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

FORM 8-K

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

Date of report (Date of earliest event reported): **June 1, 2021**

LAREDO PETROLEUM, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	**001-35380**	**45-3007926**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

15 W. Sixth Street, Suite 900, Tulsa, Oklahoma	**74119**
(Address of Principal Executive Offices)	(Zip Code)

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

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

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

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

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240-14a-12)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**LPI**	**New York Stock Exchange**

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

Emerging growth company ☐

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

Item 8.01. Other Events.

As previously disclosed in its Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2021 (the "Prior 8-K"), on May 7, 2021, Laredo Petroleum, Inc. (the "Company"), entered into agreements with respect to the Sabalo/Shad Acquisition and the Working Interest Sale, as defined and described in the Prior 8-K. The Company expects the Sabalo/Shad Acquisition to close on or about July 1, 2021, subject to customary closing conditions, and the Working Interest Sale to close on or about the same time as the closing of the Sabalo/Shad Acquisition, subject to closing of the Sabalo/Shad Acquisition and other customary closing conditions.

The Company is filing this Current Report on Form 8-K to disclose the financial statements and information set forth in Item 9.01 hereto.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of business to be acquired.

The audited annual combined financial statements of Sabalo Energy, LLC and Sabalo Operating, LLC (collectively, "Sabalo"), which comprise the balance sheets as of December 31, 2020 and 2019, the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the combined financial statements, are filed as Exhibit 99.1 hereto and incorporated by reference herein.

The unaudited quarterly combined financial statements of Sabalo, which comprise the balance sheet as of March 31, 2021, the related statements of operations, members' equity, and cash flows for the three-month periods ended March 31, 2021 and 2020, and the related notes to the combined financial statements, are filed as Exhibit 99.2 hereto and incorporated by reference herein.

The audited annual financial statements of Shad Permian, LLC ("Shad"), which comprise the balance sheets as of December 31, 2020 and 2019, the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements, are filed as Exhibit 99.3 hereto and incorporated by reference herein.

The unaudited quarterly financial statements of Shad, which comprise the balance sheet as of March 31, 2021, the related statements of income, members' equity, and cash flows for the three-month periods ended March 31, 2021 and 2020, and the related notes to the financial statements, are filed as Exhibit 99.4 hereto and incorporated by reference herein.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of the Company, which comprise the balance sheet as of March 31, 2021, the related statements of operations for the year ended December 31, 2020 and three-month period ended March 31, 2021, and the related notes to the pro forma condensed combined financial information, is filed as Exhibit 99.5 hereto and incorporated by reference herein.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Tranbarger FHK, PLLC with respect to Sabalo audited combined financial statements.
23.2	Consent of Tranbarger FHK, PLLC with respect to Shad audited financial statements.
23.3	Consent of W.D. Von Gonten & Co.
99.1	Audited combined financial statements of Sabalo as of December 31, 2020 and 2019 and for the years ended.
99.2	Unaudited combined financial statements of Sabalo as of March 31, 2021 and for the three-month periods ended March 31, 2021 and March 31, 2020.
99.3	Audited financial statements of Shad as of December 31, 2020 and 2019 and for the years ended.
99.4	Unaudited financial statements of Shad as of March 31, 2021 and for the three-month periods ended March 31, 2021 and March 31, 2020.
99.5	Unaudited pro forma condensed combined financial information of the Company as of March 31, 2021 and for the year ended December 31, 2020 and three-month period ended March 31, 2021.
99.6	Reserves report of W.D. Von Gonten & Co. with respect to Sabalo reserves as of December 31, 2020.
99.7	Reserves report of W.D. Von Gonten & Co. with respect to Shad reserves as of December 31, 2020.
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.

	LAREDO PETROLEUM, INC.
Date: June 1, 2021	By: /s/ Bryan J. Lemmerman
	Bryan J. Lemmerman
	Senior Vice President and Chief Financial Officer

Exhibit 23.1

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

9501 Console Drive, Suite 200, San Antonio, TX 78229 (210) 614-2284

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Laredo Petroleum, Inc. on Form S-3 (File No. 333-230427) and Forms S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of our report dated May 24, 2021, relating to the combined financial statements of Sabalo Energy, LLC and Sabalo Operating, LLC as of December 31, 2020 and 2019 and for the years then ended, which appears in this Current Report on Form 8-K.

/s/ Tranbarger FHK, PLLC

San Antonio, Texas
June 1, 2021

Exhibit 23.2

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

9501 Console Drive, Suite 200, San Antonio, TX 78229 (210) 614-2284

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Laredo Petroleum, Inc. on Form S-3 (File No. 333-230427) and Forms S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of our report dated May 24, 2021, relating to the financial statements of Shad Permian, LLC as of December 31, 2020 and 2019 and for the years then ended, which appears in this Current Report on Form 8-K.

/s/ Tranbarger FHK, PLLC

San Antonio, Texas
June 1, 2021

Exhibit 23.3

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

We consent to the incorporation by reference in the Registration Statements of Laredo Petroleum, Inc. on Form S-3 (File No. 333-230427) and Forms S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of our estimates of reserves contained in our reports entitled “Sabalo Energy, LLC Interests Midland Basin Oil & Gas Assets Estimate of Reserves and Revenues SEC Pricing Case “As of” January 1, 2021,” dated May 5, 2021, and “Shad Permian, LLC Interests Midland Basin Oil & Gas Assets Estimate of Reserves and Revenues SEC Pricing Case “As of” January 1, 2021,” dated May 5, 2021. We further consent to the inclusion of such reports as exhibits to this Current Report on Form 8-K.

Yours truly,

W.D. VON GONTEN & CO.

By: /s/ William D. Von Gonten, Jr.
William D. Von Gonten, Jr.
June 1, 2021

Exhibit 99.1

Sabalo Energy, LLC and Sabalo Operating, LLC

Audited Combined Financial Statements

December 31, 2020 and 2019

Tranbarger FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Sabalo Energy, LLC and Sabalo Operating, LLC

Audited Combined Financial Statements

December 31, 2020 and 2019

Contents

Audited Combined Financial Statements

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

9501 Console Drive, Suite 200, San Antonio, TX 78229 (210) 614-2284

Independent Auditor's Report

To the Members
Sabalo Energy, LLC and Sabalo Operating, LLC
Corpus Christi, Texas

We have audited the accompanying combined financial statements of Sabalo Energy, LLC and Sabalo Operating, LLC (collectively the "Company"), which comprise the combined balance sheets as of December 31, 2020 and 2019, and the related combined statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Sabalo Energy, LLC and Sabalo Operating, LLC as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Tranbarger FHK, PLLC
San Antonio, Texas
May 24, 2021

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED BALANCE SHEETS

December 31,	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,818,849	$ 15,734,982
Time deposits	50,528	50,528
Accounts receivable	26,273,725	41,999,438
Other receivable	14,709	5,194,176
Prepaid expenses	180,710	162,008
Inventory	1,892,024	2,225,239
	48,230,545	65,366,371
Non-current assets		
Oil and gas properties – successful efforts method, net	459,287,254	498,328,842
Property, plant, and equipment, net	1,297,062	1,323,257
Derivative asset, non-current	-	251,763
Total Assets	$ 508,814,861	$ 565,270,233
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 12,140,217	$ 36,069,878
Accrued expenses	1,780,744	704,866
Revenue payables	13,518,466	23,888,285
Prepayments from non-operators	210,460	1,301,139
Derivative liability, current	33,219	9,280,912
Short term borrowings	203,040	184,061
	27,886,146	71,429,141
Non-current liabilities		
Long-term debt, less deferred loan costs	146,549,943	164,109,725
Derivative liability, non-current	2,134,538	-
Accounts payable - related party	26,106,929	18,992,202
Asset retirement obligation	7,039,313	6,632,125
Total liabilities	209,716,869	261,163,193
Members' equity		
Total members' equity	299,097,992	304,107,040
Total Liabilities and Members' Equity	$ 508,814,861	$ 565,270,233

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF OPERATIONS

Years Ended December 31,	2020	2019
REVENUES		
Oil revenue	$ 110,063,067	$ 172,920,335
Gas revenue	1,012,677	1,608,151
Natural gas liquids revenue	2,177,265	3,678,973
Gain on sale of oil and gas properties	-	22,280,399
Total revenues, net	113,253,009	200,487,858
OPERATING EXPENSES		
Production taxes	5,392,859	8,468,232
Lease operating expenses	40,110,007	36,867,094
Depreciation, depletion and amortization	80,163,820	62,877,771
Impairment of oil and gas properties	424,675	3,256,877
Abandonment of oil and gas properties	-	613,193
Accretion of asset retirement obligation	328,210	269,829
Selling, general and administrative	5,367,029	4,646,141
Total operating expenses	131,786,600	116,999,137
OPERATING INCOME (LOSS)	(18,533,591)	83,488,721
OTHER INCOME (EXPENSE)		
Provision for uncollectible receivables	(11,406)	(5,330)
Gain (loss) on derivative instruments, net	20,931,965	(10,018,333)
Interest expense	(7,381,358)	(10,141,367)
Interest income	10,729	72,213
Loss on sale of property and equipment	(3,904)	-
Other income	(19,352)	-
Total other income (expense)	13,526,674	(20,092,817)
INCOME (LOSS) BEFORE INCOME TAXES	(5,006,917)	63,395,904
STATE INCOME TAX EXPENSE	2,131	1,484
NET INCOME (LOSS)	$ (5,009,048)	$ 63,394,420

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF MEMBERS' EQUITY

Years Ended December 31, 2020 and 2019

	Total Members' Equity
Balance at January 1, 2019	$ 240,712,620
Income from the year	63,394,420
Balance at December 31, 2019	304,107,040
Loss from the year	(5,009,048)
Balance at December 31, 2020	$ 299,097,992

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2020	2019
OPERATING ACTIVITIES		
Net income (loss)	$ (5,009,048)	$ 63,394,420
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of oil and gas properties	-	(22,280,399)
Loss on sale of property and equipment	3,904	-
Impairment and abandonment of oil and gas properties	424,675	3,870,070
Depreciation, depletion and amortization	80,163,820	62,877,771
Provision for uncollectible receivables	11,406	5,330
Amortization of loan costs	832,281	676,844
Accretion of asset retirement obligation	328,210	269,829
(Gain) loss on derivative instruments	(20,931,965)	10,018,333
Cash received (settled) on derivative instruments	14,070,573	(3,375,073)
Changes in:		
Receivables	20,893,774	(6,110,830)
Prepaid expenses	(18,702)	72,063
Inventory	333,215	748,094
Accounts payable and accrued expenses	(13,883,990)	(173,168)
Accounts payable related party	7,114,727	34,272,408
Prepayment by non-operators	(1,090,679)	1,277,132
Net cash provided by operating activities	83,242,201	145,542,824
INVESTING ACTIVITIES		
Acquisition of oil and gas properties - Note 14	-	(7,192,953)
Proceeds from sale of oil and gas properties	-	51,829,446
Capital expenditures on oil and gas properties	(60,747,216)	(188,618,539)
Proceeds from sale of property and equipment	2,000	-
Capital expenditures on property and equipment	(40,034)	(54,396)
Net cash used in investing activities	(60,785,250)	(144,036,442)
FINANCING ACTIVITIES		
Advances on long-term debt	-	10,000,000
Payments on long-term debt	(18,000,000)	(15,000,000)
Advances on short-term borrowings	298,754	351,732
Payments on short-term borrowings	(279,775)	(276,506)
Loan costs paid	(392,063)	(693,750)
Net cash used in financing activities	(18,373,084)	(5,618,524)
Net increase (decrease) in cash and cash equivalents	4,083,867	(4,112,142)
Cash and cash equivalents at beginning of year	15,734,982	19,847,124
Cash and cash equivalents at the end of the year	$ 19,818,849	$ 15,734,982

See notes to the combined financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Sabalo Energy, LLC and Sabalo Operating, LLC (collectively the “Company”) were formed to focus on leasing, acquiring, drilling, operating, and developing oil and gas properties in the United States. The Company primarily operates in Texas.

Basis of Preparation

These combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”). The accounting policies set out below have been applied in preparing the combined financial statements for the years ended December 31, 2020 and 2019.

Principles of Combination

Sabalo Operating, LLC (“Operating”) is the operator of record on all properties owned by Sabalo Energy LLC (“Energy”) under the Joint Operating Agreement (“JOA”) between all working interest owners of each property. As operator, Operating is responsible under the JOA to drill wells, maintain production, pay for costs to drill and operate wells, collect revenues and distribute revenues as approved by the owners, including Energy and other third parties. Additionally, Energy has executed a Management Agreement whereby Operating provides services to develop the properties, pay the costs, collect revenues and distribute to owners. Due to this relationship, the combined financial statements include the financial information of Sabalo Energy, LLC, Sabalo Operating, LLC and Sabalo Energy, Inc. Sabalo Energy, Inc. is the .01% general owner of Sabalo Energy, LLC. Energy and Operating are effectively 100% owned by Sabalo Holdings, LLC. All intercompany amounts have been eliminated upon combination.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the combined financial statements. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the estimate of the fair value of the derivative asset/liability.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of unproved evaluated properties, the collectability of outstanding accounts receivable, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. The Company’s reserve estimates were determined by an independent petroleum engineering firm.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of oil and natural gas. Changes in these assumptions may materially affect these significant estimates in the near term.

Oil and Gas Properties

The carrying value of the Company’s oil and gas properties represents the cost to acquire or develop the asset, including any asset retirement obligations and capitalized interest, net of accumulated depreciation, depletion and amortization “DD&A”) and any impairment charges. For assets acquired, the cost of oil and gas properties are based on fair values at the acquisition date. Asset retirement obligations and interest costs incurred in connection with qualifying capital expenditures are capitalized and amortized over the lives of the related assets.

The Company uses the successful efforts method to account for its oil and gas properties. Under this method, the Company capitalizes costs of acquiring properties, costs of drilling successful exploration wells and development costs. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. If proved reserves have been found, the costs of exploratory wells remain capitalized. Otherwise, the Company charges the costs of the related wells to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. The Company generally expenses the costs of such exploratory wells if a determination of proved reserves has not been made within a 12-month period after drilling is complete.

The Company determines depreciation and depletion of oil and gas properties by the unit-of-production method. It amortizes acquisition costs over total proved reserves, and capitalized development and successful exploration costs over proved developed reserves.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, for known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The Company has proved oil and gas reserves for which the determination of economic productivity is subject to the completion of major additional capital expenditure as of December 31, 2020 which totaled $772 million.

The Company performs impairment tests with respect to its proved properties whenever events or circumstances indicate that the carry value of property may not be recoverable. If there is an indication the carrying amount of the asset may not be recovered due to declines in current and forward prices, significant changes in reserve estimates, changes in management's plans, or other significant events, management will evaluate the property for impairment. Under the successful efforts method, if the sum of the undiscounted cash flows is less than the carrying value of the proved property, the carrying value is reduced to estimated fair value and reported as an impairment charge in the period. Individually proved properties are grouped for impairment purposes at the lowest level for which there are identifiable cash flows, which is generally on a field by field basis. The impairment test incorporates a number of assumptions involving expectations of future cash flows which can change significantly over time. These assumptions include estimates of future product prices, contractual prices, estimates of risk-adjusted proved oil and gas reserves and estimates of future operating and development costs.

A portion of the carrying value of the Company's oil and gas properties is attributable to unproved properties. The unproved amounts are not subject to DD&A until they are classified as proved properties. Capitalized costs attributable to the properties become subject to DD&A when proved reserves are assigned to the property.

If the exploration efforts are unsuccessful, or management decides not to pursue development of these properties as a result of lower commodity prices, higher development and operating costs, contractual conditions or other factors, the capitalized costs of the related properties would be expensed. The timing of any write-downs of these unproved properties, if warranted, depends upon management's plans, the nature, timing and extent of future exploration and development activities and their results. In 2020 and 2019, impairment on unproved property of $424,675 and $3,870,070, respectively was recognized.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. The cost of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to current operations.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years. Such rates are calculated to reduce the cost of assets to their estimated residual values over their expected useful lives. The expected useful lives of property, plant and equipment are reviewed annually.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Time Deposits

Time deposits are certificates of deposit held for collateral for a letter of credit amounting to $50,528 as of December 31, 2020 and 2019. No balance is outstanding on the letter of credit as of December 31, 2020 or 2019.

Prepaid Expenses

Prepaid expenses represent payments for insurance, software, and deposits on well studies that will benefit future periods. Prepaid expenses totaled $180,710 and $162,008 as of December 31, 2020 and 2019, respectively.

Accounts Receivable

Accounts receivable are stated net of a provision for amounts estimated to be uncollectible. Accounts receivable primarily consist of accrued revenues from oil and gas sales and amounts due from other working interest owners. The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company creates a provision against a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of such provision may be reasonably estimated. No allowance for doubtful accounts was considered necessary as of December 31, 2020 and 2019.

Inventory

Inventories are carried at the lower of cost or market and consisted of the following at December 31:

	2020	2019
Crude oil held-for-sale	$ 445,142	$ 832,127
Materials used in oil and gas operations	1,154,147	700,527
Water used in oil and gas operations	292,735	692,585
	$ 1,892,024	$ 2,225,239

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

The Company uses derivative contracts to hedge the effects of fluctuations in the prices of oil and natural gas. Such derivative instruments are accounted for in accordance with ASC 815, "*Derivatives and Hedging,*" which establishes accounting and disclosure requirements for derivative instruments and requires them to be measured at fair value and recorded as assets or liabilities in the combined balance sheets.

