA with IKAV through which IKAV oversees the day-to-day operations of SIMCOE and provides all general management services to the Company. This includes operating the assets as prescribed under the joint operating agreements, negotiating vendor, revenue and hedging contracts, keeping accounting records, and adherence to legal and regulatory compliance matters.

Pursuant to the MSA, IKAV submits an invoice relevant for each calendar quarter to the Company. The invoice is comprised of two charges: (1) MSA fee and (2) operating and general and administrative expenses (“O&A expenses”) allocation. For the six months ended June 30, 2025 and 2024, the Company incurred \$4.7 million and \$4.6 million, respectively, in MSA fees. For the six months ended June 30, 2025 and 2024, the Company incurred \$14.0 million and \$11.5 million, respectively, in O&A expenses due to IKAV. The Company was able to recover \$8.3 million and \$7.4 million of O&A expenses from our joint interest partners for the six months ended June 30, 2025 and June 30, 2024, respectively, due to COPAS rules which resulted in O&A expenses on a net basis of \$5.7 million and \$4.1 million for the six months ended June 30, 2025 and 2024. This allocation is calculated on the basis of gross revenue attributable to hydrocarbon production between SIMCOE and the other party to the agreement, SJ Investment Opps LLC. The agreement defines O&A expenses to include labor costs, costs and expenses for professional services, licensing and permitting fees and expenses, travel costs, capital expenditures, occupancy costs, including telephone, rent, office equipment and insurance costs, and other similar costs and expenses generally considered general and administrative expenses. As of June 30, 2025 and December 31, 2024, the Company owed IKAV \$23.6 million and \$20.2 million, respectively.

For the six months ended June 30, 2025 and 2024, the Company received equity contributions of \$7.0 million and \$18.9 million, respectively, from VEPU.

9. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2025 and December 31, 2024 consist of the following:

	June 30, 2025	December 31, 2024
Accrued revenue	\$ 38,015	\$ 31,021
Joint interest billings	10,635	15,542
Midstream	3,398	2,276
Other	284	506
Total accounts receivable	<u>\$ 52,332</u>	<u>\$ 49,345</u>

The Company’s allowance for doubtful accounts was \$1.0 million and \$1.0 million, as of June 30, 2025 and December 31, 2024, respectively. The Company does not have any off-balance sheet credit exposure related to its customers.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2025 and December 31, 2024 consist of the following:

	June 30, 2025	December 31, 2024
Accounts payable	\$ 5,721	\$ 10,418
Accrued liabilities:		
Revenue payable and suspense	10,580	22,210
Severance and ad valorem tax	13,536	18,616
Lease operating expense	10,319	10,194
Accrued capital expenditures	1,170	2,770
Interest	1,905	2,037
Workover expense	2,539	1,143
General and administrative expense	5,495	4,414
Total accrued liabilities	45,544	61,384
Total accounts payable and accrued liabilities	\$ 51,265	\$ 71,802

11. FOREIGN CURRENCY EXCHANGE GAIN/LOSS

The Company's functional currency is USD, but it has Tranche 1 debt denominated in EUR of €83.2 million and €95.8 million as of June 30, 2025 and December 31, 2024, respectively. As of June 30, 2025, the Company remeasured this debt using the current exchange rate of 1.174 and recorded a foreign currency exchange loss of \$12.6 million. As of June 30, 2024, the Company remeasured this debt using the current exchange rate of 1.072 and recorded a foreign currency exchange gain of \$3.9 million. Exchange losses or gains are offset with the cash flow hedge the Company has in place related to Tranche 1 debt. See *NOTE 6 – Debt* for additional discussion.

12. COMMITMENTS AND CONTINGENCIES

As is common within the industry, the Company has entered into various master service agreements related to the production from proved oil and gas properties. It is management's belief that such commitments will be met without a material adverse effect on the financial position, results of operations or cash flows of the Company.

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of business. The Company has one open case with the Office of Natural Resources Revenue ("ONRR"). Please see *NOTE 15 – ONRR Penalty and Interest* for additional discussion. Outside this case, the Company is currently unaware of any other proceedings that, in the opinion of management, will individually or in the aggregate have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

The Company records environmental liabilities related to future costs on an undiscounted basis when environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to existing conditions caused by past operations, and that do not have future economic benefit, are expensed. Estimates are based on current available facts, existing technology and presently enacted laws and regulations considering the likely effects of inflation and estimated legal costs. These estimates are subject to revision in future periods based on actual costs or new circumstances. The Company evaluates recoveries from insurance coverage separately from liability and, when recovery is assured, it records an asset separately from the associated liability in the financial statements. The Company had no environmental liabilities as of June 30, 2025 and December 31, 2024.

13. INTANGIBLE ASSETS

Southern Ute Indian Tribe

In 2020 the Company and the Southern Ute Indian Tribe (“Tribe”) agreed on a renewal of the right-of-way with the Tribe’s lands for the upcoming 10 years. The effective date of the agreement is January 1, 2021 and ending December 31, 2030. The Company recorded the new rights-of-way as an intangible asset and is amortized on a straight-line basis over the term of the agreement. The useful life of the Southern Ute Right of Work Agreement is based on the number of years in which the asset is expected to economically contribute to the business. For the six months ended June 30, 2025 and 2024, amortization expense was \$0.7 million and \$0.7 million, respectively.

SIMCOE’s intangible assets are comprised of right-of-way work agreement with Southern Ute Right. Gross intangible assets with accumulated amortization as of June 30, 2025 and December 31, 2024, are below:

	As of June 30, 2025		
	Intangible Asset, Gross	Accumulated Amortization	Intangible Asset, Net
Southern Ute Right of Work Agreement	\$ 14,452	\$ (6,503)	\$ 7,949

	As of December 31, 2024		
	Intangible Asset, Gross	Accumulated Amortization	Intangible Asset, Net
Southern Ute Right of Work Agreement	\$ 14,452	\$ (5,781)	\$ 8,671

Estimated future amortization expense related to the intangible assets as of June 30, 2025, is as follows:

	2025
Year:	
2025 remaining	\$ 723
2026	1,445
2027	1,445
2028	1,445
2029	1,445
Thereafter	1,446
Total estimated future amortization expense	\$ 7,949

BP Gas off-take agreement

Through acquisition of oil and gas assets, the Company entered into a gas purchase agreement, referred to as a gas off-take agreement, with an unrelated third party (credit rating of A- by S&P and A2 by Moody’s) which was valued at \$206.1 million at acquisition and is recorded under other long-term liabilities in the Condensed Statements of Financial Position. The value of the gas off-take liability is amortized ratably throughout the term of the agreement. The balance of the gas off-take liability as of June 30, 2025 and December 31, 2024, was \$88.4 million and \$98.9 million, respectively. For the six months ended June 30, 2025 and 2024, amortization of \$10.5 million and \$11.8 million was recognized in the Condensed Statements of Operations and Comprehensive Income (Loss).

14. SUPPLEMENTAL CASH FLOW INFORMATION

For the six months ended June 30, 2025 and 2024, the Company held no restricted cash.

Cash paid for interest for the six months ended June 30, 2025 and 2024 was \$4.6 million and \$5.0 million, respectively.

Noncash investing activities for the six months ended June 30, 2025 and 2024, include the following:

	Six Months Ended June 30,	
	2025	2024
Accrued capital expenditures	\$ 1,600	\$ 2,556
Total noncash investing activities	\$ 1,600	\$ 2,556

15. ONRR PENALTY AND INTEREST

In December 2021, the Company received a subpoena from the U.S. Department of the Interior (“DOI”) requesting information pertaining to royalties that had not been properly paid to the Office of Natural Resources Revenue (“ONRR”) with respect to one federal lease located in New Mexico. In September 2022, the Company received a Civil Investigative Demand issued from the U.S. Department of Justice (“DOJ”) requesting information pertaining to the Company’s reporting and payment of royalties on production of oil and gas from federal and tribal wells. Separately, the Company has received notices regarding reporting irregularities from ONRR, and the Company received interest invoices from ONRR for underpaid royalties related to periods prior to December 31, 2024, of \$5.6 million, of which \$2.2 million was recognized during the year ended December 31, 2024. The remaining amount of \$3.4 million was related to periods prior to 2024. For the six months ended June 30, 2025, the Company recognized an additional \$0.5 million in interest for underpaid royalties.

In June 2023, the Company settled a Failure to Correct Civil Penalty, resulting in a settlement payment of \$0.3 million. Matters with the ONRR remain pending and the Company maintains an active and cooperative dialogue with the ONRR in an effort to resolve matters. Regarding the DOJ investigation, the Company is unaware of any lawsuit that has been filed. We are unable to determine the potential impact or to estimate with a reasonable degree of accuracy the amount or range of any potential loss.

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 natural gas liquid (“NGL”) reserves in the Anadarko Basin region of Western Oklahoma, Southern Kansas and the panhandle of Texas; the San Juan Basin region of New Mexico and Colorado; and the Permian Basin region of West Texas.

On July 9, 2025, the Company entered into a membership interest purchase agreement (the “IKAV Purchase Agreement”) with VEPU Inc. and Simlog Inc. (collectively, the “IKAV Sellers”), pursuant to which the Company would acquire one hundred percent (100%) of the IKAV Sellers’ membership interests in certain rights, titles and interests in oil and gas properties, rights and related assets located in certain designated lands in the San Juan Basin of New Mexico and Colorado. Specifically, the Company acquired 100% of the membership interests of SIMCOE LLC (“SIMCOE”) and Simlog LLC from VEPU Inc. and Simlog Inc, respectively. Simlog LLC owns 100% of the issued and outstanding equity interests of SJ INVESTMENT OPPS LLC (“SJ” and together with SIMCOE, the “IKAV Companies”), which represents substantially all of Simlog LLC. On September 16, 2025, the Company entered into that certain First Amendment to the IKAV Purchase Agreement (the “IKAV Purchase Agreement Amendment” and together with the IKAV Purchase Agreement, the “IKAV MIPA”).

On September 16, 2025, the Company acquired the IKAV Companies, pursuant to the IKAV MIPA, for consideration of approximately \$758.9 million comprising (i) \$349.0 million in cash and (ii) 30.6 million common units of the Company (the “IKAV Unit Consideration”), subject to certain customary post-close adjustments (such transaction, the “IKAV Acquisition”). The IKAV Unit Consideration has a value of approximately \$409.9 million.

On July 9, 2025, the Company entered into a Purchase and Sale Agreement (the “Sabinal PSA”) with Sabinal Energy Operating, LLC, Sabinal Resources, LLC and Sabinal CBP, LLC (collectively, the “Sabinal Sellers”), pursuant to which the Company would acquire certain oil and gas assets located in certain designated lands in the Permian Basin (the “Sabinal Assets”).

On September 16, 2025, the Company acquired the Sabinal Assets, pursuant to the Sabinal PSA, for consideration of approximately \$464.2 million comprising (i) \$207.3 million in cash and (ii) 19.2 million common units (the “Sabinal Unit Consideration”), subject to certain customary post-close adjustments (such transaction, the “Sabinal Acquisition” and together with the IKAV Acquisition, the “Transactions”). The Sabinal Unit Consideration has a value of approximately \$256.9 million.

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 condensed combined financial statements (the “pro forma financial statements”) reflect the historical results of the Company, SIMCOE, SJ, and Sabinal Energy Operating, LLC and subsidiaries (“Sabinal”) on a pro forma basis to give effect to the Transactions, which are described in further detail below, as if they had occurred on June 30, 2025 for the unaudited condensed combined pro forma balance sheet (the “pro forma balance sheet”) and on January 1, 2024 for the unaudited condensed combined pro forma statements of operations (the “pro forma statements of operations”):

1. The consummation of the IKAV Acquisition pursuant to the terms of the IKAV MIPA.
2. The consummation of the Sabinal Acquisition pursuant to the terms of the Sabinal PSA.
3. The entrance into the First Amendment to the Company’s credit agreement as further described in “Note 1 – Basis of Pro Forma Presentation” included elsewhere in these pro forma financial statements.

The pro forma adjustments are based on currently available information which is considered preliminary and is based on 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 IKAV Acquisition or the Sabinal Acquisition.