Under ASC 815, hedge accounting is used to defer recognition of unrealized changes in the fair value of such financial instruments, for those contracts which qualify as cash flow hedges, as defined in the standard. The Company has not designated any of its derivative contracts as fair value or cash flow hedges. Accordingly, the changes in fair value of the contracts, as well as settlements received or paid, are included in the combined statement of income.

Accounts Payable and Accruals

Liabilities are recognized for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

Asset Retirement Obligations

The initial estimated asset retirement obligation related to property, plant and equipment is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property, plant and equipment. If the fair value of the recorded asset retirement obligation changes, a revision is recorded to both the asset retirement obligation and the asset retirement cost.

Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are depreciated using a systematic and rational method similar to that used for the associated property and equipment. Accretion of the liability is recognized over the estimated productive life of the related assets.

Revenue Recognition

Under Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, ("ASC 606"), oil, natural gas and NGL sales revenues are recognized when control of the product is transferred to the customer, the performance obligations under the terms of the contracts with customers are satisfied and collectability is reasonably assured. All of the Company's oil, natural gas and NGL sales are made under contracts with customers. The performance obligations for the Company's contracts with customers are satisfied at a point in time through the delivery of oil and natural gas to its customers.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company typically receives payment for oil, natural gas and NGL sales within 30 days of the month of delivery. The Company's contracts for oil, natural gas and NGL sales are standard industry contracts that include variable consideration based on the monthly index price and adjustments that may include counterparty-specific provisions related to volumes, price differentials, discounts and other adjustments and deductions.

The Company's product types are as follows:

Oil Revenue – Under the Company's oil sales contracts, the Company generally sells oil to the purchaser at or near the wellhead, and collects a contractually agreed upon index price, net of pricing and gathering and transportation differentials. The Company transfers control of the product to the purchaser at or near the wellhead and recognizes revenue based on the net price received.

Natural Gas and NGL Revenue – Under the Company's natural gas sales contracts, the Company delivers and transfers control of natural gas to the purchaser at delivery points at or near the wellhead. The purchaser gathers and processes the natural gas and sells the resulting residue gas and NGLs. The Company receives its contractual portion of the proceeds for the sale of the residue gas and NGLs at an agreed upon index price, net of pricing differentials and applicable selling expenses including gathering, processing and fractionation costs. The Company recognizes revenue at the net price when control transfers to the purchaser.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligation, as allowed under ASC 606. Under the Company's oil, natural gas and NGL sales contracts, each unit of product delivered to the customer represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract Balances – Under the Company's product sales contracts, it has the right to invoice its customers once the performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period Performance Obligations – The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for certain natural gas and natural gas liquids sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between its revenue estimates and actual revenue received historically have not been significant.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company is not a taxpaying entity for federal income tax purposes; accordingly, a provision for income taxes has not been recorded in the accompanying financial statements. Income or losses from disregarded entities are reflected in the member's individual or corporate income tax returns. The Company does pay franchise taxes, which are considered income taxes under the authoritative guidance. The Company's current year and prior three years tax returns remain open for examination by the taxing authorities.

The Company has adopted the provisions of FASB Accounting Standards Codification 740, *Income Taxes* ("ASC 740"), effective January 1, 2009. ASC 740 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash, cash equivalents, short term loans and accounts receivable. The Company maintains its cash in bank deposit accounts; which, at times, may exceed the federally insured limits set forth by the Federal Deposit Insurance Corporation ("FDIC"). The Company monitors the financial condition of the institutions whereby these deposits are maintained and has not experienced any losses associated with its accounts. As of December 31, 2020, the Company has uninsured deposits totalling $21,277,609.

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond its control. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic.

The Company cannot predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect its financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Similarly, any improvement in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources.

The Company's customer concentration may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company manages credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all of the Company's customers are concentrated in the oil and gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. The Company believes that the loss of any of its major purchasers would not have a long-term material adverse effect on its operations.

Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Company's policy is to recognize these costs when actually paid.

Advertising

The Company expenses all advertising costs as incurred, and such expenses were not significant for the years ended December 31, 2020 and 2019.

Contingent Revenue from Sale

The Company is entitled to contingent consideration in relation to the sale detailed at Note 14 if certain conditions are met over a three year period. The Company will recognize the amount earned into gain income upon the condition being met. No revenue will be recognized if the condition is not met.

Deferred Financing Costs

Deferred financing costs are stated at cost, net of amortization, and as a direct reduction from the carrying value of long term debt on the combined balance sheets. Amortization of deferred financing costs is computed using the straight line method over the life of the loan. Amortization of deferred financing costs of $832,281 and $676,844 was recorded for the years ended December 31, 2020 and 2019, respectively.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Values

As defined in FASB ASC Topic No. 820-10 Fair Value Measurements, fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic No. 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 – Inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable and are typically based on our own assumptions, including situations where there is little, if any, market activity.

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, accounts receivable, borrowings, accounts payable and accrued expenses, approximate their fair values because of the short maturity of these instruments and market rates of interest available to the Company. The valuation assumptions the Company has used to measure the fair value of its commodity derivatives were observable inputs based on market data obtained from independent sources and are considered Level 2 inputs (quoted prices for similar assets, liabilities and market-corroborated inputs).

Assets and liabilities measured at fair value on a recurring basis

Certain assets and liabilities are reported at fair value on a recurring basis in the combined balance sheets. The following methods and assumptions were used to estimate fair value:

Commodity derivative instruments. The fair value of commodity derivative instruments is derived using an income approach valuation model that utilizes market-corroborated inputs that are observable over the term of the derivative contract. The Company's fair value calculations also incorporate an estimate of the counterparties' default risk for derivative assets and an estimate of the Company's default risk for derivative liabilities.

The Company believes that the majority of the inputs used to calculate the commodity derivative instruments fall within Level 2 of the fair value hierarchy based on the wide availability of quoted market prices for similar commodity derivative contracts. See Note 6 for additional information regarding the Company's derivative instruments.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table presents the Company's assets and (liabilities) measured at fair value on a recurring basis:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020				
Derivative instruments, net	$ -	$ (2,167,757)	$ -	$ (2,167,757)
December 31, 2019				
Derivative instruments, net	$ -	$ (9,029,149)	$ -	$ (9,029,149)

Statement of Cash Flows

Supplemental information on cash flows for the years ended December 31 were as follows:

	2020	2019
Property additions financed (paid) through accounts payable and through accruals	$ 19,339,612	$ 17,138,037
Interest paid	$ 6,549,077	$ 9,586,687
Asset retirement obligation net additions	$ 78,978	$ 954,371
Interest received	$ 10,729	$ 72,213

2. OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Gross balances of oil and gas properties and property, plant and equipment at December 31 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at January 1, 2019	$ 132,472,608	$ 323,643,219	$ 456,115,827	$ 1,544,743
Property acquisition costs	8,805,851	-	8,805,851	54,396
Development costs	-	171,106,240	171,106,240	-
Properties sold	-	(29,549,047)	(29,549,047)	-
Transfer to proved properties	(68,214,483)	68,214,483	-	-
Balance December 31, 2019	73,063,976	533,414,895	606,478,871	1,599,139
Property acquisition costs	494,966	-	494,966	40,034
Development costs	-	40,991,616	40,991,616	-
Properties sold	-	-	-	(5,904)
Transfer to proved properties	(63,997,506)	63,997,506	-	-
Balance at December 31, 2020	$ 9,561,436	$ 638,404,017	$ 647,965,453	$ 1,633,269

Changes in accumulated depreciation, depletion and amortization for the years ended December 31 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at January 1, 2019	$ -	$ 41,459,519	$ 41,459,519	$ 218,551
Impairment and abandonment	3,870,070	-	3,870,070	-
Depreciation, depletion and amortization	-	62,820,440	62,820,440	57,331
Balance at December 31, 2019	3,870,070	104,279,959	108,150,029	275,882
Impairment and abandonment	424,675	-	424,675	-
Depreciation, depletion and amortization	-	80,103,495	80,103,495	60,325
Transfer to proved properties	(3,870,070)	3,870,070	-	-
Balance at December 31, 2020	424,675	188,253,524	188,678,199	336,207
Net assets at December 31, 2020	$ 9,136,761	$ 450,150,493	$ 459,287,254	$ 1,297,062

3. ASSET RETIREMENT OBLIGATIONS

The change in asset retirement obligations for the years ended December 31, were as follows:

	2020	2019
January 1,	$ 6,632,125	$ 5,407,925
Additions	78,978	954,371
Accretion	328,210	269,829
Deletions	-	-
At December 31,	$ 7,039,313	$ 6,632,125

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of December 31:

	2020	2019
Revenue receivable	$ 18,392,374	$ 30,272,788
Joint interest receivables	5,968,571	9,614,145
Accrued revenue	1,912,780	2,112,505
Total accounts receivable	$ 26,273,725	$ 41,999,438

5. GENERAL AND ADMINISTRATIVE

General and administrative expenses consisted of the following for the years ended December 31:

	2020	2019
Staff costs	$ 2,975,784	$ 2,535,083
Professional fees	982,101	1,181,264
Insurance	41,002	37,256
Communications	20,706	43,422
Occupancy	397,067	386,439
Travel and entertainment	69,640	149,796
Other	880,729	312,881
Total general and administrative	$ 5,367,029	$ 4,646,141

6. DERIVATIVE FINANCIAL INSTRUMENTS

Objectives and Strategies for Using Derivative Instruments

The Company is exposed to fluctuations in oil and natural gas prices received for its production. Consequently, the Company believes it is prudent to manage the variability in cash flows on a portion of its oil and natural gas production. The Company utilizes a mix of collars, swaps, put and call options and similar derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices. The Company does not use these instruments for speculative or trading purposes.

Counterparty Risk and Offsetting

The use of derivative instruments exposes the Company to the risk that a counterparty will be unable to meet its commitments. While the Company monitors counterparty creditworthiness on an ongoing basis, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk.

Should one of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices while continuing to be obligated under higher commodity price contracts subject to any right of offset under the agreements. Counterparty credit risk is considered when determining the fair value of a derivative instrument; see Note 1 for additional information regarding fair value.

The Company executes commodity derivative contracts under master agreements with netting provisions that provide for offsetting assets against liabilities. In general, if a party to a derivative transaction incurs an event of default, as defined in the applicable agreement, the other party will have the right to demand the posting of collateral, demand a cash payment transfer or terminate the arrangement.

Financial Statement Presentation and Settlements

Settlements of the Company's derivative instruments are based on the difference between the contract price or prices specified in the derivative instrument and a benchmark price, such as the NYMEX price. To determine the fair value of the Company's derivative instruments, the Company utilizes present value methods that include assumptions about commodity prices based on those observed in underlying markets. See Note 1 for additional information regarding fair value.

Derivatives not Designated as Hedging Instruments

The Company records its derivative contracts at fair value in the combined balance sheets and records changes in fair value as a gain or loss on derivative contracts in the combined statements of income. Cash settlements are also recorded as a gain or loss on derivative contracts in the combined statements of income.

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In 2019 and 2020, the Company entered into swaps, basis swaps and collar contracts to reduce its exposure to price risk in the spot market for oil and natural gas. A collar is a combination of two options: a sold call and a purchased put. The sold call establishes the maximum price that the Company will receive for the contracted commodity volumes. The purchased put establishes the minimum price that the Company will receive for the contracted volumes. The contracts settle monthly and are scheduled to coincide with production equivalent to barrels (Bbl) per month. Cash settlement occurs monthly. No derivative contracts have been entered into for trading purpose.

None of the Company's derivative contracts have been designated as fair value or cash flow hedges; accordingly mark-to-market accounting is used to recognize changes in the fair value of derivative contracts in the combined statements of income at each reporting date.

At December 31, 2020, the Company had the following open derivative assets (liabilities):

	Fair Value	Strike	Volume	Expire
Current Asset Fair Value				
Crude Oil Collar:	$ 1,255,132		313,771 bbls	Mar 2021
Ceiling sold price (call)		$ 57.35		
Floor purchase price (put)		52.50		
Second floor purchase price (put)		42.50		
Crude Oil Collar:	1,495,623		375,584 bbls	Sept 2021
Ceiling sold price (call)		58.40		
Floor purchase price (put)		52.50		
Second floor purchase price (put)		42.50		
Crude Oil Collar:	747,808		187,791 bbls	Sept 2021
Ceiling sold price (call)		58.20		
Floor purchase price (put)		52.50		
Second floor purchase price (put)		42.50		
Crude Oil Collar:	218,634		47,029 bbls	Dec 2021
Ceiling sold price (call)		59.60		
Floor purchase price (put)		52.50		
Second floor purchase price (put)		42.50		
Total Current Asset Fair Value	$ 3,717,197			

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Fair Value	Strike	Volume	Expire
Current Liability Fair Value				
Crude Oil Collar:	$ (549,634)		207,439 bbls	Dec 2021
Ceiling sold price (call)		$ 45.20		
Floor purchase price (put)		40.00		
Crude Oil Swap	(1,915,411)	41.89	282,457 bbls	Sept 2021
Crude Oil Basis Swap	(34,675)	0.80	313,771 bbls	Mar 2021
Crude Oil Basis Swap	(224,932)	0.05	305,205 bbls	Dec 2021
Natural Gas Swap	(31,019)	2.65	806,670 mmbtu	Oct 2021
Natural Gas Basis Swap	(994,745)	(1.16)	1,033,750 mmbtu	Dec 2021
Total Current Liability Fair Value	$ (3,750,416)			
Net Current Derivative Fair Value	$ (33,219)			
Non-Current Asset Fair Value				
Natural Gas Collar:	$ 11,076		261,169 mmbtu	Mar 2022
Ceiling sold price (call)		$ 3.34		
Floor purchase price (put)		2.90		
Crude Oil Basis Swap	70,435	0.18	391,305 bbls	Mar 2022
Crude Oil Collar:	-		20,538 bbls	Sept 2022
Ceiling sold price (call)		47.50		
Floor purchase price (put)		40.00		
Total Non-Current Asset Fair Value	$ 81,511			
Non-Current Liability Fair Value				
Natural Gas Basis Swap	$ (11,228)	$ (0.28)	153,490 mmbtu	Mar 2022
Crude Oil Collar:	(257,101)		143,889 bbls	June 2022
Ceiling sold price (call)		45.50		
Floor purchase price (put)		40.00		
Crude Oil Swap	(1,731,451)	43.60	391,305 bbls	Mar 2022
Crude Oil Swap	(216,269)	41.23	36,798 bbls	June 2022
Total Non-Current Liability Fair Value	$ (2,216,049)			
Net Non-Current Derivative Fair Value	$ (2,134,538)			

The fair values of these financial instruments at December 31, 2020 were a loss of $2,167,757 and were included in derivative liabilities on the combined balance sheets.

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At December 31, 2019, the Company had the following open derivative assets (liabilities):

	Fair Value	Strike	Volume	Expire
Current Asset Fair Value				
Natural Gas Collar:	$ 3,986		208,750 mmbtu	Mar 2020
Ceiling sold price (call)		$ 2.95		
Floor purchase price (put)		2.20		
Crude Oil Collar:	-		437,915 bbls	Sept 2020
Ceiling sold price (call)		65.50		
Floor purchase price (put)		55.00		
Crude Oil Collar:	-		247,472 bbls	Dec 2020
Ceiling sold price (call)		57.30		
Floor purchase price (put)		55.00		
Natural Gas Swap	71,597	2.80	127,220 mmbtu	Mar 2020
Natural Gas Swap	107,177	2.42	674,839 mmbtu	Oct 2020
Total Current Asset Fair Value	$ 182,760			
Current Liability Fair Value				
Crude Oil Swap	$ (590,116)	$ 57.06	152,137 bbls	Mar 2020
Crude Oil Swap	(482,256)	57.82	183,273 bbls	June 2020
Crude Oil Collar:	(229,317)		437,925 bbls	Sept 2020
Ceiling sold price (call)		59.70		
Floor purchase price (put)		55.00		
Crude Oil Collar:	(720)		854,448 bbls	Dec 2020
Ceiling sold price (call)		58.30		
Floor purchase price (put)		54.00		
Crude Oil Basis Swap	(4,389,848)	(7.00)	547,500 bbls	Dec 2020
Crude Oil Basis Swap	(3,550,898)	(5.45)	549,000 bbls	Dec 2020
Crude Oil Basis Swap	(220,517)	0.30	310,923 bbls	Dec 2020
Total Current Liability Fair Value	$ (9,463,672)			
Net Current Derivative Fair Value	$ (9,280,912)			

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Fair Value	Strike	Volume	Expire
Non-Current Asset Fair Value				
Crude Oil Collar:	$ -		313,771 bbls	Mar 2021
Ceiling sold price (call)		$ 57.35		
Floor purchase price (put)		52.50		
Gas Basis Swap	494,258	(1.16)	433,735 mmbtu	Dec 2021
Total Non-Current Asset Fair Value	$ 494,258			
Non-Current Liability Fair Value				
Crude Oil Basis Swap	$ (242,495)	$ 0.80	1,037,784 bbls	Mar 2021
Total Non-Current Liability Fair Value	$ (242,495)			
Net Non-Current Derivative Fair Value	$ 251,763			

The fair values of these financial instruments at December 31, 2019 were a loss of $9,029,149 and were included in derivative assets and derivative liabilities on the combined balance sheets.

7. SHORT TERM BORROWINGS

In October 2020, the Company entered into a notes payable for $298,754 with a premium finance company to finance its annual insurance premiums. The note matures in August 2021 and is non-interest bearing. The balance as of December 31, 2020 was $203,040. Imputing interest expense on the short-term borrowings is immaterial for the year ended December 31, 2020.

In October 2019, the Company entered into a note payable for $351,732 with a premium finance company to finance its annual insurance premiums. The note matured in August 2020 and was non-interest bearing. The balance as of December 31, 2019 was $184,061. Imputing interest expense on the short-term borrowings is immaterial for the year ended December 31, 2019.