The pro forma financial statements and related notes are presented for illustrative purposes only. If the IKAV Acquisition and the Sabinal 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 IKAV Acquisition and the Sabinal 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 June 30, 2025

(in thousands)

	Mach Natural Resources LP (Historical)	IKAV Companies As Adjusted (See Note 4)	Sabinal Assets As Adjusted (See Note 5)	Transaction Accounting Adjustments (Pro Forma)		Mach Natural Resources LP Combined (Pro Forma)
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 13,777	\$ 59,283	\$ —	\$ (59,283)	(f)	\$ 13,777
Accounts receivable – joint interest and other, net	37,836	15,092	—	—		52,928
Accounts receivable – oil, gas, and NGL sales	109,038	40,502	—	—		149,540
Short-term derivative assets	16,537	1,067	—	—		17,604
Inventories	25,842	24,171	5,589	—		55,602
Other current assets	6,148	16,760	—	—		22,908
Total current assets	209,178	156,875	5,589	(59,283)		312,359
Oil and natural gas properties, using the full cost method:						
Proved oil and natural gas properties	2,621,011	916,820	1,042,684	(707,932)	(a)	3,872,583
Less: accumulated depreciation, depletion and amortization	(641,942)	(354,499)	(353,853)	708,352	(a)	(641,942)
Oil and natural gas properties, net	1,979,069	562,321	688,831	420		3,230,641
Other property, plant and equipment	125,461	14,367	—	106,116	(b)	245,944
Less: accumulated depreciation	(28,694)	(4,389)	—	4,389	(b)	(28,694)
Other property, plant and equipment, net	96,767	9,978	—	110,505		217,250
Long-term derivative assets	3,241	—	—	—		3,241
Intangible assets, net	—	7,949	—	—		7,949
Other assets	30,363	2,377	—	9,600		42,340
Operating lease assets	15,547	2,172	—	—		17,719
Total assets	<u>\$ 2,334,165</u>	<u>\$ 741,672</u>	<u>\$ 694,420</u>	<u>\$ 61,242</u>		<u>\$ 3,831,499</u>
LIABILITIES AND PARTNERS' CAPITAL						
Current liabilities:						
Accounts payable	\$ 48,508	\$ 33,312	\$ —	\$ —		\$ 81,820
Accounts payable – related party	1,828	—	—	—		1,828
Accrued liabilities	64,094	39,972	2,876	23,200	(g)	130,142
Revenue payable	141,204	17,379	1,336	—		159,919
Short-term derivative liabilities	5,439	2,711	—	—		8,150
Current portion of long-term debt	—	49,273	—	(49,273)	(c)	—
Other current liabilities	—	1,815	—	—		1,815
Current portion of operating lease liabilities	5,268	319	—	—		5,587
Total current liabilities	266,341	144,781	4,212	(26,073)		389,261
Long-term debt	565,000	169,134	—	387,155	(c)	1,121,289
Asset retirement obligations	110,189	101,117	—	33,031	(a)	244,337
Gas off-take liability	—	88,385	—	(88,385)	(d)	—
Long-term derivative liabilities	4,524	9,369	—	—		13,893
Long-term portion of operating leases	10,320	1,881	—	—		12,201
Other long-term liabilities	2,096	16,421	—	—		18,517
Total long-term liabilities	692,129	386,307	—	331,801		1,410,237
Members' capital:						
Members' capital	—	210,584	690,208	(900,792)	(e)	—
Partners' capital:						
Partners' capital	1,375,695	—	—	656,306	(a-f)	2,032,001
Total liabilities and partners' capital	<u>\$ 2,334,165</u>	<u>\$ 741,672</u>	<u>\$ 694,420</u>	<u>\$ 61,242</u>		<u>\$ 3,831,499</u>

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 Six Months Ended June 30, 2025

(in thousands, except per unit data)

	Mach Natural Resources LP (Historical)	IKAV Companies As Adjusted (See Note 4)	Sabinal Assets As Adjusted (See Note 5)	Transaction Accounting Adjustments (Pro Forma)		Mach Natural Resources LP Combined (Pro Forma)
Revenue						
Oil, natural gas, and NGL sales	\$ 472,138	\$ 136,506	\$ 123,273	\$ —		\$ 731,917
(Loss) gain on oil and natural gas derivatives	14,886	(6,865)	—	—		8,021
Midstream revenue	12,387	7,196	—	—		19,583
Product sales	15,874	—	—	—		15,874
Gas off-take agreement amortization	—	10,466	—	(10,466)	(a)	—
Other revenues	—	202	—	—		202
Total revenues	<u>515,285</u>	<u>147,505</u>	<u>123,273</u>	<u>(10,466)</u>		<u>775,597</u>
Operating expenses						
Gathering and processing	59,945	25,883	—	—		85,828
Lease operating expense	98,318	51,489	43,568	—		193,375
Production taxes	23,270	11,763	11,227	—		46,260
Midstream operating expense	6,170	—	—	—		6,170
Cost of product sales	14,261	—	—	—		14,261
Depreciation, depletion, amortization and accretion – oil and natural gas	125,525	45,805	—	51,278	(b)	222,608
Depreciation and amortization – other	5,158	1,712	—	1,300	(c)	8,170
General and administrative	15,969	15,367	—	—		31,336
General and administrative – related party	3,700	—	—	—		3,700
Total operating expenses	<u>352,316</u>	<u>152,019</u>	<u>54,795</u>	<u>52,578</u>		<u>611,708</u>
Income (loss) from operations	<u>162,969</u>	<u>(4,514)</u>	<u>68,478</u>	<u>(63,044)</u>		<u>163,889</u>
Other (expense) income						
Interest expense	(30,034)	(8,526)	—	(16,040)	(d)	(54,600)
Loss on debt extinguishment	(18,540)	—	—	—		(18,540)
Other income (expense), net	(8,848)	27	—	—		(8,821)
Total other expense	<u>(57,422)</u>	<u>(8,499)</u>	<u>—</u>	<u>(16,040)</u>		<u>(81,961)</u>
Net income (loss)	<u>\$ 105,547</u>	<u>\$ (13,013)</u>	<u>\$ 68,478</u>	<u>\$ (79,084)</u>		<u>\$ 81,928</u>
Net income per common unit:						
Basic	<u>\$ 0.92</u>			<u>\$ (0.42)</u>	(f)	<u>\$ 0.50</u>
Diluted	<u>\$ 0.92</u>			<u>\$ (0.42)</u>	(f)	<u>\$ 0.50</u>
Weighted average common units outstanding:						
Basic	<u>115,248</u>			<u>49,799</u>	(e)	<u>165,047</u>
Diluted	<u>115,313</u>			<u>49,799</u>	(e)	<u>165,112</u>