8. LONG-TERM DEBT

The Company's long-term debt consisted of the following as of December 31:

	2020	2019
Line of credit	$ 147,000,000	$ 165,000,000
Unamortized deferred financing costs	(450,057)	(890,275)
Total carrying value of long-term debt	$ 146,549,943	$ 164,109,725

8. LONG-TERM DEBT (continued)

The Company entered into a reserve based lending facility with certain financial institutions with aggregate commitments from the lenders totalling $150 million; collateralized by oil and gas properties located in the Howard County, Texas area. The interest rate is variable at LIBOR plus the applicable margin in effect, 4.25% at December 31, 2020. Interest is due monthly and principal is due at maturity, February 2022. The Company is subject to certain restrictive covenants, of which these include a current ratio and funded debt ratio. As of December 31, 2020, the Company is in compliance with all such covenants.

9. RELATED PARTY TRANSACTIONS

Accounts Payable

Sabalo Operating, LLC provides operation services which include recordkeeping, management and accounting services for MB Minerals, LP, a related party due to common control. MB Minerals does not have a bank account so all funds earned are held by Sabalo Operating, LLC. The amounts due to MB Minerals, LP as of December 31, 2020 and 2019 were $26,106,929 and $18,992,202, respectively.

10. MEMBERS' EQUITY

Sabalo Energy, LLC (“Energy”) and Sabalo Operating, LLC (“Operating”) are effectively owned 100% by Sabalo Holdings, LLC (“Holdings”). Holdings has provided $40 million and $255 million in funding to Operating and Energy, respectively. No contributions or distributions were received by or made to Holdings in 2020 or 2019.

11. COMMITMENTS AND CONTINGENCIES

Litigation – From time to time, the Company is subject to various legal proceedings arising in the ordinary course of business, including proceedings for which the Company may not have insurance coverage. While many of these matters involve inherent uncertainty, as of the report date, the Company does not currently have any claims or proceedings.

Drilling Rig Contract – The Company enters into drilling rig contracts to ensure availability of desired rigs to facilitate drilling plans. The Company has a short term operating lease for five wells which contains an early termination clause that requires the Company to potentially pay penalties to the third party should the Company cease drilling efforts. These penalties would negatively impact the Company's financial statements upon early contract termination. The contract runs for approximately three months and can be extended if desired.

11. COMMITMENTS AND CONTINGENCIES (continued)

Firm Sale and Transportation Commitments – The Company has committed to deliver, for sale or transportation, volumes of product under certain contractual arrangements that specify the delivery of substantially 100% of the production under a seven year acreage dedication effective October 5, 2017.

Federal and State Regulations – Oil and natural gas exploration, production and related operations are subject to extensive federal and state laws, rules and regulations. Failure to comply with these laws, rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases the cost of doing business and affects profitability. The Company believes that it is in compliance with currently applicable federal and state regulations related to oil and natural gas exploration and production, and that compliance with the current regulations will not have a material adverse impact on the financial position or results of operations of the Company. These rules and regulations are frequently amended or reinterpreted; therefore, the Company is unable to predict the future cost or impact of complying with these regulations.

Environmental – The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of December 31, 2020 or 2019.

As of December 31, 2020 and 2019, the Company had no accrued commitments.

12. OPERATING LEASES

The Company had one lease related to its office space in Corpus Christi, Texas, which expires in 2022. During 2020 and 2019, the Company incurred $357,200 and $351,034, respectively of rent expense related to this lease. Minimum future lease payments on non-cancellable operating leases are as follows:

Year ending December 31,		
2021	$	172,084
2022	$	129,063

13. EMPLOYEE BENEFIT PLAN

The Company provides post-retirement benefits to employees in the form of a 401(k) retirement plan. As of December 31, 2020, the Company offered a matching contribution equal to 100% of salary deferrals that do not exceed 3% of a participant's compensation plus 50% of salary deferrals between 3% and 5%. The Company's contributions to the plan for the years ended December 31, 2020 and 2019 were $87,528 and $90,381, respectively.

14. SALE OF OIL AND GAS PROPERTY

In August 2019, the Company sold a large portion of their salt water disposal facilities located in Howard County, Texas. Costs associated with the properties sold were $29,549,047. The proceeds from the sale of these properties was $51,829,446. The sale resulted in a gain of $22,280,399. The Company now purchases their salt water disposal services from the new buyer. No revenue was generated by the salt water disposal facilities in 2020 or 2019. As part of the sales contract, the Company will receive contingency payments in the following years if they are able to gather specific amounts of water as follows for the twelve months ending June 30:

2021	Cumulative water gathered is greater than 38 million barrels	$	3,500,000
2022	Cumulative water gathered is greater than 65 million barrels	$	3,500,000

The water goal for 2020 was not attained so no contingency payment was received for the year ended December 31, 2020.

15. DRILLING DEVELOPMENT AGREEMENT

On November 21, 2017, the Company entered into a Farmout and Development Agreement with Shad Permian, LLC ("Shad"). Based on the agreement, Shad agreed to fund 75% of the required capital expenditures the Company incurred on the participating wells in exchange for 55% of the net revenue for a specific period of time. Shad's total commitment was approximately $225.2 million from inception to December 31, 2020. Shad participates in 27 wells operated by the Company and 29 wells operated by others owned by the Company in Howard County, Texas. All wells are developed and producing as of December 31, 2018. The Company maintains a drill company statement for Shad's share of capital expenditures and net revenue on the participating wells. The amount owed to the Company from Shad included in accounts receivable totalled $2,362,860 and $2,906,367 as of December 31, 2020 and 2019, respectively. The amount owed by the Company to Shad included in revenues payable totalled $2,545,478 and $4,255,664 as of December 31, 2020 and 2019, respectively.

16. ACQUISITIONS

In November 2019, the Company completed an asset acquisition located in the Permian Basin, primarily located in Howard County, Texas from Callon Petroleum Operating Company for total cash consideration of $7,192,953. The Company acquired the seller’s working interest and net revenue interest in a total of 6 properties. Three of the properties were proved developed totaling $5,577,181 and three properties were proved undeveloped totaling $1,615,772.

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)

Proved Oil and Gas Reserve Quantities

W.D. Von Gonten & Co. (“WDG”), the Company’s independent reserve engineers, estimated 100% of the Company’s proved reserves as of December 31, 2020 and 2019. In accordance with SEC regulations, the reserves as of December 31, 2020 and 2019 were estimated using the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, certain transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the delivery point. The Company’s reserves are reported in three streams: oil, NGL and natural gas.

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

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED) (continued)

The following table disclosed changes in the estimated quantities of proved reserves, all of which are located in the state of Texas for 2020:

	Crude Oil (MBbls)	Natural Gas (MMcf)	Natural Gas Liquids (MBbls)	Total (MBoe)
	(in thousands)			
Proved developed and undeveloped reserves - Beginning of year - January 1, 2020	36,647	31,009	7,711	49,527
Revisions of previous estimates	(7,876)	(9,052)	(1,932)	(11,317)
Extensions and discoveries	32,495	29,989	8,174	45,667
Production	(2,618)	(1,803)	(288)	(3,207)
End of year - December 31, 2020	58,648	50,143	13,665	80,670
Proved developed reserves at beginning of year	20,006	18,388	4,599	27,670
Proved developed reserves at end of year	15,388	9,894	2,695	19,732
Proved undeveloped reserves at beginning of year	16,641	12,621	3,112	21,857
Proved undeveloped reserves at end of year	43,260	40,249	10,970	60,938

For the year ending December 31, 2020, the Company's negative revision of 11,317 Mboe of previously estimated quantities consisted in performance revisions of proved developed producing wells and reduced ultimate recovery due to lower year-end prices resulting in uneconomic reserves in future periods.

For the year ending December 31, 2020, extensions and discoveries of 45,667 Mboe consisted of new horizontal proved undeveloped locations added in the Company's Howard County, Texas acreage, offsetting recently drilled proved developed producing wells.

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED) (continued)

The following table disclosed changes in the estimated quantities of proved reserves, all of which are located in the state of Texas for 2019:

	Crude Oil (MBbls)	Natural Gas (MMcf)	Natural Gas Liquids (MBbls)	Total (MBoe)
		(in thousands)		
Proved developed and undeveloped reserves - Beginning of year - January 1, 2019	19,464	12,435	3,572	25,109
Revisions of previous estimates	(1,987)	3,233	207	(1,242)
Extensions and discoveries	22,200	17,174	4,234	29,296
Production	(3,030)	(1,833)	(302)	(3,638)
End of year - December 31, 2019	36,647	31,009	7,711	49,527
Proved developed reserves at beginning of year	14,743	9,383	2,771	19,078
Proved developed reserves at end of year	20,006	18,388	4,599	27,670
Proved undeveloped reserves at beginning of year	4,721	3,052	801	6,031
Proved undeveloped reserves at end of year	16,641	12,621	3,112	21,857

For the year ending December 31, 2019, the Company's negative revision of 1,242 Mboe of previously estimated quantities consisted in performance revisions of proved developed producing wells.

For the year ending December 31, 2019, extensions and discoveries of 29,296 Mboe consisted of new horizontal proved undeveloped locations added in the Company's Howard County, Texas acreage, offsetting recently drilled proved developed producing wells.

Standardized Measure of Discounted Future Net Cash Flows

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

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED) (continued)

The estimates of future cash flows and future production and development costs as of December 31, 2020 and 2019 are based on the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, certain transportation fees, geographical differentials, marketing 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. Future income tax expenses are computed using the appropriate year-end statutory tax rates applied to the future pretax net cash flows from proved oil, NGL and natural gas reserves, less the tax basis of the Company's oil and natural gas properties. The estimated future net cash flows are then discounted at a rate of 10%.

The following prices were used in the calculation of proved reserves and the standardized measure of discounted future net cash flows for the years ended December 31:

	Benchmark Prices	
	2020	2019
Oil ($/Bbl)	$ 39.57	$ 55.69
Natural gas liquids ($/Bbl)	$ 16.63	$ 21.14
Natural gas ($/MMBtu)	$ 1.98	$ 2.57

	Realized Prices	
	2020	2019
Oil ($/Bbl)	$ 38.45	$ 53.01
Natural gas liquids ($/Bbl)	$ 16.42	$ 17.26
Natural gas ($/MMBtu)	$ 0.89	$ 1.08

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED) (continued)

The following table presents the standardized measure of future net cash flows related to estimated proved oil and natural gas reserves together with changes therein:

	2020	2019
	(In thousands)	
Future cash inflows	$ 2,524,116	$ 2,109,336
Future production costs	(1,018,511)	(824,105)
Future development costs	(772,141)	(334,586)
Future income tax - state	(13,252)	(11,074)
Future net cash flows	720,212	939,571
10% discount for estimated timing of cash flows	(405,261)	(405,065)
Standard measure of discounted future net cash flows	$ 314,951	$ 534,506

It is not intended that the FASB's standardized measure of discounted future net cash flows represent the fair market value of the Company's proved reserves. The Company cautions that the disclosures shown are based on estimates of proved reserve quantities and future production schedules which are inherently imprecise and subject to revision, and the 10% discount rate is arbitrary. In addition, prices and costs as of the measurement date are used in the determinations, and no value may be assigned to probable or possible reserves.

17. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED) (continued)

The following table presents the changes in the standardized measure of discounted future net cash flows related to the proved oil and gas reserves of the Company for the years ended December 31:

	2020	2019
	(In thousands)	
Standardized measure of discounted future net cash flows - beginning of year	$ 534,506	$ 383,457
Changes in the years resulting from:		
Sales, less production costs	(67,750)	(132,872)
Revisions of previous quantity estimates	(140,084)	(28,820)
Extensions, discoveries and other additions	102,442	270,575
Net change in prices and production costs	(201,330)	(117,785)
Net change in estimated future development costs	20,624	10,175
Previously estimated development costs incurred during the period	15,453	83,757
Net changes in taxes	(1,775)	(2,562)
Accretion of discount	54,060	38,699
Timing difference and other	(1,195)	29,882
Standardized measure of discounted future net cash flows - end of year	$ 314,951	$ 534,506

Estimates of economically recoverable oil, NGL and natural gas reserves and of future net cash flows are based upon a number of variable factors and assumptions, all of which are, to some degree, subjective and may vary considerably from actual results. Therefore, actual production, revenues, development and operating expenditures may not occur as estimated. The reserve data are estimates only, are subject to many uncertainties and are based on data gained from production histories and on assumptions as to geologic formations and other matters. Actual quantities of oil, NGL and natural gas may differ materially from the amounts estimated.

18. COVID-19 RISKS AND UNCERTAINTIES

On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency in response to the spread of coronavirus disease 2019 ("COVID-19"). The COVID-19 pandemic and subsequent global recession are having significant effects on global markets, supply chains, businesses, and communities. Going forward, there may be additional negative impacts, including but not limited to losses of revenue, costs for emergency preparedness, or potential shortage of personnel. Management believes the Company is taking appropriate actions to mitigate the negative impacts of the COVID-19 pandemic. However, the full impact of COVID-19 is unknown.

19. SUBSEQUENT EVENTS

The Company has performed a review of subsequent events through May 24, 2021, which is the date the combined financial statements were available for issuance, and concludes there were no other events or transactions occurring during this period that required recognition or disclosure in the financial statements except as disclosed in the notes. Any events occurring after this date have not been factored into the combined financial statements being presented.

20. RECENTLY ISSUED AUTHORITATIVE GUIDANCE

ASU 2016-02, "Leases (Topic 842)." In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary: lessor accounting with the lessee accounting model and *Topic 606*, *Revenue from Contracts with Customers*. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact this change will have on the Company's combined financial statements. Management believes it will have little impact on operating results but will create additional assets and debt obligations, primarily related to leased premises and equipment treated as operating leases under current GAAP.

ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". In August 2017, the FASB provided guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments also simplify the application of the hedge accounting guidance. The amendments in this Update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendment will be effective for annual periods beginning after December 15, 2020 and is not expected to have a significant impact on the Company's combined financial statements.

Sabalo Energy, LLC and Sabalo Operating, LLC

Reviewed Combined Financial Statements

March 31, 2021 and 2020

Tranbarger FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

REVIEWED COMBINED FINANCIAL STATEMENTS

MARCH 31, 2021 AND 2020

Contents

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED BALANCE SHEETS

March 31, 2021 and December 31, 2020

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,171,586	$ 19,818,849
Time deposits	50,528	50,528
Accounts receivable	25,398,157	26,273,725
Other receivable	13,672	14,709
Prepaid expenses	180,710	180,710
Inventory	1,872,989	1,892,024
	49,687,642	48,230,545
Non-current assets		
Oil and gas properties – successful efforts method, net	477,176,772	459,287,251
Property, plant, and equipment, net	1,286,551	1,297,062
Total Assets	$ 528,150,965	$ 508,814,858
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 18,816,444	$ 12,140,217
Accrued expenses	588,436	1,780,744
Revenue payables	15,409,471	13,518,466
Prepayments from non-operators	271,310	210,460
Derivative liability, current	11,519,840	33,219
Short term borrowings	137,694	203,040
	46,743,195	27,886,146
Non-current liabilities		
Long-term debt, less deferred loan costs	146,746,314	146,549,943
Derivative liability, non-current	8,741,839	2,134,538
Accounts payable - related party	28,228,610	26,106,929
Asset retirement obligation	7,129,085	7,039,313
Total liabilities	237,589,043	209,716,869
Members' equity		
Total members' equity	290,561,922	299,097,989
Total Liabilities and Members' Equity	$ 528,150,965	$ 508,814,858

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF OPERATIONS

Three Months Ended March 31,	2021	2020
REVENUES		
Oil revenue	$ 30,671,170	$ 42,377,149
Gas revenue	854,790	30,415
Natural gas liquids revenue	984,149	764,685
Total revenues, net	32,510,109	43,172,249
OPERATING EXPENSES		
Production taxes	1,495,732	2,014,688
Lease operating expenses	8,442,914	11,793,185
Depreciation, depletion and amortization	8,511,233	23,595,821
Accretion of asset retirement obligation	84,013	82,053
Selling, general and administrative	1,462,295	1,976,298
Total operating expenses	19,996,187	39,462,045
OPERATING INCOME	12,513,922	3,710,204
OTHER INCOME (EXPENSE)		
Provision for uncollectible receivables	(22)	-
Gain (loss) on derivative instruments, net	(19,517,348)	44,108,179
Interest expense	(1,810,309)	(2,066,389)
Interest income	126	9,403
Loss on sale of property and equipment	-	(3,904)
Other income	277,740	214,451
Total other income (expense)	(21,049,813)	42,261,740
INCOME (LOSS) BEFORE INCOME TAXES	(8,535,891)	45,971,944
STATE INCOME TAX EXPENSE	176	5,951
NET INCOME (LOSS)	$ (8,536,067)	$ 45,965,993

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF MEMBERS' EQUITY

Three Months Ended March 31, 2021 and 2020

	Total Members' Equity
Balance at January 1, 2021	$ 299,097,989
Loss from the period	(8,536,067)
Balance at March 31, 2021	$ 290,561,922
Balance at January 1, 2020	$ 304,107,040
Income from the period	45,965,993
Balance at March 31, 2020	$ 350,073,033

See notes to the combined financial statements.