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, 2024

(in thousands, except per unit data)

	Mach Natural Resources LP (Historical)	IKAV Companies As Adjusted (See Note 4)	Sabinal Assets As Adjusted (See Note 5)	Transaction Accounting Adjustments (Pro Forma)		Mach Natural Resources LP Combined (Pro Forma)
Revenue						
Oil, natural gas, and NGL sales	\$ 936,785	\$ 271,142	\$ 295,997	\$ —		\$ 1,503,924
(Loss) gain on oil and natural gas derivatives	(18,854)	3,427	—	—		(15,427)
Midstream revenue	24,341	17,287	—	—		41,628
Product sales	27,356	—	—	—		27,356
Gas off-take agreement amortization	—	23,265	—	(23,265)	(a)	—
Other revenues	—	2,805	—	—		2,805
Total revenues	969,628	317,926	295,997	(23,265)		1,560,286
Operating expenses						
Gathering and processing	106,152	65,771	—	—		171,923
Lease operating expense	180,513	101,754	100,618	—		382,885
Production taxes	45,674	25,459	23,005	—		94,138
Midstream operating expense	10,466	—	—	—		10,466
Cost of product sales	24,026	—	—	—		24,026
Depreciation, depletion, amortization and accretion – oil and natural gas	261,949	102,274	—	57,197	(b)	421,420
Depreciation and amortization – other	9,018	3,827	—	2,197	(c)	15,042
General and administrative	33,438	26,713	—	10,500	(g)	70,651
General and administrative – related party	7,400	—	—	—		7,400
Total operating expenses	678,636	325,798	123,623	69,894		1,197,951
Income (loss) from operations	290,992	(7,872)	172,374	(93,159)		362,335
Other (expense) income						
Interest expense	(104,596)	(17,747)	—	(29,466)	(d)	(151,809)
Other income (expense), net	(1,217)	53	—	—		(1,164)
Total other expense	(105,813)	(17,694)	—	(29,466)		(152,973)
Net income (loss)	\$ 185,179	\$ (25,566)	\$ 172,374	\$ (122,625)		\$ 209,362
Net income per common unit:						
Basic	\$ 1.90			\$ (0.48)	(f)	\$ 1.42
Diluted	\$ 1.90			\$ (0.48)	(f)	\$ 1.42
Weighted average common units outstanding:						
Basic	97,591			49,799	(e)	147,390
Diluted	97,701			49,799	(e)	147,500

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 the Company, the IKAV Companies and Sabinal. For purposes of the pro forma balance sheet, it is assumed that each of the Transactions took place on June 30, 2025. For purposes of the pro forma statements of operations, it is assumed that each of the Transactions took place on January 1, 2024.

The pro forma financial statements reflect i) the consummation of the IKAV Acquisition pursuant to the terms of the IKAV MIPA, ii) the consummation of the Sabinal Acquisition pursuant to the terms of the Sabinal PSA and iii) the entrance in the First Amendment to the Company's credit agreement.

In conjunction with the closing of the Transactions, the First Amendment to the Company's credit agreement provided for an increase to the borrowing base of \$700.0 million and established an aggregate term loan commitment amount of \$450.0 million, which was fully funded in connection with the closing of the Transactions. The Company's term loan bears interest at a rate equal to Term SOFR plus a margin of 4.00% per annum.

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 Transactions had actually occurred on January 1, 2024, nor are they indicative of the Company's future results of operations.

These pro forma financial statements should be read in conjunction with the historical financial statements for the three and six months ended June 30, 2025 and for the year ended December 31, 2024 included in the Company's Quarterly Report on Form 10-Q and Annual Report on Form 10-K, respectively, as well as the historical financial statements of the IKAV Companies and Sabinal included herewith.

Note 2 – Purchase Price Allocations

The IKAV Acquisition is expected to be accounted for as a business combination, under the acquisition method, as the Company is obtaining control of a business by obtaining the legal right to use and develop the oil and natural gas properties included in the IKAV MIPA, as well as additional oil and gas related assets that can be used to enhance the value of the business. The allocation of the purchase price for the IKAV Acquisition was based upon management's estimates of and assumptions related to the fair value of assets acquired and liabilities assumed using available information.

The table below reflects the fair value estimates of the assets acquired and liabilities assumed as of the acquisition date. Below is a reconciliation of the assets acquired and liabilities assumed (in thousands, except unit data):

	<u>IKAV Acquisition</u>
Consideration transferred:	
Common units issued	30,611,264
Closing price of common units on September 15, 2025	\$ 13.39
Equity consideration	\$ 409,885
Cash consideration	348,998
Total acquisition consideration	<u>\$ 758,882</u>
Assets acquired:	
Accounts receivable	\$ 55,594
Other current assets	41,998
Proved oil and natural gas properties	728,685
Other property, plant, and equipment	120,483
Other long-term assets	12,498
Total assets to be acquired	<u>959,258</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	73,284
Revenue suspense	17,379
Other current liabilities	4,845
Asset retirement obligations	77,197
Other long-term liabilities	27,671
Total liabilities assumed	<u>200,376</u>
Net assets acquired	<u>\$ 758,882</u>

The Sabinal Acquisition is expected to be accounted for as an asset acquisition as substantially all of the gross fair value of the Sabinal Assets was concentrated in proved oil and natural gas properties, which were considered to be a group of similar identifiable assets. The allocation of the purchase price for the Sabinal Acquisition was based upon management's estimates of and assumptions related to the fair value of assets acquired and liabilities assumed using available information.

The table below reflects the fair value estimates of the assets acquired and liabilities assumed as of the acquisition date. Below is a reconciliation of the assets acquired and liabilities assumed (in thousands, except unit data):

	Sabinal Acquisition
Consideration transferred:	
Common units issued	19,187,580
Closing price of common units on September 15, 2025	\$ 13.39
Equity consideration	\$ 256,922
Cash consideration	207,291
Capitalized transaction costs	3,100
Total acquisition consideration	\$ 467,313
Assets acquired:	
Proved oil and natural gas properties	\$ 522,887
Inventories	5,589
Total assets to be acquired	528,476
Liabilities assumed:	
Accrued liabilities	2,876
Revenue suspense	1,336
Asset retirement obligations	56,951
Total liabilities assumed	61,163
Net assets acquired	\$ 467,313

Note 3 – Pro Forma Adjustments and Assumptions

The pro forma financial statements have been prepared to illustrate the effect of the Transactions 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.