SABALO ENERGY, LLC AND SABALO OPERATING, LLC

COMBINED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2021	2020
OPERATING ACTIVITIES		
Net income (loss)	$ (8,536,067)	$ 45,965,993
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on sale of property and equipment	-	3,904
Depreciation, depletion and amortization	8,511,233	23,595,821
Provision for uncollectible receivables	22	-
Amortization of loan costs	196,371	190,773
Accretion of asset retirement obligation	84,013	82,053
(Gain) loss on derivative instruments	19,517,348	(44,108,179)
Cash settled on derivative instruments	(1,423,426)	(542,433)
Changes in:		
Receivables	876,583	23,477,207
Prepaid expenses	-	38,003
Inventory	19,035	378,901
Accounts payable and accrued expenses	8,573,215	(22,410,903)
Accounts payable - related party	2,121,681	927,335
Prepayment by non-operators	60,850	362,419
Net cash provided by operating activities	30,000,858	27,960,894
INVESTING ACTIVITIES		
Capital expenditures on oil and gas properties	(27,578,032)	(27,628,350)
Proceeds from sale of property and equipment	-	2,000
Capital expenditures on property and equipment	(4,743)	(23,462)
Net cash used in investing activities	(27,582,775)	(27,649,812)
FINANCING ACTIVITIES		
Payments on short-term borrowings	(65,346)	(80,564)
Net cash used in financing activities	(65,346)	(80,564)
Net increase in cash and cash equivalents	2,352,737	230,518
Cash and cash equivalents at beginning of year	19,818,849	15,734,982
Cash and cash equivalents at the end of the year	$ 22,171,586	$ 15,965,500

See notes to the combined financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Sabalo Energy, LLC and Sabalo Operating, LLC (collectively the “Company”) were formed to focus on leasing, acquiring, drilling, operating, and developing oil and gas properties in the United States. The Company primarily operates in Texas.

Basis of Preparation

These combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”). The accounting policies set out below have been applied in preparing the combined financial statements.

Principles of Combination

Sabalo Operating, LLC (“Operating”) is the operator of record on all properties owned by Sabalo Energy LLC (“Energy”) under the Joint Operating Agreement (“JOA”) between all working interest owners of each property. As operator, Operating is responsible under the JOA to drill wells, maintain production, pay for costs to drill and operate wells, collect revenues and distribute revenues as approved by the owners, including Energy and other third parties. Additionally, Energy has executed a Management Agreement whereby Operating provides services to develop the properties, pay the costs, collect revenues and distribute to owners. Due to this relationship, the combined financial statements include the financial information of Sabalo Energy, LLC, Sabalo Operating, LLC and Sabalo Energy, Inc. Sabalo Energy, Inc. is the .01% general owner of Sabalo Energy, LLC. Energy and Operating are effectively 100% owned by Sabalo Holdings, LLC. All intercompany amounts have been eliminated upon combination.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the combined financial statements. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the estimate of the fair value of the derivative asset/liability.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of unproved evaluated properties, the collectability of outstanding accounts receivable, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. The Company's reserve estimates were determined by an independent petroleum engineering firm.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of oil and natural gas. Changes in these assumptions may materially affect these significant estimates in the near term.

Oil and Gas Properties

The carrying value of the Company's oil and gas properties represents the cost to acquire or develop the asset, including any asset retirement obligations and capitalized interest, net of accumulated depreciation, depletion and amortization ("DD&A") and any impairment charges. For assets acquired, the cost of oil and gas properties are based on fair values at the acquisition date. Asset retirement obligations and interest costs incurred in connection with qualifying capital expenditures are capitalized and amortized over the lives of the related assets.

The Company uses the successful efforts method to account for its oil and gas properties. Under this method, the Company capitalizes costs of acquiring properties, costs of drilling successful exploration wells and development costs. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. If proved reserves have been found, the costs of exploratory wells remain capitalized. Otherwise, the Company charges the costs of the related wells to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. The Company generally expenses the costs of such exploratory wells if a determination of proved reserves has not been made within a 12-month period after drilling is complete.

The Company determines depreciation and depletion of oil and gas properties by the unit-of-production method. It amortizes acquisition costs over total proved reserves, and capitalized development and successful exploration costs over proved developed reserves.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, for known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The Company has proved oil and gas reserves for which the determination of economic productivity is subject to the completion of major additional capital expenditure as of March 31, 2021 which totaled $787 million.

The Company performs impairment tests with respect to its proved properties whenever events or circumstances indicate that the carry value of property may not be recoverable. If there is an indication the carrying amount of the asset may not be recovered due to declines in current and forward prices, significant changes in reserve estimates, changes in management’s plans, or other significant events, management will evaluate the property for impairment. Under the successful efforts method, if the sum of the undiscounted cash flows is less than the carrying value of the proved property, the carrying value is reduced to estimated fair value and reported as an impairment charge in the period. Individually proved properties are grouped for impairment purposes at the lowest level for which there are identifiable cash flows, which is generally on a field by field basis. The impairment test incorporates a number of assumptions involving expectations of future cash flows which can change significantly over time. These assumptions include estimates of future product prices, contractual prices, estimates of risk-adjusted proved oil and gas reserves and estimates of future operating and development costs.

A portion of the carrying value of the Company’s oil and gas properties is attributable to unproved properties. The unproved amounts are not subject to DD&A until they are classified as proved properties. Capitalized costs attributable to the properties become subject to DD&A when proved reserves are assigned to the property.

If the exploration efforts are unsuccessful, or management decides not to pursue development of these properties as a result of lower commodity prices, higher development and operating costs, contractual conditions or other factors, the capitalized costs of the related properties would be expensed. The timing of any write-downs of these unproved properties, if warranted, depends upon management’s plans, the nature, timing and extent of future exploration and development activities and their results. The Company recorded no impairments during the three months ended March 31, 2021 and 2021.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. The cost of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to current operations.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years. Such rates are calculated to reduce the cost of assets to their estimated residual values over their expected useful lives. The expected useful lives of property, plant and equipment are reviewed annually.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Time Deposits

Time deposits are certificates of deposit held for collateral for a letter of credit amounting to $50,528 as of March 31, 2021 and December 31, 2020. No balance is outstanding on the letter of credit as of March 31, 2021 and December 31, 2020.

Prepaid Expenses

Prepaid expenses represent payments for insurance, software, and deposits on well studies that will benefit future periods. Prepaid expenses totaled $180,710 and $180,710 as of March 31, 2021 and December 31, 2020, respectively.

Accounts Receivable

Accounts receivable are stated net of a provision for amounts estimated to be uncollectible. Accounts receivable primarily consist of accrued revenues from oil and gas sales and amounts due from other working interest owners. The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company creates a provision against a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of such provision may be reasonably estimated. No allowance for doubtful accounts was considered necessary as of March 31, 2021 and December 31, 2020.

Inventory

Inventories are carried at the lower of cost or market and consisted of following at:

	March 31, 2021	December 31, 2021
Crude oil held-for-sale	$ 449,815	$ 445,142
Materials used in oil and gas operations	1,130,439	1,154,147
Water used in oil and gas operations	292,735	292,735
	$ 1,872,989	$ 1,892,024

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments

The Company uses derivative contracts to hedge the effects of fluctuations in the prices of oil and natural gas. Such derivative instruments are accounted for in accordance with ASC 815, "*Derivatives and Hedging,*" which establishes accounting and disclosure requirements for derivative instruments and requires them to be measured at fair value and recorded as assets or liabilities in the combined balance sheets.

Under ASC 815, hedge accounting is used to defer recognition of unrealized changes in the fair value of such financial instruments, for those contracts which qualify as cash flow hedges, as defined in the standard. The Company has not designated any of its derivative contracts as fair value or cash flow hedges. Accordingly, the changes in fair value of the contracts, as well as settlements received or paid, are included in the combined statement of operations.

Accounts Payable and Accruals

Liabilities are recognized for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

Asset Retirement Obligations

The initial estimated asset retirement obligation related to property, plant and equipment is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property, plant and equipment. If the fair value of the recorded asset retirement obligation changes, a revision is recorded to both the asset retirement obligation and the asset retirement cost.

Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are depreciated using a systematic and rational method similar to that used for the associated property and equipment. Accretion of the liability is recognized over the estimated productive life of the related assets.

Revenue Recognition

Under Accounting Standards Codification Topic 606, "*Revenue from Contracts with Customers*," ("ASC 606"), oil, natural gas and NGL sales revenues are recognized when control of the product is transferred to the customer, the performance obligations under the terms of the contracts with customers are satisfied and collectability is reasonably assured. All of the Company's oil, natural gas and NGL sales are made under contracts with customers. The performance obligations for the Company's contracts with customers are satisfied at a point in time through the delivery of oil and natural gas to its customers.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company typically receives payment for oil, natural gas and NGL sales within 30 days of the month of delivery. The Company's contracts for oil, natural gas and NGL sales are standard industry contracts that include variable consideration based on the monthly index price and adjustments that may include counterparty-specific provisions related to volumes, price differentials, discounts and other adjustments and deductions.

The Company's product types are as follows:

Oil Revenue – Under the Company's oil sales contracts, the Company generally sells oil to the purchaser at or near the wellhead, and collects a contractually agreed upon index price, net of pricing and gathering and transportation differentials. The Company transfers control of the product to the purchaser at or near the wellhead and recognizes revenue based on the net price received.

Natural Gas and NGL Revenue – Under the Company's natural gas sales contracts, the Company delivers and transfers control of natural gas to the purchaser at delivery points at or near the wellhead. The purchaser gathers and processes the natural gas and sells the resulting residue gas and NGLs. The Company receives its contractual portion of the proceeds for the sale of the residue gas and NGLs at an agreed upon index price, net of pricing differentials and applicable selling expenses including gathering, processing and fractionation costs. The Company recognizes revenue at the net price when control transfers to the purchaser.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligation, as allowed under ASC 606. Under the Company's oil, natural gas and NGL sales contracts, each unit of product delivered to the customer represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract Balances – Under the Company's product sales contracts, it has the right to invoice its customers once the performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period Performance Obligations – The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for certain natural gas and natural gas liquids sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between its revenue estimates and actual revenue received historically have not been significant.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company is not a taxpaying entity for federal income tax purposes; accordingly, a provision for income taxes has not been recorded in the accompanying financial statements. Income or losses from disregarded entities are reflected in the member's individual or corporate income tax returns. The Company does pay franchise taxes, which are considered income taxes under the authoritative guidance. The Company's current year and prior three years tax returns remain open for examination by the taxing authorities.

The Company has adopted the provisions of FASB Accounting Standards Codification 740, *"Income Taxes"* ("ASC 740"), effective January 1, 2009. ASC 740 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash, cash equivalents, short term loans and accounts receivable. The Company maintains its cash in bank deposit accounts; which, at times, may exceed the federally insured limits set forth by the Federal Deposit Insurance Corporation ("FDIC"). The Company monitors the financial condition of the institutions whereby these deposits are maintained and has not experienced any losses associated with its accounts. As of March 31, 2021, the Company has uninsured deposits totalling $26,292,376.

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond its control. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic.

The Company cannot predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect its financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Similarly, any improvement in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources.

The Company's customer concentration may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company manages credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all of the Company's customers are concentrated in the oil and gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. The Company believes that the loss of any of its major purchasers would not have a long-term material adverse effect on its operations.

Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Company's policy is to recognize these costs when actually paid.

Advertising

The Company expenses all advertising costs as incurred, and such expenses were not significant for the three months ended March 31, 2021 and 2020.

Contingent Revenue from Sale

The Company is entitled to contingent consideration in relation to the sale detailed at Note 14 if certain conditions are met over a three year period. The Company will recognize the amount earned into gain income upon the condition being met. No revenue will be recognized if the condition is not met.

Deferred Financing Costs

Deferred financing costs are stated at cost, net of amortization, and as a direct reduction from the carrying value of long term debt on the combined balance sheets. Amortization of deferred financing costs is computed using the straight line method over the life of the loan. Amortization of deferred financing costs of $196,371 and $190,773 was recorded for the three months ended March 31, 2021 and 2020, respectively.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Values

As defined in FASB ASC Topic No. 820-10,*"Fair Value Measurements,"* fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic No. 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 – Inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable and are typically based on our own assumptions, including situations where there is little, if any, market activity.

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, accounts receivable, borrowings, accounts payable and accrued expenses, approximate their fair values because of the short maturity of these instruments and market rates of interest available to the Company. The valuation assumptions the Company has used to measure the fair value of its commodity derivatives were observable inputs based on market data obtained from independent sources and are considered Level 2 inputs (quoted prices for similar assets, liabilities and market-corroborated inputs).

Assets and liabilities measured at fair value on a recurring basis

Certain assets and liabilities are reported at fair value on a recurring basis in the combined balance sheets. The following methods and assumptions were used to estimate fair value:

Commodity derivative instruments. The fair value of commodity derivative instruments is derived using an income approach valuation model that utilizes market-corroborated inputs that are observable over the term of the derivative contract. The Company's fair value calculations also incorporate an estimate of the counterparties' default risk for derivative assets and an estimate of the Company's default risk for derivative liabilities.

The Company believes that the majority of the inputs used to calculate the commodity derivative instruments fall within Level 2 of the fair value hierarchy based on the wide availability of quoted market prices for similar commodity derivative contracts. See Note 6 for additional information regarding the Company's derivative instruments.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table presents the Company's assets and (liabilities) measured at fair value on a recurring basis:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
March 31, 2021				
Derivative instruments, net	$ -	$ (20,261,679)	$ -	$ (20,261,679)
December 31, 2020				
Derivative instruments, net	$ -	$ (2,167,757)	$ -	$ (2,167,757)

Statement of Cash Flows

Supplemental information on cash flows for the three months ended March 31 were as follows:

	2021	2021
Property additions financed (paid) through accounts payable and through accruals	$ 1,198,291	$ 1,032,695
Interest paid	$ 1,613,938	$ 1,875,616
Asset retirement obligation net additions	$ 5,759	$ -
Interest received	$ 126	$ 9,403

2. OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Gross balances of oil and gas properties and property, plant and equipment were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Gross balance at March 31, 2021	$ 9,265,432	$ 665,085,520	$ 674,350,952	$ 1,638,012
Gross balance at December 31, 2020	$ 9,561,436	$ 638,404,016	$ 647,965,452	$ 1,633,269

For three months ended March 31, 2021 and 2020, $26,615,267 and $27,787,678, respectively was added to the proved properties via capital expenditure. For three months ended March 31, 2021 and 2020, $397,034 and $195,022, respectively was added to the unevaluated properties via capital expenditure. For three months ended March 31, 2021 and 2020, $8,495,979 and $23,580,804, respectively of depletion expense was incurred. For three months ended March 31, 2021 and 2020, $15,254 and $15,017, respectively of depreciation expense was incurred.

2. OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (continued)

Changes in accumulated depreciation and depletion for the period ended March 31, 2021 were:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at December 31, 2020	$ 424,675	$ 188,253,526	$ 188,678,201	$ 336,207
Depreciation, depletion and amortization	-	8,495,979	8,495,979	15,254
Balance at March 31, 2021	424,675	196,749,505	197,174,180	351,461
Net Assets at March 31, 2021	$ 8,840,757	$ 468,336,015	$ 477,176,772	$ 1,286,551

Changes in accumulated depreciation and depletion for the year ended December 31, 2020 were:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at January 1, 2020	$ 3,870,070	$ 104,279,961	$ 108,150,031	$ 275,882
Impairment	424,675	-	424,675	-
Transfer to proved	(3,870,070)	3,870,070	-	-
Depreciation, depletion and amortization	-	80,103,495	80,103,495	60,325
Balance at December 31, 2020	424,675	188,253,526	188,678,201	336,207
Net Assets at December 31, 2020	$ 9,136,761	$ 450,150,490	$ 459,287,251	$ 1,297,062

3. ASSET RETIREMENT OBLIGATIONS

The change in asset retirement obligations for the three months ended March 31, were as follows:

	2021	2021
January 1,	$ 7,039,313	$ 6,632,125
Additions	5,759	-
Accretion	84,013	82,053
Deletions	-	-
At March 31,	$ 7,129,085	$ 6,714,178

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

	March 31, 2021	December 31, 2021
Revenue receivable	$ 21,678,379	$ 18,392,374
Joint interest receivables	1,621,859	5,968,571
Accrued revenue	2,097,919	1,912,780
Total accounts receivable	$ 25,398,157	$ 26,273,725

5. GENERAL AND ADMINISTRATIVE

General and administrative expenses consist of the following for the three months ended March 31:

	2021	2021
Staff costs	$ 982,520	$ 909,134
Professional fees	246,813	467,145
Insurance	1,373	3,792
Communications	9,397	7,734
Occupancy	96,277	97,415
Travel and entertainment	13,894	27,882
Other	112,021	463,196
Total general and administrative	$ 1,462,295	$ 1,976,298

6. DERIVATIVE FINANCIAL INSTRUMENTS

Objectives and Strategies for Using Derivative Instruments

The Company is exposed to fluctuations in oil and natural gas prices received for its production. Consequently, the Company believes it is prudent to manage the variability in cash flows on a portion of its oil and natural gas production. The Company utilizes a mix of collars, swaps, put and call options and similar derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices. The Company does not use these instruments for speculative or trading purposes.

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Risk and Offsetting

The use of derivative instruments exposes the Company to the risk that a counterparty will be unable to meet its commitments. While the Company monitors counterparty creditworthiness on an ongoing basis, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk.

Should one of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices while continuing to be obligated under higher commodity price contracts subject to any right of offset under the agreements. Counterparty credit risk is considered when determining the fair value of a derivative instrument; see Note 1 for additional information regarding fair value.

The Company executes commodity derivative contracts under master agreements with netting provisions that provide for offsetting assets against liabilities. In general, if a party to a derivative transaction incurs an event of default, as defined in the applicable agreement, the other party will have the right to demand the posting of collateral, demand a cash payment transfer or terminate the arrangement.

Financial Statement Presentation and Settlements

Settlements of the Company's derivative instruments are based on the difference between the contract price or prices specified in the derivative instrument and a benchmark price, such as the NYMEX price. To determine the fair value of the Company's derivative instruments, the Company utilizes present value methods that include assumptions about commodity prices based on those observed in underlying markets. See Note 1 for additional information regarding fair value.

Derivatives not Designated as Hedging Instruments

The Company records its derivative contracts at fair value in the combined balance sheets and records changes in fair value as a gain or loss on derivative contracts in the combined statements of income. Cash settlements are also recorded as a gain or loss on derivative contracts in the combined statements of income.

The Company entered into swaps, basis swaps and collar contracts to reduce its exposure to price risk in the spot market for oil and natural gas. A collar is a combination of two options: a sold call and a purchased put. The sold call establishes the maximum price that the Company will receive for the contracted commodity volumes. The purchased put establishes the minimum price that the Company will receive for the contracted volumes. The contracts settle monthly and are scheduled to coincide with production equivalent to barrels (Bbl) per month. Cash settlement occurs monthly. No derivative contracts have been entered into for trading purpose.

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

None of the Company's derivative contracts have been designated as fair value or cash flow hedges; accordingly mark-to-market accounting is used to recognize changes in the fair value of derivative contracts in the combined statements of income at each reporting date.

At March 31, 2021, the Company had the following open derivative assets (liabilities):

	Fair Value	Strike	Volume	Expire
Current Asset Fair Value				
Natural Gas Collar:	$ 11,738		261,169 mmbtu	Mar 2022
Ceiling sold price (call)		$ 3.34		
Floor purchase price (put)		2.90		
Total Current Asset Fair Value	$ 11,738			
Current Liability Fair Value				
Crude Oil Collar:	$ (2,532,692)		207,439 bbls	Dec 2021
Ceiling sold price (call)		$ 45.20		
Floor purchase price (put)		40.00		
Crude Oil Basis Swap	(217,156)	0.18	391,305 bbls	Mar 2022
Crude Oil Swap	(2,251,358)	42.11	130,564 bbls	Sept 2021
Crude Oil Swap	(5,606,148)	43.60	391,305 bbls	Mar 2022
Crude Oil Basis Swap	(180,111)	0.05	305,205 bbls	Dec 2021
Natural Gas Swap	(14,819)	2.58	438,973 mmbtu	Oct 2021
Natural Gas Basis Swap	(11,229)	(0.28)	153,490 mmbtu	Mar 2022
Natural Gas Basis Swap	(718,065)	(1.16)	763,750 mmbtu	Dec 2021
Total Current Liability Fair Value	$ (11,531,578)			
Net Current Derivative Fair Value	$ (11,519,840)			

6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Fair Value	Strike	Volume	Expire
Non-Current Liability Fair Value				
Crude Oil Collar:	$ (154,233.0)		20,538 bbls	Sept 2022
Ceiling sold price (call)		47.50		
Floor purchase price (put)		40.00		
Crude Oil Collar:	(82,094)		19,441 bbls	Dec 2022
Ceiling sold price (call)		50.20		
Floor purchase price (put)		45.00		
Crude Oil Collar:	(1,558,108)		143,889 bbls	June 2022
Ceiling sold price (call)		45.50		
Floor purchase price (put)		40.00		
Crude Oil Basis Swap	(366,988)	0.40	1,034,124 bbls	Dec 2022
Crude Oil Swap	(6,033,558)	49.85	780,660 bbls	June 2022
Crude Oil Swap	(546,858)	41.23	36,798 bbls	June 2022
Total Non-Current Liability Fair Value	$ (8,741,839)			
Net Non-Current Derivative Fair Value	$ (8,741,839)			

The fair values of these financial instruments at March 31, 2021 were a loss of $20,261,679 and were included in derivative liabilities on the combined balance sheets.

7. SHORT TERM BORROWINGS

In October 2020, the Company entered into a notes payable for $298,754 with a premium finance company to finance its annual insurance premiums. The note matures in August 2021 and is non-interest bearing. The balance as of March 31, 2021 was $137,694. Imputing interest expense on the short-term borrowings is immaterial for the year ended March 31, 2021.

In October 2019, the Company entered into a note payable for $351,732 with a premium finance company to finance its annual insurance premiums. The note matured in August 2020 and was non-interest bearing. The balance as of December 31, 2020 was $203,040. Imputing interest expense on the short-term borrowings is immaterial for the year ended December 31, 2020.

8. LONG-TERM DEBT

The Company's long-term debt consisted of the following as of:

	March 31, 2021	December 31, 2021
Line of credit	$ 147,000,000	$ 147,000,000
Unamortized deferred financing costs	(253,686)	(450,057)
Total carrying value of long-term debt	$ 146,746,314	$ 146,549,943

The Company entered into a reserve based lending facility with certain financial institutions with aggregate commitments from the lenders totalling $150 million; collateralized by oil and gas properties located in the Howard County, Texas area. The interest rate is variable at LIBOR plus the applicable margin in effect, 4.25% at March 31, 2021. Interest is due monthly and principal is due at maturity, February 2022. The Company is subject to certain restrictive covenants, of which these include a current ratio and funded debt ratio. As of March 31, 2021, the Company is in compliance with all such covenants.

9. RELATED PARTY TRANSACTIONS

Accounts Payable

Sabalo Operating, LLC provides operation services which include recordkeeping, management and accounting services for MB Minerals, LP, a related party due to common control. MB Minerals does not have a bank account so all funds earned are held by Sabalo Operating, LLC. The amounts due to MB Minerals, LP as of March 31, 2021 and December 31, 2020 were $28,228,610 and $26,106,929, respectively.

10. MEMBERS' EQUITY

Sabalo Energy, LLC ("Energy") and Sabalo Operating, LLC ("Operating") are effectively owned 100% by Sabalo Holdings, LLC ("Holdings"). Holdings has provided $40 million and $255 million in funding to Operating and Energy, respectively. No contributions or distributions were received by or made to Holdings for the three months ended March 31, 2021 and 2020.

11. COMMITMENTS AND CONTINGENCIES

Litigation – From time to time, the Company is subject to various legal proceedings arising in the ordinary course of business, including proceedings for which the Company may not have insurance coverage. While many of these matters involve inherent uncertainty, as of the report date, the Company does not currently have any claims or proceedings.

Drilling Rig Contract – The Company enters into drilling rig contracts to ensure availability of desired rigs to facilitate drilling plans. The Company has a short term operating lease for five wells which contains an early termination clause that requires the Company to potentially pay penalties to the third party should the Company cease drilling efforts. These penalties would negatively impact the Company's financial statements upon early contract termination. The contract runs for approximately three months and can be extended if desired.

Firm Sale and Transportation Commitments – The Company has committed to deliver, for sale or transportation, volumes of product under certain contractual arrangements that specify the delivery of substantially 100% of the production under a seven year acreage dedication effective October 5, 2017.

Federal and State Regulations – Oil and natural gas exploration, production and related operations are subject to extensive federal and state laws, rules and regulations. Failure to comply with these laws, rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases the cost of doing business and affects profitability. The Company believes that it is in compliance with currently applicable federal and state regulations related to oil and natural gas exploration and production, and that compliance with the current regulations will not have a material adverse impact on the financial position or results of operations of the Company. These rules and regulations are frequently amended or reinterpreted; therefore, the Company is unable to predict the future cost or impact of complying with these regulations.

Environmental – The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of March 31, 2021.

As of March 31, 2021, the Company had no accrued commitments.

12. OPERATING LEASES

The Company had one lease related to its office space in Corpus Christi, Texas, which expires in 2022. During the three months ended March 31, 2021 and 2020, the Company incurred $89,257 and $90,073, respectively of rent expense related to this lease.

Minimum future lease payments on non-cancellable operating leases are as follows:

Year ending March 31,		
2022	$	172,084
2023	$	86,042

13. EMPLOYEE BENEFIT PLAN

The Company provides post-retirement benefits to employees in the form of a 401(k) retirement plan. As of March 31, 2021, the Company offered a matching contribution equal to 100% of salary deferrals that do not exceed 3% of a participant's compensation plus 50% of salary deferrals between 3% and 5%. The Company's contributions to the plan for the three months ended March 31, 2021 and 2020 were $22,520 and $22,520, respectively.

14. SALE OF OIL AND GAS PROPERTY

In August 2019, the Company sold a large portion of their salt water disposal facilities located in Howard County, Texas. Costs associated with the properties sold were $29,549,047. The proceeds from the sale of these properties was $51,829,446. The sale resulted in a gain of $22,280,399. The Company now purchases their salt water disposal services from the new buyer. No revenue was generated by the salt water disposal facilities in the three months ended March 31, 2021 or 2020. As part of the sales contract, the Company will receive contingency payments in the following years if they are able to gather specific amounts of water as follows for the twelve months ending June 30:

2021	Cumulative water gathered is greater than 38 million barrels	$	3,500,000
2022	Cumulative water gathered is greater than 65 million barrels	$	3,500,000

15. DRILLING DEVELOPMENT AGREEMENT

On November 21, 2017, the Company entered into a Farmout and Development Agreement with Shad Permian, LLC ("Shad"). Based on the agreement, Shad agreed to fund 75% of the required capital expenditures the Company incurred on the participating wells in exchange for 55% of the net revenue for a specific period of time. Shad's total commitment was approximately $228.8 million from inception to March 31, 2021. Shad participates in 27 wells operated by the Company and 29 wells operated by others owned by the Company in Howard County, Texas. All wells are developed and producing as of December 31, 2018. The Company maintains a drill company statement for Shad's share of capital expenditures and net revenue on the participating wells.

The amount owed to the Company from Shad included in accounts receivable totalled $764,073 and $2,362,860 as of March 31, 2021 and December 31, 2020, respectively. The amount owed by the Company to Shad included in revenues payable totalled $3,182,411 and $2,545,478 as of March 31, 2021 and December 31, 2020, respectively.

16. COVID-19 RISKS AND UNCERTAINTIES

On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency in response to the spread of coronavirus disease 2019 ("COVID-19"). The COVID-19 pandemic and subsequent global recession are having significant effects on global markets, supply chains, businesses, and communities. Going forward, there may be additional negative impacts, including but not limited to losses of revenue, costs for emergency preparedness, or potential shortage of personnel. Management believes the Company is taking appropriate actions to mitigate the negative impacts of the COVID-19 pandemic. However, the full impact of COVID-19 is unknown.

17. SUBSEQUENT EVENTS

The Company has performed a review of subsequent events through May 24, 2021, which is the date the combined financial statements were available for issuance, and concludes there were no other events or transactions occurring during this period that required recognition or disclosure in the financial statements except as disclosed in the notes. Any events occurring after this date have not been factored into the combined financial statements being presented.

18. RECENTLY ISSUED AUTHORITATIVE GUIDANCE

ASU 2016-02, "Leases (Topic 842)." In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary: lessor accounting with the lessee accounting model and *Topic 606, Revenue from Contracts with Customers*. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact this change will have on the Company's combined financial statements. Management believes it will have little impact on operating results but will create additional assets and debt obligations, primarily related to leased premises and equipment treated as operating leases under current GAAP.

ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". In August 2017, the FASB provided guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments also simplify the application of the hedge accounting guidance. The amendments in this Update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendment will be effective for annual periods beginning after December 15, 2020 and is not expected to have a significant impact on the Company's combined financial statements.

Exhibit 99.3

SHAD PERMIAN, LLC

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

SHAD PERMIAN, LLC

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Contents

Audited Financial Statements

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
9501 Console Drive, Suite 200, San Antonio, TX 78229 (210) 614-2284

Independent Auditor's Report

To the Members
Shad Permian, LLC
Corpus Christi, Texas

We have audited the accompanying financial statements of Shad Permian, LLC (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shad Permian, LLC as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Tranbarger FHK, PLLC
San Antonio, Texas
May 24, 2021

SHAD PERMIAN, LLC

BALANCE SHEETS

December 31,	2020	2019
ASSETS		
Current assets		
Accounts receivable - Sabalo Energy, LLC	$ 2,545,478	$ 4,255,664
Inventory	123,795	240,472
	2,669,273	4,496,136
Non-current assets		
Oil and gas properties – successful efforts method, net	77,344,651	96,076,738
Total Assets	$ 80,013,924	$ 100,572,874
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable - Sabalo Energy, LLC	$ 2,362,860	$ 2,906,367
	2,362,860	2,906,367
Non-current liabilities		
Asset retirement obligation	142,886	135,548
Total liabilities	2,505,746	3,041,915
Members' equity	77,508,178	97,530,959
Total Liabilities and Members' Equity	$ 80,013,924	$ 100,572,874

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF OPERATIONS

Years Ended December 31,	2020	2019
REVENUES		
Oil revenue	$ 24,752,442	$ 54,250,998
Gas revenue	89,555	392,886
Natural gas liquids revenue	643,540	1,891,013
Total revenues, net	25,485,537	56,534,897
OPERATING EXPENSES		
Production taxes	1,231,285	2,728,454
Lease operating expenses	11,260,174	14,833,925
Depreciation, depletion and amortization	19,996,462	28,940,135
Impairment of oil and gas properties	-	25,244,337
Accretion of asset retirement obligation	7,338	6,942
Selling, general and administrative	39	-
Total operating expenses	32,495,298	71,753,793
LOSS BEFORE INCOME TAXES	(7,009,761)	(15,218,896)
STATE INCOME TAX EXPENSE	264,900	-
NET LOSS	$ (7,274,661)	$ (15,218,896)

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF MEMBERS' EQUITY

Years Ended December 31, 2020 and 2019

	Total Members' Equity
Balance at January 1, 2019	$ 144,971,946
Capital contributions	23,107,811
Member distributions	(55,329,902)
Loss from the year	(15,218,896)
Balance at December 31, 2019	97,530,959
Capital contributions	12,951,418
Member distributions	(25,699,538)
Loss from the year	(7,274,661)
Balance at December 31, 2020	$ 77,508,178

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2020	2019
OPERATING ACTIVITIES		
Net loss	$ (7,274,661)	$ (15,218,896)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment and abandonment of oil and gas properties	-	25,244,337
Depreciation, depletion and amortization	19,996,462	28,940,135
Accretion of asset retirement obligation	7,338	6,942
Changes in:		
Receivables	1,710,186	1,523,459
Inventory	116,677	4,780
Accounts payable and accrued expenses	(543,507)	(7,559,166)
Net cash provided by operating activities	14,012,495	32,941,591
INVESTING ACTIVITIES		
Capital expenditures on oil and gas properties	(1,264,375)	(719,500)
Net cash used by investing activities	(1,264,375)	(719,500)
FINANCING ACTIVITIES		
Contributions by members	12,951,418	23,107,811
Distributions to members	(25,699,538)	(55,329,902)
Net cash used by financing activities	(12,748,120)	(32,222,091)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at the end of the year	$ -	$ -
Supplementary Disclosures		
Interest paid	-	-
Taxes paid	-	-

See notes to the financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Shad Permian, LLC (the "Company") was formed in 2017 solely to enter into a Farmout and Development Agreement with Sabalo Energy, LLC and affiliates ("Sabalo") to become a non-operating partner in the drilling of 27 wells operated by Sabalo and 29 wells operated by others owned by Sabalo in Howard County, Texas. Based on the agreement, the Company agreed to fund 75% of the required capital expenditures Sabalo incurred on the participating wells in exchange for 55% of the net revenue for a specific period of time. All wells are developed and producing as of December 31, 2018. Sabalo Energy, LLC or their affiliates maintains a drill company statement for the Company's share of capital expenditures and net revenue on the participating wells.

Basis of Preparation

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as codified by the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC"). The accounting policies set out below have been applied in preparing the financial statements for the years ended December 31, 2020 and 2019.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Additionally, significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of unproved evaluated properties, the collectability of outstanding accounts receivable, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. The Company's reserve estimates were determined by an independent petroleum engineering firm. The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of oil and natural gas. Changes in these assumptions may materially affect these significant estimates in the near term.

Oil and Gas Properties

The carrying value of the Company's oil and gas properties represents the cost to acquire or develop the asset, including any asset retirement obligations and capitalized interest, net of accumulated depreciation, depletion and amortization (DD&A) and any impairment charges. For assets acquired, the cost of oil and gas properties are based on fair values at the acquisition date. Asset retirement obligations and interest costs incurred in connection with qualifying capital expenditures are capitalized and amortized over the lives of the related assets.

The Company uses the successful efforts method to account for its oil and gas properties. Under this method, the Company capitalizes costs of acquiring properties, costs of drilling successful exploration wells and development costs. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. If proved reserves have been found, the costs of exploratory wells remain capitalized. Otherwise, the Company charges the costs of the related wells to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. The Company generally expenses the costs of such exploratory wells if a determination of proved reserves has not been made within a 12-month period after drilling is complete.

The Company determines depreciation and depletion of oil and gas properties by the unit-of-production method. It amortizes acquisition costs over total proved reserves, and capitalized development and successful exploration costs over proved developed reserves. Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, for known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The Company does not have any proved oil and gas reserves for which the determination of economic productivity is subject to the completion of major additional capital expenditure as of December 31, 2020.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company performs impairment tests with respect to its proved properties whenever events or circumstances indicate that the carrying value of property may not be recoverable. If there is an indication the carrying amount of the asset may not be recovered due to declines in current and forward prices, significant changes in reserve estimates, changes in management's plans, or other significant events, management will evaluate the property for impairment. Under the successful efforts method, if the sum of the undiscounted cash flows is less than the carrying value of the proved property, the carrying value is reduced to estimated fair value and reported as an impairment charge in the period. Individually proved properties are grouped for impairment purposes at the lowest level for which there are identifiable cash flows, which is generally on a field by field basis. The impairment test incorporates a number of assumptions involving expectations of future cash flows which can change significantly over time. These assumptions include estimates of future product prices, contractual prices, estimates of risk-adjusted proved oil and gas reserves and estimates of future operating and development costs. The Company recorded impairments of $0 and $25,244,337 during the years ended December 31, 2020 and 2019, respectively.