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

- a) Adjustments reflect removal of the historical cost and accumulated depreciation, depletion, and amortization of oil and natural gas properties, offset by recording the preliminary fair value of oil and natural gas properties as a result of the Transactions. The preliminary 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.
- b) Adjustments reflect removal of the historical cost and accumulated depreciation and amortization of other property and equipment, offset by recording the preliminary fair value of other property and equipment as a result of the IKAV Acquisition. The preliminary fair value of the other property and equipment is primarily attributed to the acquired midstream facilities and was assessed by utilizing a discounted cash flow approach.
- c) Adjustments reflect the payoff of debt associated with the IKAV Companies and Sabinal; and the subsequent draw of \$556.3 million under the Company’s amended credit facility to partially fund the cash required to close the Transactions.
- d) Adjustment reflects removal of the historical cost of the gas off-take liability as it is now included within the preliminary fair value of oil and gas properties.
- e) Adjustment reflects elimination of members’ capital of the IKAV Companies and Sabinal as part of purchase accounting.
- f) Adjustment reflects the elimination of cash not acquired from the IKAV Companies in the acquisition.

- g) Adjustment reflects the accrual for transaction costs associated with amending the Company's credit facility and the Transactions. As an offset to the \$23.2 million adjustment to accrued liabilities, \$9.6 million has been capitalized to other assets as this amount relates to deferred financing costs, \$10.5 million is included in general and administrative expense for the year ended December 31, 2024 as this amount relates to transaction costs for the IKAV Acquisition which will be accounted for as a business combination, and \$3.1 million has been capitalized to proved properties as this amount relates to transaction costs for the Sabinal Acquisition which will be accounted for as an asset acquisition.

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

- a) Adjustment reflects elimination of the amortization as a result of removing the gas off-take liability noted in footnote (d) on the pro forma balance sheet.
- b) Adjustments reflect changes to depreciation, depletion and amortization expense that would have been incurred as a result of the preliminary fair value of acquired oil and natural gas properties under the full cost method of accounting.
- c) Adjustments reflect changes to depreciation and amortization of other assets that would have been incurred based on the preliminary fair value of acquired other property and equipment.
- d) Adjustments reflect the elimination of interest expense for the IKAV Companies and Sabinal and the additional interest expense related to the Company's amended credit facility. The increase to the Company's credit facility is made up of a \$450.0 million term loan bearing interest at 8.2% and a \$106.3 million increase to its revolver bearing interest at 7.9%. The impact on interest expense of a 1% (or 100 basis points) increase or decrease in the assumed weighted average interest rate on our increase in variable interest debt would be approximately \$5.6 million per year.
- e) Adjustments reflect the common units issued as consideration transferred for the Transactions on a pro forma basis assuming the common units issued on September 16, 2025 were outstanding from January 1, 2024.
- f) Adjustments reflect the pro forma impact of the Transactions, including the issuance of additional common units of the Company, on the calculation of net income per common unit.
- g) Adjustment reflects the expense for transaction costs associated with the IKAV acquisition as noted above in footnote (g) on the pro forma balance sheet.

Note 4 – Historical Financial Statements of the IKAV Companies

The following tables presents pro forma adjustments to the historical financial statements of the IKAV Companies. Certain reclassification adjustments were made to the financial statement presentation of the IKAV Companies in order to conform with the Company's financial statement presentation.

The historical balance sheets for the IKAV Companies as of June 30, 2025 and related adjustments are presented below (in thousands):

	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Reclassification Adjustments	IKAV Companies As Adjusted
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 24,950	\$ 34,333	\$ —	\$ 59,283
Accounts receivable	52,332	3,032	(55,364)	—
Accounts receivable – related party	230	—	(230)	—
Accounts receivable – joint interest and other, net	—	—	15,092	15,092
Accounts receivable – oil, gas, and NGL sales	—	—	40,502	40,502
Short-term derivative assets	—	1,067	—	1,067
Prepays and other current assets	14,016	2,744	(16,760)	—
Inventories	24,171	—	—	24,171
Other current assets	—	—	16,760	16,760
Total current assets	115,699	41,176	—	156,875
Property, Plant and Equipment:				
Oil and natural gas properties, successful efforts method	813,123	103,697	(916,820)	—
Other property and equipment	14,367	—	(14,367)	—
Total property, plant and equipment	827,490	103,697	(931,187)	—
Less: accumulated depreciation	(324,379)	(34,509)	358,888	—
Property, plant and equipment, net	503,111	69,188	(572,299)	—
Oil and natural gas properties, using the full cost method:				
Proved oil and natural gas properties	—	—	916,820	916,820
Less: accumulated depreciation, depletion and amortization	—	—	(354,499)	(354,499)
Oil and natural gas properties, net	—	—	562,321	562,321
Other property, plant and equipment	—	—	14,367	14,367
Less: accumulated depreciation	—	—	(4,389)	(4,389)
Other property, plant and equipment, net	—	—	9,978	9,978
Intangible assets, net	7,949	—	—	7,949
Other assets	4,297	252	(2,172)	2,377
Operating lease assets	—	—	2,172	2,172
Total assets	<u>\$ 631,056</u>	<u>\$ 110,616</u>	<u>\$ —</u>	<u>\$ 741,672</u>
LIABILITIES AND MEMBERS' CAPITAL				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 51,265	\$ 14,872	\$ (66,137)	\$ —
Accounts payable	—	—	33,312	33,312
Accrued liabilities – related party	23,550	976	(24,526)	—
Accrued liabilities	—	—	39,972	39,972
Revenue payable	—	—	17,379	17,379
Short-term derivative liabilities	526	2,185	—	2,711
Current portion of long-term debt	38,273	11,000	—	49,273
Other current liabilities	2,134	—	(319)	1,815
Current portion of operating lease liabilities	—	—	319	319
Total current liabilities	115,748	29,033	—	144,781
Long-term debt	123,819	45,315	—	169,134
Asset retirement obligations	100,937	180	—	101,117
Long-term derivative liabilities	2,109	7,260	—	9,369
Gas off-take liability	88,385	—	—	88,385
Long-term portion of operating leases	—	—	1,881	1,881
Other long-term liabilities	12,048	6,254	(1,881)	16,421
Total long-term liabilities	327,298	59,009	—	386,307
Members' capital:				
Members' capital	188,231	22,574	—	210,805
Other comprehensive income	(221)	—	—	(221)
Total members' capital	188,010	22,574	—	210,584
Total liabilities and members' capital	<u>\$ 631,056</u>	<u>\$ 110,616</u>	<u>\$ —</u>	<u>\$ 741,672</u>