The Company has no oil and gas properties attributable to unproved properties.

Accounts Receivable

Accounts receivable are stated net of a provision for amounts estimated to be uncollectible. Accounts receivable primarily consist of the Company's share of accrued revenues from oil and gas sales and amounts due from other working interest owners. The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company creates a provision against a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of such provision may be reasonably estimated. No allowance for doubtful accounts was considered necessary as of December 31, 2020 and 2019.

Accounts Payable and Accruals

Liabilities are recognized for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

Asset Retirement Obligations

The initial estimated asset retirement obligation related to property, plant and equipment is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property, plant and equipment. If the fair value of the recorded asset retirement obligation changes, a revision is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are depreciated using a systematic and rational method similar to that used for the associated property and equipment. Accretion of the liability is recognized over the estimated productive life of the related assets.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Under Accounting Standards Codification Topic 606, "*Revenue from Contracts with Customers*," ("ASC 606"), oil, natural gas and natural gas liquid ("NGL") sales revenues are recognized when control of the product is transferred to the customer, the performance obligations under the terms of the contracts with customers are satisfied and collectability is reasonably assured. All of the Company's oil, natural gas and NGL sales are made under contracts with customers. The performance obligations for the Company's contracts with customers are satisfied at a point in time through the delivery of oil and natural gas to its customers.

The Company typically receives payment for oil, natural gas and NGL sales within 30 days of the month of delivery. The Company's contracts for oil, natural gas and NGL sales are standard industry contracts that include variable consideration based on the monthly index price and adjustments that may include counterparty-specific provisions related to volumes, price differentials, discounts and other adjustments and deductions.

The Company's product types are as follows:

Oil Revenue – Under the Company's oil sales contracts operated by Sabalo, the Company generally sells oil to the purchaser at or near the wellhead, and collects a contractually agreed upon index price, net of pricing and gathering and transportation differentials. The Company transfers control of the product to the purchaser at or near the wellhead and recognizes revenue based on the net price received.

Natural Gas and NGL Revenue – Under the Company's natural gas sales contracts operated by Sabalo, the Company delivers and transfers control of natural gas to the purchaser at delivery points at or near the wellhead. The purchaser gathers and processes the natural gas and sells the resulting residue gas and NGLs. The Company receives its contractual portion of the proceeds for the sale of the residue gas and NGLs at an agreed upon index price, net of pricing differentials and applicable selling expenses including gathering, processing and fractionation costs. The Company recognizes revenue at the net price when control transfers to the purchaser.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligation, as allowed under ASC 606. Under the Company's oil, natural gas and NGL sales contracts operated by Sabalo, each unit of product delivered to the customer represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract Balances – Under the Company's product sales contracts operated by Sabalo, it has the right to invoice its customers once the performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period Performance Obligations – The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for certain natural gas and natural gas liquids sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between its revenue estimates and actual revenue received historically have not been significant.

Income Taxes

The Company has elected to be taxed as a general partnership for federal tax purposes, even though its legal form is a limited liability company. Under the partnership provisions of the Internal Revenue Code, the Company's income, deductions, losses and credits flow directly to the partners. Therefore, these statements do not include any provisions for corporate income tax. The Company does pay franchise taxes, which are considered income taxes under the authoritative guidance. The Company's current year and prior three years tax returns remain open for examination by the taxing authorities.

The Company has adopted the provisions of FASB Accounting Standards Codification 740, Income Taxes ("ASC 740"), effective January 1, 2009. ASC 740 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction.

Concentration of Credit Risk

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond its control. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company cannot predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect its financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Similarly, any improvement in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources.

The Company's customer concentration may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry. The Company, through Sabalo, manages credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all of Sabalo's customers are concentrated in the oil and gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. Sabalo believes that the loss of any of its major purchasers would not have a long-term material adverse effect on the Company's operations.

2. OIL AND GAS PROPERTIES

Gross balances of oil and gas properties at December 31 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties
Balance at January 1, 2019	$ -	$ 178,456,556	$ 178,456,556
Development costs	-	719,500	719,500
Balance December 31, 2019	-	179,176,056	179,176,056
Development costs	-	1,264,375	1,264,375
Balance at December 31, 2020	$ -	$ 180,440,431	$ 180,440,431

2. OIL AND GAS PROPERTIES (continued)

Changes in accumulated depreciation, depletion and amortization for the years ended December 31 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties
Balance at January 1, 2019	$ -	$ 28,914,846	$ 28,914,846
Impairment and abandonment	-	25,244,337	25,244,337
Depreciation, depletion and amortization	-	28,940,135	28,940,135
Balance at December 31, 2019	-	83,099,318	83,099,318
Depreciation, depletion and amortization	-	19,996,462	19,996,462
Balance at December 31, 2020	-	103,095,780	103,095,780
Net assets at December 31, 2020	$ -	$ 77,344,651	$ 77,344,651

3. ASSET RETIREMENT OBLIGATIONS

The change in asset retirement obligations for the years ended December 31, were as follows:

	2020	2019
January 1,	$ 135,548	$ 128,606
Additions	-	-
Accretion	7,338	6,942
At December 31,	$ 142,886	$ 135,548

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of December 31:

	2020	2019
Revenue receivable from Sabalo	$ 2,372,667	$ 4,029,073
Accrued revenue from Sabalo	172,811	226,591
Total accounts receivable from Sabalo	$ 2,545,478	$ 4,255,664

5. INVENTORY

Inventories are carried at the lower of cost or market and consisted of following at December 31:

	2020	2019
Crude oil held-for-sale	$ 123,795	$ 240,472

6. MEMBERS' EQUITY

Shad Permian, LLC is funded by Benefit Street Partners, LLC ("BSP") in order to provide funding for their cash requirements to Sabalo in accordance with the Farmout and Development Agreement. BSP has contributed approximately $225.2 million in cash for their portion of the capital expenditures and lease operating costs incurred from inception to December 31, 2020. Benefit Street Partners, LLC has been paid by Shad Permian, LLC as of December 31, 2020 approximately $132.2 million in revenue, net of taxes from inception to December 31, 2020.

The total contributions received from BSP in 2020 and 2019 were $12,951,418 and $23,107,811, respectively. The total distributions made to BSP in 2020 and 2019 were $25,699,538 and $55,329,902, respectively.

7. COMMITMENTS AND CONTINGENCIES

Legal – The Company regularly reviews current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of matters. In the opinion of management, as of December 31, 2020 and 2019, there were no threatened or pending legal matters that would have a material impact on the Company's financial statements.

Environmental – The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of December 31, 2020 or 2019.

As of December 31, 2020 and 2019, the Company had no accrued commitments.

8. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)

Proved Oil and Gas Reserve Quantities

W.D. Von Gonten & Co. ("WDG"), the Company's independent reserve engineers, estimated 100% of the Company's proved reserves as of December 31, 2020 and 2019. In accordance with SEC regulations, the reserves as of December 31, 2020 and 2019 were estimated using the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, certain transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the delivery point. The Company's reserves are reported in three streams: oil, NGL and natural gas.

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

8. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)
(continued)

The following table disclosed changes in the estimated quantities of proved reserves, all of which are located in the state of Texas for 2020:

	Crude Oil (MBbls)	Natural Gas (MMcf)	Natural Gas Liquids (MBbls)	Total (MBoe)
	(in thousands)			
Proved developed and undeveloped reserves -				
Beginning of year - January 1, 2020	3,841	5,041	1,243	5,925
Revisions of previous estimates	(163)	(2,087)	(488)	(999)
Extensions and discoveries	-	-	-	-
Production	(630)	(547)	(99)	(820)
End of year - December 31, 2020	3,048	2,407	656	4,106
Proved developed reserves at beginning of year	3,841	5,041	1,243	5,925
Proved developed reserves at end of year	3,048	2,407	656	4,106
Proved undeveloped reserves at beginning of year	-	-	-	-
Proved undeveloped reserves at end of year	-	-	-	-

The following table disclosed changes in the estimated quantities of proved reserves, all of which are located in the state of Texas for 2019:

	Crude Oil (MBbls)	Natural Gas (MMcf)	Natural Gas Liquids (MBbls)	Total (MBoe)
	(in thousands)			
Proved developed and undeveloped reserves -				
Beginning of year - January 1, 2019	5,001	2,998	887	6,388
Revisions of previous estimates	(156)	2,916	506	837
Extensions and discoveries	-	-	-	-
Production	(1,004)	(873)	(150)	(1,300)
End of year - December 31, 2019	3,841	5,041	1,243	5,925
Proved developed reserves at beginning of year	5,001	2,998	887	6,388
Proved developed reserves at end of year	3,841	5,041	1,243	5,925
Proved undeveloped reserves at beginning of year	-	-	-	-
Proved undeveloped reserves at end of year	-	-	-	-

8. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)
(continued)

For the year ended December 31, 2020, the Company's negative revisions of 999 Mboe of previously estimated quantities consisted in performance revisions of proved developed producing wells and the reduced ultimate recovery due to lower year-end prices resulting in uneconomic reserves in future periods.

For the year ended December 31, 2019, the Company's positive revisions of 837 Mboe of previously estimated quantities consisted in performance revisions of proved developed producing wells.

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows does not purport to be, nor should it be interpreted to present, the fair value of the oil, NGL and natural gas reserves of the property. An estimate of fair value would take into account, among other things, 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, 2020 and 2019 are based on the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, certain transportation fees, geographical differentials, marketing 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. Future income tax expenses are computed using the appropriate year-end statutory tax rates applied to the future pretax net cash flows from proved oil, NGL and natural gas reserves, less the tax basis of the Company's oil and natural gas properties. The estimated future net cash flows are then discounted at a rate of 10%.

8. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)
(continued)

The following prices were used in the calculation of proved reserves and the standardized measure of discounted future net cash flows for the years ended December 31:

	Benchmark Prices	
	2020	2019
Oil ($/Bbl)	$ 39.57	$ 55.69
Natural gas liquids ($/Bbl)	$ 16.63	$ 21.14
Natural gas ($/MMBtu)	$ 1.98	$ 2.57

	Realized Prices	
	2020	2019
Oil ($/Bbl)	$ 38.45	$ 53.01
Natural gas liquids ($/Bbl)	$ 16.42	$ 17.26
Natural gas ($/MMBtu)	$ 0.89	$ 1.08

The following table presents the standardized measure of future net cash flows related to estimated proved oil and natural gas reserves together with changes therein:

	2020	2019
	(In thousands)	
Future cash inflows	$ 130,147	$ 230,536
Future production costs	(67,317)	(110,791)
Future development costs	(4,245)	(4,532)
Future income tax expense - state	(683)	(1,210)
Future net cash flows	57,902	114,003
10% discount for estimated timing of cash flows	(19,931)	(37,633)
Standard measure of discounted future net cash flows	$ 37,971	$ 76,370

It is not intended that the FASB's standardized measure of discounted future net cash flows represent the fair market value of the Company's proved reserves. The Company cautions that the disclosures shown are based on estimates of proved reserve quantities and future production schedules which are inherently imprecise and subject to revision, and the 10% discount rate is arbitrary. In addition, prices and costs as of the measurement date are used in the determinations, and no value may be assigned to probable or possible reserves.

8. SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)
(continued)

The following table presents the changes in the standardized measure of discounted future net cash flows related to the proved oil and gas reserves of the Company for the years ended December 31:

	2020	2019
	(In thousands)	
Standardized measure of discounted future net cash flows - beginning of year	$ 76,370	$ 130,392
Changes in the years resulting from:		
Sales, less production costs	(12,994)	(38,972)
Revisions of previous quantity estimates	(13,499)	9,684
Extensions, discoveries and other additions	-	-
Net change in prices and production costs	(17,075)	(47,431)
Net change in estimated future development costs	(221)	(2,675)
Previously estimated development costs incurred during the period	576	-
Net change in taxes	312	205
Accretion of discount	7,709	13,132
Timing difference and other	(3,207)	12,035
Standardized measure of discounted future net cash flows - end of year	$ 37,971	$ 76,370

Estimates of economically recoverable oil, NGL and natural gas reserves and of future net cash flows are based upon a number of variable factors and assumptions, all of which are, to some degree, subjective and may vary considerably from actual results. Therefore, actual production, revenues, development and operating expenditures may not occur as estimated. The reserve data are estimates only, are subject to many uncertainties and are based on data gained from production histories and on assumptions as to geologic formations and other matters. Actual quantities of oil, NGL and natural gas may differ materially from the amounts estimated.

9. COVID-19 RISKS AND UNCERTAINTIES

On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency in response to the spread of coronavirus disease 2019 (“COVID-19”). The COVID-19 pandemic and subsequent global recession are having significant effects on global markets, supply chains, businesses, and communities. Going forward, there may be additional negative impacts, including but not limited to losses of revenue or additional costs incurred. Management believes the Company is taking appropriate actions to mitigate the negative impacts of the COVID-19 pandemic. However, the full impact of COVID-19 is unknown.

10. SUBSEQUENT EVENTS

The Company has performed a review of subsequent events through May 24, 2021, which is the date the financial statements were available for issuance, and concludes there were no other events or transactions occurring during this period that required recognition or disclosure in the financial statements except as disclosed in the notes. Any events occurring after this date have not been factored into the financial statements being presented.

Exhibit 99.4

SHAD PERMIAN, LLC

REVIEWED FINANCIAL STATEMENTS

MARCH 31, 2021 AND 2020

TRANBARGER FHK, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

SHAD PERMIAN, LLC

REVIEWED FINANCIAL STATEMENTS

MARCH 31, 2021 AND 2020

Contents

SHAD PERMIAN, LLC

BALANCE SHEETS

March 31, 2021 and December 31, 2020

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Accounts receivable - Sabalo Energy, LLC	$ 3,183,411	$ 2,545,478
Inventory	268,372	123,795
	3,451,783	2,669,273
Non-current assets		
Oil and gas properties – successful efforts method, net	75,190,049	77,344,651
Total Assets	$ 78,641,832	$ 80,013,924
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable - Sabalo Energy, LLC	$ 764,073	$ 2,362,860
	764,073	2,362,860
Non-current liabilities		
Asset retirement obligation	144,751	142,886
Total liabilities	908,824	2,505,746
Members' equity	77,733,008	77,508,178
Total Liabilities and Members' Equity	$ 78,641,832	$ 80,013,924

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF INCOME

Three Months Ended March 31,	2021	2020
REVENUES		
Oil revenue	$ 7,120,711	$ 8,533,097
Gas revenue	188,228	(45,549)
Natural gas liquids revenue	244,071	275,931
Total revenues, net	7,553,010	8,763,479
OPERATING EXPENSES		
Production taxes	359,971	427,070
Lease operating expenses	1,808,374	2,874,390
Depreciation, depletion and amortization	2,161,734	4,177,545
Accretion of asset retirement obligation	1,865	1,835
Selling, general and administrative	4,382	-
Total operating expenses	4,336,326	7,480,840
INCOME BEFORE INCOME TAXES	3,216,684	1,282,639
STATE INCOME TAX EXPENSE	-	-
NET INCOME	$ 3,216,684	$ 1,282,639

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF MEMBERS' EQUITY

Three Months Ended March 31, 2021 and 2020

	Total Members' Equity
Balance at January 1, 2021	$ 77,508,178
Capital contributions	3,558,871
Member distributions	(6,550,725)
Income from the period	3,216,684
Balance at March 31, 2021	$ 77,733,008
Balance at January 1, 2020	$ 97,530,959
Capital contributions	1,862,740
Member distributions	(10,378,427)
Income from the period	1,282,639
Balance at March 31, 2020	$ 90,297,911

See notes to the financial statements.

SHAD PERMIAN, LLC

STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2021	2020
OPERATING ACTIVITIES		
Net income	$ 3,216,684	$ 1,282,639
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	2,161,734	4,177,545
Accretion of asset retirement obligation	1,865	1,835
Changes in:		
Receivables	(637,933)	2,042,018
Inventory	(144,577)	44,444
Accounts payable and accrued expenses	(1,598,787)	1,169,740
Net cash provided by operating activities	2,998,986	8,718,221
INVESTING ACTIVITIES		
Capital expenditures on oil and gas properties	(7,132)	(202,534)
Net cash used by investing activities	(7,132)	(202,534)
FINANCING ACTIVITIES		
Contributions by members	3,558,871	1,862,740
Distributions to members	(6,550,725)	(10,378,427)
Net cash used by financing activities	(2,991,854)	(8,515,687)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at the end of the year	$ -	$ -
Supplementary disclosures:		
Interest paid	-	-
Taxes paid	-	-

See notes to the financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Shad Permian, LLC (the “Company”) was formed in 2017 solely to enter into a Farmout and Development Agreement with Sabalo Energy, LLC and affiliates (“Sabalo”) to become a non-operating partner in the drilling of 27 wells operated by Sabalo and 29 wells operated by others owned by Sabalo in Howard County, Texas. Based on the agreement, the Company agreed to fund 75% of the required capital expenditures Sabalo incurred on the participating wells in exchange for 55% of the net revenue for a specific period of time. All wells are developed and producing as of December 31, 2018. Sabalo Energy, LLC or their affiliates maintains a drill company statement for the Company’s share of capital expenditures and net revenue on the participating wells.