The historical statements of operations for the IKAV Companies for the six months ended June 30, 2025 and related adjustments are presented below (in thousands):

	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Reclassification Adjustments	IKAV Companies As Adjusted
Revenue				
Oil, gas and plant products	\$ 120,219	\$ —	\$ (120,219)	\$ —
Natural gas	—	16,287	(16,287)	—
Oil, natural gas, and NGL sales	—	—	136,506	136,506
Gain on oil and natural gas derivatives	—	—	(6,865)	(6,865)
Midstream revenue	6,976	—	220	7,196
Gas off-take agreement amortization	10,466	—	—	10,466
Saltwater disposal revenues	220	—	(220)	—
Rental revenue	87	—	—	87
Other revenues	202	—	—	202
Total revenues	138,170	16,287	(6,865)	147,592
Operating expenses				
Gathering and processing	21,394	4,489	—	25,883
Workover	6,647	158	(6,805)	—
Lease operating expense	42,482	2,202	6,805	51,489
Production taxes	10,100	1,663	—	11,763
Midstream operating expense	—	—	—	—
Accretion expense	2,674	9	(2,683)	—
Depreciation, depletion and amortization	37,715	7,119	(44,834)	—
Depreciation, depletion, amortization and accretion – oil and natural gas	—	—	45,805	45,805
Depreciation and amortization – other	—	—	1,712	1,712
General and administrative	2,097	448	12,822	15,367
General and administrative – related party	10,362	2,460	(12,822)	—
Total operating expenses	133,471	18,548	—	152,019
Income (loss) from operations	4,699	(2,261)	(6,865)	(4,427)
Other (expense) income				
Interest expense	(5,688)	(2,838)	—	(8,526)
Foreign currency gain	27	—	(27)	—
(Loss) gain on derivatives, net	(494)	(6,371)	6,865	—
Other income (expense), net	—	—	27	27
Total other expense	(6,155)	(9,209)	6,865	(8,499)
Net loss	\$ (1,456)	\$ (11,470)	\$ —	\$ (12,926)

The historical statements of operations for the IKAV Companies for the year ended December 31, 2024 and related adjustments are presented below (in thousands):

	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Reclassification Adjustments	IKAV Companies As Adjusted
Revenue				
Oil, gas and plant products	\$ 233,905	\$ —	\$ (233,905)	\$ —
Natural gas	—	37,237	(37,237)	—
Oil, natural gas, and NGL sales	—	—	271,142	271,142
Gain on oil and natural gas derivatives	—	—	3,427	3,427
Midstream revenue	16,901	—	386	17,287
Gas off-take agreement amortization	23,265	—	—	23,265
Saltwater disposal revenues	386	—	(386)	—
Other revenues	2,805	—	—	2,805
Total revenues	277,262	37,237	3,427	317,926
Operating expenses				
Gathering and processing	53,236	12,535	—	65,771
Workover	10,471	86	(10,557)	—
Lease operating expense	84,327	6,870	10,557	101,754
Production taxes	22,482	2,977	—	25,459
Midstream operating expense	—	—	—	—
Accretion expense	5,688	13	(5,701)	—
Depreciation, depletion and amortization	79,323	21,077	(100,400)	—
Depreciation, depletion, amortization and accretion – oil and natural gas	—	—	102,274	102,274
Depreciation and amortization – other	—	—	3,827	3,827
(Gain) loss on sale/transfer of assets	(36)	—	36	—
General and administrative	6,588	787	19,338	26,713
General and administrative – related party	13,609	5,729	(19,338)	—
Total operating expenses	275,688	50,074	36	325,798
Income (loss) from operations	1,574	(12,837)	3,391	(7,872)
Other (expense) income				
Interest expense	(12,287)	(5,460)	—	(17,747)
Foreign currency gain	17	—	(17)	—
(Loss) gain on derivatives, net	(4,536)	7,963	(3,427)	—
Other income (expense), net	—	—	53	53
Total other expense	(16,806)	2,503	(3,391)	(17,694)
Net loss	\$ (15,232)	\$ (10,334)	\$ —	\$ (25,566)

Note 5 – Historical Financial Statements of Sabinal

The following tables presents pro forma adjustments to the historical financial statements of Sabinal. In addition to carve-out adjustments for certain oil and natural gas properties and activities that were not acquired from Sabinal as part of the Sabinal Acquisition, certain reclassification adjustments were made to the financial statement presentation of Sabinal in order to conform with the Company's financial statement presentation, including the reclassification of \$35.9 million of unproved properties to proved oil and natural gas properties.

The Company made adjustments to Sabinal's historical balance sheet as of June 30, 2025 and historical statements of operations for the six months ended June 30, 2025 and for the year ended December 31, 2024 as shown below in (a) to reflect the elimination of assets not acquired and liabilities not assumed as part of the Sabinal Acquisition. The historical balance sheet for Sabinal as of June 30, 2025 and related adjustments are presented below (in thousands):