Basis of Preparation

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”). The accounting policies set out below have been applied in preparing the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Additionally, significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of unproved evaluated properties, the collectability of outstanding accounts receivable, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. The Company's reserve estimates were determined by an independent petroleum engineering firm. The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions, such as the market prices received for sales of oil and natural gas. Changes in these assumptions may materially affect these significant estimates in the near term.

Oil and Gas Properties

The carrying value of the Company's oil and gas properties represents the cost to acquire or develop the asset, including any asset retirement obligations and capitalized interest, net of accumulated depreciation, depletion and amortization ("DD&A") and any impairment charges. For assets acquired, the cost of oil and gas properties are based on fair values at the acquisition date. Asset retirement obligations and interest costs incurred in connection with qualifying capital expenditures are capitalized and amortized over the lives of the related assets.

The Company uses the successful efforts method to account for its oil and gas properties. Under this method, the Company capitalizes costs of acquiring properties, costs of drilling successful exploration wells and development costs. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. If proved reserves have been found, the costs of exploratory wells remain capitalized. Otherwise, the Company charges the costs of the related wells to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. The Company generally expenses the costs of such exploratory wells if a determination of proved reserves has not been made within a 12-month period after drilling is complete.

The Company determines depreciation and depletion of oil and gas properties by the unit-of-production method. It amortizes acquisition costs over total proved reserves, and capitalized development and successful exploration costs over proved developed reserves. Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, for known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The Company does not have any proved oil and gas reserves for which the determination of economic productivity is subject to the completion of major additional capital expenditure as of March 31, 2021.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company performs impairment tests with respect to its proved properties whenever events or circumstances indicate that the carrying value of property may not be recoverable. If there is an indication the carrying amount of the asset may not be recovered due to declines in current and forward prices, significant changes in reserve estimates, changes in management's plans, or other significant events, management will evaluate the property for impairment. Under the successful efforts method, if the sum of the undiscounted cash flows is less than the carrying value of the proved property, the carrying value is reduced to estimated fair value and reported as an impairment charge in the period. Individually proved properties are grouped for impairment purposes at the lowest level for which there are identifiable cash flows, which is generally on a field by field basis. The impairment test incorporates a number of assumptions involving expectations of future cash flows which can change significantly over time. These assumptions include estimates of future product prices, contractual prices, estimates of risk-adjusted proved oil and gas reserves and estimates of future operating and development costs. The Company recorded no impairments during the three months ended March 31, 2021 and 2020.

The Company has no oil and gas properties attributable to unproved properties.

Accounts Receivable

Accounts receivable are stated net of a provision for amounts estimated to be uncollectible. Accounts receivable primarily consist of the Company's share of accrued revenues from oil and gas sales and amounts due from other working interest owners. The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company creates a provision against a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of such provision may be reasonably estimated. No allowance for doubtful accounts was necessary as of March 31, 2021 and December 31, 2020.

Accounts Payable and Accruals

Liabilities are recognized for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

Asset Retirement Obligations

The initial estimated asset retirement obligation related to property, plant and equipment is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property, plant and equipment. If the fair value of the recorded asset retirement obligation changes, a revision is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are depreciated using a systematic and rational method similar to that used for the associated property and equipment. Accretion of the liability is recognized over the estimated productive life of the related assets.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Under Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, ("ASC 606"), oil, natural gas and natural gas liquid ("NGL") sales revenues are recognized when control of the product is transferred to the customer, the performance obligations under the terms of the contracts with customers are satisfied and collectability is reasonably assured. All of the Company's oil, natural gas and NGL sales are made under contracts with customers. The performance obligations for the Company's contracts with customers are satisfied at a point in time through the delivery of oil and natural gas to its customers.

The Company typically receives payment for oil, natural gas and NGL sales within 30 days of the month of delivery. The Company's contracts for oil, natural gas and NGL sales are standard industry contracts that include variable consideration based on the monthly index price and adjustments that may include counterparty-specific provisions related to volumes, price differentials, discounts and other adjustments and deductions.

The Company's product types are as follows:

Oil Revenue – Under the Company's oil sales contracts operated by Sabalo, the Company generally sells oil to the purchaser at or near the wellhead, and collects a contractually agreed upon index price, net of pricing and gathering and transportation differentials. The Company transfers control of the product to the purchaser at or near the wellhead and recognizes revenue based on the net price received.

Natural Gas and NGL Revenue – Under the Company's natural gas sales contracts operated by Sabalo, the Company delivers and transfers control of natural gas to the purchaser at delivery points at or near the wellhead. The purchaser gathers and processes the natural gas and sells the resulting residue gas and NGLs. The Company receives its contractual portion of the proceeds for the sale of the residue gas and NGLs at an agreed upon index price, net of pricing differentials and applicable selling expenses including gathering, processing and fractionation costs. The Company recognizes revenue at the net price when control transfers to the purchaser.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligation, as allowed under ASC 606. Under the Company's oil, natural gas and NGL sales contracts operated by Sabalo, each unit of product delivered to the customer represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract Balances – Under the Company's product sales contracts operated by Sabalo, it has the right to invoice its customers once the performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period Performance Obligations – The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for certain natural gas and natural gas liquids sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between its revenue estimates and actual revenue received historically have not been significant.

Income Taxes

The Company has elected to be taxed as a general partnership for federal tax purposes, even though its legal form is a limited liability company. Under the partnership provisions of the Internal Revenue Code, the Company's income, deductions, losses and credits flow directly to the partners. Therefore, these statements do not include any provisions for corporate income tax. The Company does pay franchise taxes, which are considered income taxes under the authoritative guidance. The Company's current year and prior three years tax returns remain open for examination by the taxing authorities.

The Company has adopted the provisions of FASB Accounting Standards Codification 740, *Income Taxes* ("ASC 740"), effective January 1, 2009. ASC 740 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction.

Concentration of Credit Risk

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond its control. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company cannot predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect its financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Similarly, any improvement in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources.

The Company's customer concentration may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry. The Company, through Sabalo, manages credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all of the Sabalo's customers are concentrated in the oil and gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. Sabalo believes that the loss of any of its major purchasers would not have a long-term material adverse effect on the Company's operations.

2. OIL AND GAS PROPERTIES

Gross balances of oil and gas properties were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Gross balance at March 31, 2021	$ -	$ 180,447,563	$ 180,447,563	$ -
Gross balance at December 31, 2020	$ -	$ 180,440,431	$ 180,440,431	$ -

For three months ended March 31, 2021 and 2020, $7,132 and $202,534, respectively was added to the proved properties via capital expenditure. For three months ended March 31, 2021 and 2020, $2,161,734 and $4,177,545, respectively of depletion expense was incurred.

2. OIL AND GAS PROPERTIES (continued)

Changes in accumulated depreciation, depletion and amortization for the period ended March 31, 2021 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at December 31, 2020	$ -	$ 103,095,780	$ 103,095,780	$ -
Depreciation, depletion and amortization	-	2,161,734	2,161,734	-
Balance at March 31, 2021	-	105,257,514	105,257,514	-
Net Assets at March 31, 2021	$ -	$ 75,190,049	$ 75,190,049	$ -

Changes in accumulated depreciation, depletion and amortization for the year ended December 31, 2020 were as follows:

	Unproved Properties	Proved Properties	Total Oil and Gas Properties	Property, Plant and Equipment
Balance at January 1, 2020	$ -	$ 83,099,318	$ 83,099,318	$ -
Depreciation, depletion and amortization	-	19,996,462	19,996,462	-
Balance at December 31, 2020	-	103,095,780	103,095,780	-
Net Assets at December 31, 2020	$ -	$ 77,344,651	$ 77,344,651	$ -

3. ASSET RETIREMENT OBLIGATIONS

The change in asset retirement obligations for the three months ended March 31, were as follows:

	2021	2020
January 1,	$ 142,886	$ 135,548
Additions	-	-
Accretion	1,865	1,835
At March 31,	$ 144,751	$ 137,383

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

	March 31, 2021	December 31, 2020
Revenue receivable from Sabalo customers	$ 2,964,324	$ 2,372,667
Accrued revenue from Sabalo customers	219,087	172,811
Total accounts receivable from Sabalo	$ 3,183,411	$ 2,545,478

5. INVENTORY

Inventories are carried at the lower of cost or market and consisted of following at:

	March 31, 2021	December 31, 2020
Crude oil held-for-sale	$ 268,372	$ 123,795

6. MEMBERS' EQUITY

Shad Permian, LLC is funded by Benefit Street Partners, LLC ("BSP") in order to provide funding for their cash requirements to Sabalo in accordance with the Farmout and Development Agreement. BSP has contributed approximately $228.8 million in cash for their portion of the capital expenditures and lease operating costs incurred from inception to March 31, 2021. Benefit Street Partners, LLC has been paid by Shad Permian, LLC as of March 31, 2021 approximately $139.1 million in revenue, net of taxes from inception to March 31, 2021. The total contributions received from BSP for the three months ended March 31, 2021 and 2020 were $3,558,871 and $1,862,740, respectively. The total distributions made to BSP for the three months ended March 31, 2021 and 2020 were $6,550,725 and $10,378,427, respectively.

7. COMMITMENTS AND CONTINGENCIES

Legal – The Company regularly reviews current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of matters. In the opinion of management, as of March 31, 2021, there were no threatened or pending legal matters that would have a material impact on the Company's financial statements.

7. COMMITMENTS AND CONTINGENCIES (continued)

Environmental – The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of March 31, 2021 or December 31, 2020.

As of March 31, 2021, the Company had no accrued commitments.

8. COVID-19 RISKS AND UNCERTAINTIES

On January 31, 2020, the Secretary of Health and Human Services declared a public health emergency in response to the spread of coronavirus disease 2019 (“COVID-19”). The COVID-19 pandemic and subsequent global recession are having significant effects on global markets, supply chains, businesses, and communities. Going forward, there may be additional negative impacts, including but not limited to losses of revenue or additional costs incurred. Management believes the Company is taking appropriate actions to mitigate the negative impacts of the COVID-19 pandemic. However, the full impact of COVID-19 is unknown.

9. SUBSEQUENT EVENTS

The Company has performed a review of subsequent events through May 24, 2021, which is the date the financial statements were available for issuance, and concludes there were no other events or transactions occurring during this period that required recognition or disclosure in the financial statements except as disclosed in the notes. Any events occurring after this date have not been factored into the financial statements being presented.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is derived from the historical consolidated financial statements of Laredo Petroleum, Inc. ("Laredo" or the "Company"), Sabalo Energy, LLC ("Sabalo Energy"), Sabalo Operating, LLC ("Sabalo Operating" and together with Sabalo Energy, "Sabalo") and Shad Permian, LLC ("Shad") and has been adjusted to reflect the following:

- Laredo's anticipated acquisition of substantially all of Sabalo's key operating assets consisting of wellbore interests (the "Sabalo Acquisition") for aggregate consideration of approximately $643.9 million, based on the closing price of a share of the Company's common stock on May 10, 2021 (the preliminary valuation date), consisting of (i) $554.3 million of cash (the "Sabalo Unadjusted Cash Purchase Price") and (ii) 2,225,930 unregistered shares of the Company's common stock (the "Sabalo Unadjusted Equity Consideration"). The Sabalo Unadjusted Cash Purchase Price is subject to certain customary closing adjustments set forth in the Sabalo purchase agreement. The Sabalo Unadjusted Equity Consideration is subject to adjustment upon the occurrence of certain corporate events such as a stock dividend, split, reclassification, merger, consolidation, combination, or other transaction (as defined in the Sabalo purchase agreement).

- Laredo's anticipated acquisition of substantially all of Shad's key operating assets consisting of wellbore interests (the "Shad Acquisition" and, together with the Sabalo Acquisition, the "Acquisitions") for aggregate consideration of approximately $81.3 million, based on the closing price of a share of the Company's common stock on May 10, 2021 (the preliminary valuation date), consisting of (i) $70.0 million of cash (the "Shad Unadjusted Cash Purchase Price") and (ii) 281,034 unregistered shares of the Company's common stock (the "Shad Unadjusted Equity Consideration"). The Shad Unadjusted Cash Purchase Price is subject to certain customary closing adjustments set forth in the Shad purchase agreement. The Shad Unadjusted Equity Consideration is subject to adjustment upon the occurrence of certain corporate events such as a stock dividend, split, reclassification, merger, consolidation, combination, or other transaction (as defined in the Shad purchase agreement).

- Laredo's anticipated sale of 37.5% of its working interest in certain oil and gas properties in Glasscock and Reagan Counties, Texas, to an unrelated third party for aggregate gross proceeds of $405.0 million, subject to certain customary closing adjustments plus potential cash-flow based earn-out payments over six years (the "Disposition"). The Disposition is effective at closing which is expected to occur in July 2021. Proceeds from the Disposition are anticipated to be used to fund the Acquisitions and related transaction costs.

- Borrowings of approximately $220.0 million under Laredo's Senior Secured Credit Facility which are anticipated to be used to fund the Acquisitions and related transaction costs (the "Borrowing").

Certain of Sabalo's and Shad's historical amounts have been reclassified to conform to the financial statement presentation of Laredo. Additionally, adjustments have been made to Sabalo's and Shad's historical financial information to remove certain assets and liabilities retained by Sabalo and Shad, respectively. The unaudited pro forma condensed combined balance sheet as of March 31, 2021 gives effect to the Acquisitions, Disposition and Borrowing as if they had occurred on March 31, 2021. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020 and the three months ended March 31, 2021 both give effect to the Acquisitions, Disposition and Borrowing as if they had occurred on January 1, 2020.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only to reflect the Acquisitions, Disposition and Borrowing and do not represent what Laredo's results of operations or financial position would actually have been had the transactions occurred on the dates noted above, or project its results of operations or financial position for any future periods. The unaudited pro forma condensed combined financial information is intended to provide information about the continuing impact of the Acquisitions, Disposition and Borrowing as if they had been consummated earlier. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma condensed combined financial information have been made.

The following unaudited pro forma condensed combined financial information should be read in conjunction with Laredo’s consolidated financial statements and the related notes thereto, which are included in Laredo’s Annual Report on Form 10-K for the year ended December 31, 2020 and its Quarterly Report on Form 10-Q for the three months ended March 31, 2021, and Sabalo’s and Shad’s consolidated financial statements and the related notes thereto, which are included elsewhere in this filing.

Laredo Petroleum, Inc.
Pro Forma Condensed Combined Balance Sheet
As of March 31, 2021
(unaudited)

	Historical			Transaction Accounting Adjustments			
	Laredo - As Reported	**Sabalo - As Reported**	**Shad - As Reported**	**Reclassification & Elimination Adjustments**	**Disposition**	**Acquisitions and Borrowing**	**Pro Forma Combined**
(in thousands)							
Current assets:							
Cash and cash equivalents	$ 44,262	$ 22,172	$ -	$ (22,172)**(a)**	$ 394,583**(e)**	$ (624,341)**(i)**	$ 16,421
						220,000**(m)**	
						(18,083)**(n)**	
Accounts receivable, net	67,704	25,411	-	(25,411)**(a)**	-	-	67,704
Accounts receivable - Sabalo Energy, LLC	-	-	3,184	(3,184)**(a)**	-	-	-
Derivatives	-	-	-	-	1,020 (h)	-	1,020
Other current assets	26,123	2,104	268	(231)**(a)**	-	-	28,264
Total current assets	138,089	49,687	3,452	(50,998)	395,603	(422,424)	113,409
Property and equipment:							
Oil and natural gas properties, full cost method:							
Evaluated properties	7,953,141	-	-	845,534**(b)**	(2,564,324)(f)	196,155**(i)**	6,128,499
						(302,007)**(j)**	
Unevaluated properties not being depleted	60,260	-	-	9,265**(b)**	-	1,255**(i)**	70,355
						(425)**(j)**	
Less accumulated depletion and impairment	(6,852,688)	-	-	(302,432)**(c)**	2,217,264**(f)**	302,432**(j)**	(4,635,424)
Oil and natural gas properties, net	1,160,713	-	-	552,367	(347,060)	197,410	1,563,430
Midstream service assets, net	111,083	-	-	-	-	-	111,083
Other fixed assets, net	31,576	-	-	1,287**(d)**	-	-	32,863
Property and equipment, net	1,303,372	-	-	553,654	(347,060)	197,410	1,707,376
Oil and gas properties - successful efforts method, net	-	477,177	75,190	(552,367)**(b),(c)**	-	-	-
Property, plant and equipment, net	-	1,287	-	(1,287)**(d)**	-	-	-
Operating lease right-of-use assets	14,955	-	-	-	-	-	14,955
Derivatives	-	-	-	-	22,989(h)	-	22,989
Other noncurrent assets, net	18,487	-	-	-	-	1,449**(n)**	19,936
Total assets	$ 1,474,903	$ 528,151	$ 78,642	$ (50,998)	$ 71,532	$ (223,565)	$ 1,878,665
Current liabilities:							
Accounts payable and accrued liabilities	$ 49,065	$ 19,405	$ -	$ (19,405)**(a)**	$ -	$ -	$ 49,065
Accrued capital expenditures	27,924	-	-	-	-	-	27,924
Accounts payable - Sabalo Energy, LLC	-	-	764	(764)**(a)**	-	-	-
Undistributed revenue and royalties	32,018	15,409	-	(11,104)**(a)**	-	-	36,323
Derivatives	128,394	11,520	-	(11,520)**(a)**	-	-	128,394
Operating lease liabilities	11,263	-	-	-	-	-	11,263
Other current liabilities	43,579	409	-	(409)**(a)**	-	-	43,579
Total current liabilities	292,243	46,743	764	(43,202)	-	-	296,548
Long-term debt, net	1,145,374	146,746	-	(146,746)**(a)**	-	220,000**(m)**	1,365,374
Derivatives	29,821	8,742	-	(8,742)**(a)**	-	-	29,821
Asset retirement obligations	66,280	7,129	145	-	(14,493)(f)	(279)**(i)**	58,782
Operating lease liabilities	6,459	-	-	-	-	-	6,459
Other noncurrent liabilities	3,294	-	-	-	-	-	3,294
Accounts payable - related party	-	28,229	-	(28,229)**(a)**	-	-	-
Total liabilities	1,543,471	237,589	909	(226,919)	(14,493)	219,721	1,760,278
Stockholders' equity:							
Preferred Stock	-	-	-	-	-	-	-
Common stock	129	-	-	-	-	25**(k)**	154
Additional paid-in capital	2,426,769	-	-	-	-	100,905**(k)**	2,527,674
Accumulated deficit	(2,495,466)	-	-	-	86,025(g)	-	(2,409,441)
Members' equity	-	290,562	77,733	175,921**(a)**	-	(544,216)**(l)**	-
Total stockholders' equity	(68,568)	290,562	77,733	175,921	86,025	(443,286)	118,387
Total liabilities and equity	$ 1,474,903	$ 528,151	$ 78,642	$ (50,998)	$ 71,532	$ (223,565)	$ 1,878,665