	Sabinal Energy Operating, LLC (Historical)	Sabinal Assets Carve-out Adjustments (a)	Reclassification Adjustments	Sabinal Assets As Adjusted
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,616	\$ (3,616)	\$ —	\$ —
Accounts receivable	34,416	(34,416)	—	—
Short-term derivative assets	11,949	(11,949)	—	—
Prepays and other current assets	6,486	(897)	(5,589)	—
Inventories	—	—	5,589	5,589
Total current assets	56,467	(50,878)	—	5,589
Oil and gas properties, successful efforts:				
Proved properties	1,006,804	—	(1,006,804)	—
Unproved properties	35,880	—	(35,880)	—
Total oil and natural gas properties	1,042,684	—	(1,042,684)	—
Less: accumulated depreciation, depletion and amortization	(353,853)	—	353,853	—
Total oil and natural gas properties, net	688,831	—	(688,831)	—
Oil and natural gas properties, using the full cost method:				
Proved oil and natural gas properties	—	—	1,042,684	1,042,684
Less: accumulated depreciation, depletion and amortization	—	—	(353,853)	(353,853)
Oil and natural gas properties, net	—	—	688,831	688,831
Other property, plant and equipment, net	2,225	(2,225)	—	—
Long-term derivative assets	10,017	(10,017)	—	—
Deferred financing costs, net	3,034	(3,034)	—	—
Operating lease assets	1,996	(1,996)	—	—
Total assets	\$ 762,570	\$ (68,150)	\$ —	\$ 694,420
LIABILITIES AND MEMBERS' CAPITAL				
Current liabilities:				
Accounts payable	\$ 5,025	\$ (5,025)	\$ —	\$ —
Accrued liabilities	23,114	(20,238)	—	2,876
Revenue payable	10,714	(9,378)	—	1,336
Lease liability, current	865	(865)	—	—
Short-term derivative liabilities	1,378	(1,378)	—	—
Asset retirement obligations, current	3,004	(3,004)	—	—
Total current liabilities	44,100	(39,888)	—	4,212
Long-term debt	155,000	(155,000)	—	—
Asset retirement obligations	95,988	(95,988)	—	—
Long-term derivative liabilities	1,370	(1,370)	—	—
Long-term portion of operating leases	1,474	(1,474)	—	—
Total long-term liabilities	253,832	(253,832)	—	—
Members' capital:				
Members' capital	464,638	225,570	—	690,208
Total members' capital	464,638	225,570	—	690,208
Total liabilities and members' capital	\$ 762,570	\$ (68,150)	\$ —	\$ 694,420

The Company made adjustments to Sabinal's historical statements of operations for the six months ended June 30, 2025 as shown below in (a) to reflect the carve-out of revenues and operating expenses for certain oil and natural gas properties that were not acquired from Sabinal as part of the Sabinal Acquisition. The historical statement of operations for Sabinal for the six months ended June 30, 2025 and related adjustments are presented below (in thousands):

	Sabinal Energy Operating, LLC (Historical)	Sabinal Assets Carve-out Adjustments (a)	Reclassification Adjustments	Sabinal Assets As Adjusted
Revenue				
Oil sales	\$ 132,463	\$ (11,258)	\$ (121,205)	\$ —
Natural gas sales	493	(218)	(275)	—
Natural gas liquids sales	2,038	(245)	(1,793)	—
Oil, natural gas, and NGL sales	—	—	123,273	123,273
Total revenues	134,994	(11,721)	—	123,273
Operating expenses				
Workover expenses	10,761	(156)	(10,605)	—
Lease operating expense	33,898	(935)	10,605	43,568
Production taxes	12,050	(823)	—	11,227
Accretion expense	2,706	(2,706)	—	—
Depreciation, depletion and amortization	26,516	(26,516)	—	—
Exploration and abandonment expense	437	(437)	—	—
General and administrative	7,461	(7,461)	—	—
Total operating expenses	93,829	(39,034)	—	54,795
Income from operations	41,165	27,313	—	68,478
Other (expense) income				
Interest expense	(8,374)	8,374	—	—
Gain on derivatives, net	17,851	(17,851)	—	—
Other income (expense), net	3,374	(3,374)	—	—
Total other expense	12,851	(12,851)	—	—
Income before taxes	54,016	14,462	—	68,478
Tax expense	400	(400)	—	—
Net income	\$ 53,616	\$ 14,862	\$ —	\$ 68,478

The Company made adjustments to Sabinal's historical statements of operations for the year ended December 31, 2024 as shown below in (a) to reflect the carve-out of revenues and operating expenses for certain oil and natural gas properties that were not acquired from Sabinal as part of the Sabinal Acquisition. The historical statement of operations for Sabinal for the year ended December 31, 2024 and related adjustments are presented below (in thousands):

	Sabinal Energy Operating, LLC (Historical)	Sabinal Assets Carve-out Adjustments (a)	Reclassification Adjustments	Sabinal Assets As Adjusted
Revenue				
Oil sales	\$ 303,124	\$ (10,287)	\$ (292,837)	\$ —
Natural gas sales	368	(195)	(173)	—
Natural gas liquids sales	3,077	(90)	(2,987)	—
Oil, natural gas, and NGL sales	—	—	295,997	295,997
Total revenues	306,569	(10,572)	—	295,997
Operating expenses				
Workover expenses	32,516	(150)	(32,366)	—
Lease operating expense	69,718	(1,466)	32,366	100,618
Production taxes	24,143	(1,138)	—	23,005
Accretion expense	5,315	(5,315)	—	—
Depreciation, depletion and amortization	51,955	(51,955)	—	—
Exploration and abandonment expense	1,141	(1,141)	—	—
General and administrative	16,116	(16,116)	—	—
Total operating expenses	200,904	(77,281)	—	123,623
Income from operations	105,665	66,709	—	172,374
Other (expense) income				
Interest expense	(19,851)	19,851	—	—
(Loss) on derivatives, net	(7,018)	7,018	—	—
Other income (expense), net	911	(911)	—	—
Total other expense	(25,958)	25,958	—	—
Income before taxes	79,707	92,667	—	172,374
Tax expense	385	(385)	—	—
Net income	\$ 79,322	\$ 93,052	\$ —	\$ 172,374

Note 6 – 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, 2024 for the Company's proved reserves. The Sabinal Acquisition transaction adjustments represent adjustments to remove the effects of properties retained by Sabinal Energy Operating, LLC, which were not included in the Sabinal Acquisition, from the Sabinal 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 Transactions been completed on January 1, 2024 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 Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2024 pursuant to Rule 424(b)(4).

	Oil and Condensate (MBbls)					
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:						
December 31, 2023	75,573	990	—	56,363	(1,271)	131,655
Revisions of previous estimates	(5,762)	(308)	—	3,140	—	(2,930)
Purchases in place	5,015	—	—	—	—	5,015
Extensions, discoveries and other additions	—	—	—	—	—	—
Sales in place	(9)	—	—	—	—	(9)
Production	(7,382)	(64)	—	(4,069)	—	(11,515)
December 31, 2024	<u>67,435</u>	<u>618</u>	<u>—</u>	<u>55,434</u>	<u>(1,271)</u>	<u>122,216</u>
Proved Developed Reserves as of:						
December 31, 2023	49,629	990	—	49,778	—	100,397
December 31, 2024	46,056	618	—	47,339	—	94,013
Proved Undeveloped Reserves as of:						
December 31, 2023	25,944	—	—	6,585	(1,271)	31,258
December 31, 2024	21,379	—	—	8,095	(1,271)	28,203

Natural Gas (MMcf)						
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:						
December 31, 2023	1,106,474	1,449,418	94,618	11,304	(2,375)	2,659,439
Revisions of previous estimates	39,892	(582,610)	(22,936)	(2,426)	—	(568,080)
Purchases in place	26,783	—	—	—	—	26,783
Extensions, discoveries and other additions	—	—	—	—	—	—
Sales in place	—	—	—	—	—	—
Production	(101,147)	(109,777)	(19,134)	(806)	—	(230,864)
December 31, 2024	<u>1,072,002</u>	<u>757,031</u>	<u>52,548</u>	<u>8,072</u>	<u>(2,375)</u>	<u>1,887,278</u>
Proved Developed Reserves as of:						
December 31, 2023	909,372	1,449,418	94,618	8,312	—	2,461,720
December 31, 2024	808,820	757,031	52,548	6,293	—	1,624,692
Proved Undeveloped Reserves as of:						
December 31, 2023	197,102	—	—	2,992	(2,375)	197,719
December 31, 2024	263,182	—	—	1,779	(2,375)	262,586
NGLs (MBbls)						
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:						
December 31, 2023	85,665	20,430	—	2,833	(456)	108,472
Revisions of previous estimates	8,518	(6,502)	—	(230)	—	1,786
Purchases in place	4,456	—	—	—	—	4,456
Extensions, discoveries and other additions	—	—	—	—	—	—
Sales in place	—	—	—	—	—	—
Production	(7,489)	(1,538)	—	(154)	—	(9,181)
December 31, 2024	<u>91,150</u>	<u>12,390</u>	<u>—</u>	<u>2,449</u>	<u>(456)</u>	<u>105,533</u>
Proved Developed Reserves as of:						
December 31, 2023	69,193	20,430	—	2,020	—	91,643
December 31, 2024	66,772	12,390	—	1,887	—	81,049
Proved Undeveloped Reserves as of:						
December 31, 2023	16,472	—	—	813	(456)	16,829
December 31, 2024	24,378	—	—	562	(456)	24,484

	Total (MBoe)					
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Proved Developed and Undeveloped Reserves as of:						
December 31, 2023	345,650	262,990	15,770	61,080	(2,123)	683,366
Revisions of previous estimates	9,404	(103,912)	(3,823)	2,506	—	(95,825)
Purchases in place	13,934	—	—	—	—	13,934
Extensions, discoveries and other additions	—	—	—	—	—	—
Sales in place	(9)	—	—	—	—	(9)
Production	(31,729)	(19,898)	(3,189)	(4,357)	—	(59,173)
December 31, 2024	<u>337,250</u>	<u>139,180</u>	<u>8,758</u>	<u>59,229</u>	<u>(2,123)</u>	<u>542,293</u>
Proved Developed Reserves as of:						
December 31, 2023	270,384	262,990	15,770	53,183	—	602,326
December 31, 2024	247,630	139,180	8,758	50,275	—	445,843
Proved Undeveloped Reserves as of:						
December 31, 2023	75,266	—	—	7,897	(2,123)	81,040
December 31, 2024	89,620	—	—	8,954	(2,123)	96,450

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 the Company’s proved reserves as of December 31, 2024. 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 the Company’s 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 Transactions been completed on January 1, 2024 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 Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2024 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 as of December 31, 2024 is as follows:

	(in thousands)					
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Future cash inflows	\$ 8,120,568	\$ 1,280,146	\$ 83,499	\$ 4,181,606	\$ (99,256)	\$ 13,566,563
Future costs:						
Production costs ¹	(3,489,856)	(794,919)	(67,828)	(1,843,048)	34,607	(6,161,044)
Development costs ²	(1,150,411)	(245,688)	(1,039)	(385,673)	2,721	(1,780,090)
Income taxes ³	(1,099)	—	—	(21,285)	—	(22,384)
Future net cash flows	3,479,202	239,539	14,632	1,931,600	(61,928)	5,603,045
10% annual discount	(1,589,447)	(64,324)	(2,719)	(958,286)	21,384	(2,593,392)
Standardized measure	<u>\$ 1,889,755</u>	<u>\$ 175,215</u>	<u>\$ 11,913</u>	<u>\$ 973,314</u>	<u>\$ (40,544)</u>	<u>\$ 3,009,653</u>

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 Represents Texas franchise tax.

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 for the year ended December 31, 2024 are as follows:

	(in thousands)					
	Mach Natural Resources LP (Historical)	SIMCOE LLC (Historical)	SJ INVESTMENT OPPS LLC (Historical)	Sabinal Energy Operating, LLC (Historical)	Sabinal Acquisition Transaction Adjustments (Pro Forma)	Mach Natural Resources LP Combined (Pro Forma)
Standardized measure, beginning of period	\$ 2,575,808	\$ 935,169	\$ 136,351	\$ 1,064,515	\$ (36,858)	\$ 4,674,985
Revisions of previous quantity estimates	72,769	(686,312)	(33,095)	49,015	—	(597,623)
Changes in estimated future development costs	(91,198)	(15,042)	—	(506)	—	(106,746)
Purchases of minerals in place	111,481	—	—	—	—	111,481
Net changes in prices and production costs	(536,970)	(127,104)	(93,812)	(8,844)	—	(766,730)
Divestiture of reserves	(295)	—	—	—	—	(295)
Accretion of discount	257,686	93,517	13,635	107,622	(3,686)	468,774
Net change in taxes	443	—	—	1,109	—	1,552
Sales of oil and gas produced, net of production costs	(604,446)	(63,389)	(14,769)	(180,312)	—	(862,916)
Development costs incurred during the period	168,617	—	—	23,213	—	191,830
Change in timing of estimated future production and other	(64,140)	38,376	3,603	(82,498)	—	(104,659)
Standardized measure, end of period	<u>\$ 1,889,755</u>	<u>\$ 175,215</u>	<u>\$ 11,913</u>	<u>\$ 973,314</u>	<u>\$ (40,544)</u>	<u>\$ 3,009,653</u>