Laredo Petroleum, Inc.
Pro Forma Condensed Combined Statement of Operations
For the Three Months Ended March 31, 2021
(unaudited)

	Historical			Transaction Accounting Adjustments			
	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Elimination Adjustments	Disposition	Acquisitions and Borrowing	Pro Forma Combined
(in thousands)				**(a)**	**(b)**		
Revenues:							
Oil sales	$ 127,701	$ 30,671	$ 7,121	$ -	$ (29,882)	$ -	$ 135,611
NGL sales	41,678	984	244	-	(13,415)	-	29,491
Natural gas sales	33,078	855	188	-	(10,728)	-	23,393
Midstream service revenues	1,296	-	-	-	-	-	1,296
Sales of purchased oil	46,477	-	-	-	-	-	46,477
Total revenues	250,230	32,510	7,553	-	(54,025)	-	236,268
Costs and expenses:							
Lease operating expenses	18,918	8,443	1,808	-	(5,583)	-	23,586
Production and ad valorem taxes	13,283	1,496	360	-	(3,891)	-	11,248
Transportation and marketing expenses	12,127	-	-	-	-	-	12,127
Midstream service expenses	858	-	-	-	-	-	858
Costs of purchased oil	49,916	-	-	-	-	-	49,916
General and administrative	13,073	1,462	4	-	-	-	14,539
Depletion, depreciation and amortization	38,109	8,511	2,162	-	(8,627)	12,432**(c)**	52,587
Other operating expenses	1,143	84	2	-	(659)	398**(c)**	968
Total costs and expenses	147,427	19,996	4,336	-	(18,760)	12,830	165,829
Operating income (loss)	102,803	12,514	3,217	-	(35,265)	(12,830)	70,439
Non-operating income (expense):							
Loss on derivatives, net	(154,365)	(19,517)	-	-	-	-	(173,882)
Interest expense	(25,946)	(1,810)	-	1,810	-	(1,444)**(d)**	(27,390)
Loss on disposal of assets, net	(72)	-	-	-	-	-	(72)
Other income, net	1,379	277	-	(277)	-	-	1,379
Total non-operating income (expense), net	(179,004)	(21,050)	-	1,533	-	(1,444)	(199,965)
Income (loss) before income taxes	(76,201)	(8,536)	3,217	1,533	(35,265)	(14,274)	(129,526)
Income tax benefit:							
Current	-	-	-	-	-	-	-
Deferred	762	-	-	-	-	-	762
Total income tax benefit	762	-	-	-	-	-	762
Net income (loss)	$ (75,439)	$ (8,536)	$ 3,217	$ 1,533	$ (35,265)	$ (14,274)	$ (128,764)
Net income (loss) per common share:							
Basic	$ (6.33)						$ (8.93)
Diluted	$ (6.33)						$ (8.93)
Weighted average common shares outstanding:							
Basic	11,918					2,507**(e)**	14,425
Diluted	11,918					2,507**(e)**	14,425

Laredo Petroleum, Inc.
Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2020
(unaudited)

	Historical			Transaction Accounting Adjustments			
	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Elimination Adjustments	Disposition	Acquisitions and Borrowing	Pro Forma Combined
(in thousands)				**(a)**	**(b)**		
Revenues:							
Oil sales	$ 367,792	$ 110,063	$ 24,752	$ -	$ (119,060)	$ -	$ 383,547
NGL sales	78,246	2,177	644	-	(28,268)	-	52,799
Natural gas sales	50,317	1,013	90	-	(18,679)	-	32,741
Midstream service revenues	8,249	-	-	-	-	-	8,249
Sales of purchased oil	172,588	-	-	-	-	-	172,588
Total revenues	677,192	113,253	25,486	-	(166,007)	-	649,924
Costs and expenses:							
Lease operating expenses	82,020	40,110	11,261	-	(23,367)	-	110,024
Production and ad valorem taxes	33,050	5,393	1,231	-	(12,058)	-	27,616
Transportation and marketing expenses	49,927	-	-	-	-	-	49,927
Midstream service expenses	3,762	-	-	-	-	-	3,762
Costs of purchased oil	194,862	-	-	-	-	-	194,862
General and administrative	50,534	5,367	-	-	-	-	55,901
Organizational restructuring expenses	4,200	-	-	-	-	-	4,200
Depletion, depreciation and amortization	217,101	80,164	19,997	-	(66,196)	(16,887)**(c)**	234,179
Impairment expense	899,039	425	-	-	(292,252)	(539,745)**(d)**	67,467
Other operating expenses	4,430	328	7	-	(2,551)	1,511**(c)**	3,725
Total costs and expenses	1,538,925	131,787	32,496	-	(396,424)	(555,121)	751,663
Gain on sale of oil and natural gas properties	-	-	-	-	86,025	-	86,025
Operating income (loss)	(861,733)	(18,534)	(7,010)	-	316,442	555,121	(15,714)
Non-operating income (expense):							
Provision for uncollectible receivables	-	(11)	-	11	-	-	-
Gain on derivatives, net	80,114	20,932	-	-	-	-	101,046
Interest expense	(105,009)	(7,381)	-	7,381	-	(5,775)**(e)**	(110,784)
Interest income	-	10	-	(10)	-	-	-
Gain on extinguishment of debt, net	8,989	-	-	-	-	-	8,989
Loss on disposal of assets, net	(963)	(4)	-	4	-	-	(963)
Write-off of debt issuance costs	(1,103)	-	-	-	-	-	(1,103)
Other income, net	1,586	(19)	-	19	-	-	1,586
Total non-operating income (expense), net	(16,386)	13,527	-	7,405	-	(5,775)	(1,229)
Income (loss) before income taxes	(878,119)	(5,007)	(7,010)	7,405	316,442	549,346	(16,943)
Income tax benefit (expense):							
Current	-	(2)	(265)	-	-	-	(267)
Deferred	3,946	-	-	-	-	-	3,946
Total income tax benefit (expense)	3,946	(2)	(265)	-	-	-	3,679
Net income (loss)	$ (874,173)	$ (5,009)	$ (7,275)	$ 7,405	$ 316,442	$ 549,346	$ (13,264)
Net income (loss) per common share:							
Basic	$ (74.92)						$ (0.94)
Diluted	$ (74.92)						$ (0.94)
Weighted average common shares outstanding:							
Basic	11,668					2,507**(f)**	14,175
Diluted	11,668					2,507**(f)**	14,175

Laredo Petroleum, Inc.
Notes to Pro Forma Condensed Combined Financial Statements
(Unaudited)

Note 1. Unaudited Pro Forma Condensed Combined Balance Sheet

Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2021

Reclassification & Elimination Adjustments

The following adjustments have been made to the accompanying unaudited pro forma condensed combined balance sheet as of March 31, 2021 to reclassify certain of Sabalo's and Shad's historical amounts to conform to the historical presentation of Laredo and to eliminate certain assets and liabilities retained by Sabalo and Shad:

a) Represents the elimination of certain assets and liabilities retained by Sabalo and Shad.
b) Represents a reclassification of $665.1 million and $9.3 million from Sabalo's oil and natural gas properties under the successful efforts method of accounting to evaluated and unevaluated properties under the full cost method of accounting, respectively, and a reclassification of $180.4 million from Shad's oil and natural gas properties under the successful efforts method of accounting to evaluated properties under the full cost method of accounting.
c) Represents a reclassification of $197.2 million and $105.2 million from Sabalo's and Shad's accumulated depreciation, depletion, amortization and impairment under the successful efforts method of accounting, respectively, to accumulated depletion and impairment under the full cost method of accounting.
d) Represents a reclassification of Sabalo's $1.3 million of property, plant and equipment, net to other fixed assets, net.

Disposition

Effective at closing, the operations and cash flows of the 37.5% working interest in certain oil and natural gas properties included in the Disposition will be eliminated from the ongoing operations of the Company. The Company will continue to own a partial working interest in the properties and will operate the properties. The Company expects to record a gain on the Disposition pursuant to the rules governing full cost accounting as the Disposition represents more than 25% of the Company's pre-acquisition reserves. For the purposes of calculating the gain, total capitalized costs will be allocated between reserves sold and reserves retained.

The following adjustments have been made to the accompanying unaudited pro forma condensed combined balance sheet as of March 31, 2021 to reflect the Disposition:

e) Represents cash proceeds of $405.0 million less transaction costs of $10.4 million related to the Disposition.
f) Represents the elimination of the carrying value of the disposed assets and the asset retirement obligation attributable to the disposed assets.
g) Represents a net gain on the Disposition.
h) Reflects the fair value of contingent consideration that provides the Company with the right to receive up to a maximum of $93.7 million in additional cash contingent consideration for the Divestiture if certain cash flow targets related to divested oil and natural gas property operations are met. The contingent consideration is made up of quarterly payments through June 2027 totaling up to $38.7 million and a potential balloon payment of $55.0 million in June 2027. The Company has preliminarily concluded that the contingent consideration should be accounted for as a derivative instrument, with all gains and losses as a result of changes in the fair value of the contingent consideration derivative recognized in earnings in the period in which the changes occur.

Laredo Petroleum, Inc.
Notes to Pro Forma Condensed Combined Financial Statements
(Unaudited)

Transaction Accounting Adjustments

The Acquisitions will be accounted for as a single transaction because they were entered into at the same time and in contemplation of one another and form a single transaction designed to achieve an overall economic effect. The Acquisitions will be accounted for as an asset acquisition as substantially all of the gross assets acquired are concentrated in a group of similar identifiable assets. The consideration paid will be allocated to the individual assets acquired and liabilities assumed based on their relative fair values. All transaction costs associated with the Acquisitions will be capitalized. The allocation of the preliminary estimated purchase price is based upon management's estimates of and assumptions related to the fair value of assets to be acquired and liabilities to be assumed as of March 31, 2021 using currently available information. Due to the fact that the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on financial position and results of operation may materially differ from the pro forma amounts included herein. The Company expects to finalize its allocation of the purchase consideration as soon as practicable after completion of the Acquisitions.

Based on the closing price of Laredo's common stock on May 10, 2021, the preliminary value of Laredo's equity consideration to be transferred to Sabalo and Shad was approximately $89.6 million and $11.3 million, respectively, on such date. The final value of the equity consideration will be determined based on the fixed number of Laredo shares to be issued and the closing price of Laredo's common stock on the closing date of the Acquisitions. A hypothetical 10% increase or decrease in the closing price of Laredo's common stock, as compared to the May 10, 2021 closing price of $40.26 per share, would increase or decrease the purchase price paid to Sabalo and Shad by approximately $9.0 million and $1.1 million, respectively, assuming all other factors are held constant.

For income tax purposes, the Acquisitions will be treated as an asset purchase such that the tax bases in the assets and liabilities will generally reflect the allocated fair value at closing. Therefore, the Company does not anticipate a material tax consequence for deferred income taxes related to the Acquisitions.

The following adjustments have been made to the accompanying unaudited pro forma condensed combined balance sheet as of March 31, 2021 to reflect the Acquisitions and Borrowing:

i) Represents the allocation of the estimated fair value of consideration transferred of $624.3 million of cash, $100.9 million of common stock (based on the closing price of Laredo's common stock as of May 10, 2021) and $16.6 million of transaction costs to the assets acquired and liabilities assumed in the following allocation adjustments:
   - $624.3 million in cash consideration related to the Acquisitions,
   - $197.4 million increase in Sabalo's and Shad's book basis of property, plant and equipment to reflect them at allocated value, and
   - $0.3 million decrease in historical asset retirement obligations to reflect them at fair value.

j) Reflects the elimination of Sabalo's and Shad's historical accumulated depreciation and impairment balances against gross properties and equipment.

k) Reflects the estimated increase in Laredo's common stock and additional paid-in capital resulting from the issuance of Laredo shares to Sabalo and Shad.

l) Reflects the elimination of Sabalo's and Shad's historical equity balances.

m) Represents $220.0 million of borrowings on Laredo's Senior Secured Credit Facility to complete the Acquisitions based on cash and cash equivalents as of March 31, 2021. Borrowings under the Company's revolving credit facility will be decreased or increased if it has more or less cash and cash equivalents at the time of closing.

n) Reflects $18.1 million for the following estimated fees:
   - $1.5 million comprised of debt issuance costs for underwriting, banking and, legal fees associated with an amendment to the Senior Secured Credit Facility to permit the Acquisitions and the Disposition; and
   - $16.6 million of advisory, legal, and other fees associated with the Acquisitions.

Laredo Petroleum, Inc.
Notes to Pro Forma Condensed Combined Financial Statements
(Unaudited)

Note 2. Unaudited Pro Forma Condensed Combined Statements of Operations

Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations for the three months ended March 31, 2021

The following adjustments have been made to the accompanying unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2021 to reflect the Acquisitions, Disposition and Borrowing:

a) Represents adjustments to eliminate the effects of assets and liabilities retained by Sabalo and not associated with the oil and natural gas properties acquired.
b) Represents adjustments to the Company's historical consolidated statement of operations to remove the effects of the Disposition.
c) Reflects adjustment to depreciation, depletion and amortization expense resulting from the change in basis of property, plant and equipment acquired and an increase in accretion of asset retirement obligations.
d) Reflects interest expense at the current rate of 2.625% as of May 10, 2021 in respect of the Borrowing. Actual interest expense may be higher or lower depending on fluctuations in interest rates and other market conditions. A one-eighth percent increase or decrease in the interest rate would not have had a material impact on interest expense for the three months ended March 31, 2021. Estimated amortization of debt issuance costs related to the Borrowing are not considered material and have not been included.
e) Reflects 2.5 million shares of Laredo common stock issued to Sabalo and Shad as a portion of the consideration for the Acquisitions.

Laredo has not reflected any estimated tax impact related to the Acquisition, Disposition or Borrowing in the accompanying unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2021 because it does not anticipate the impact to be material due to the Company's net operating loss carryforwards. The Company's effective tax rate is not meaningful and is expected to remain under 1% due to the full valuation allowance against the Company's federal and Oklahoma net deferred tax assets.

Adjustments to the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2020

The following adjustments have been made to the accompanying unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 to reflect the Acquisitions, Disposition and Borrowing:

a) Represents adjustments to eliminate the effects of assets and liabilities retained by Sabalo and not associated with the oil and natural gas properties acquired.
b) Represents adjustments to the Company's historical consolidated statement of operations to remove the effects of the Disposition and recognize an estimated nonrecurring gain of $86.0 million, net of transaction costs, associated with the Disposition.
c) Reflects adjustment to depreciation, depletion and amortization expense resulting from the change in basis of property, plant and equipment acquired and an increase in accretion of asset retirement obligations.
d) Reflects adjustment to impairment expense resulting from the application of the quarterly ceiling test pursuant to the rules governing full cost accounting and due to the change from Sabalo's and Shad's historical accounting under successful efforts to conform to Laredo's presentation under full cost. The quarterly ceiling test takes into account the change in basis of the oil and gas properties acquired and reserves and historical prices determined using SEC guidelines at the time of each historical quarterly ceiling test.
e) Reflects interest expense at the current rate of 2.625% as of May 10, 2021 in respect of the Borrowing. Actual interest expense may be higher or lower depending on fluctuations in interest rates and other market conditions. A one-eighth percent increase or decrease in the interest rate would not have had a material impact on interest expense for the year ended December 31, 2020. Estimated amortization of debt issuance costs related to the Borrowing are not considered material and have not been included.
f) Reflects 2.5 million shares of Laredo common stock issued to Sabalo and Shad as a portion of the consideration for the Acquisitions.

Laredo has not reflected any estimated tax impact related to the Acquisition, Disposition or Borrowing in the accompanying unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 because it does not anticipate the impact to be material due to the Company's net operating loss carryforwards. The Company's effective tax rate is not meaningful and is expected to remain under 1% due to the full valuation allowance against the Company's federal and Oklahoma net deferred tax assets.

Note 3. Supplemental Pro Forma Oil and Gas Information

The following tables present the estimated pro forma combined net proved developed and undeveloped oil and natural gas reserves as of December 31, 2020 for Laredo, Sabalo and Shad, along with a summary of changes in the quantities of net remaining proved reserves during the year ended December 31, 2020. The pro forma reserve information set forth below gives effect to the Acquisitions and Disposition as if they had been completed on January 1, 2020.

Laredo Petroleum, Inc.
Notes to Pro Forma Condensed Combined Financial Statements
(Unaudited)

	Crude Oil (Thousand of barrels)				
	Historical				
	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Disposition	Pro Forma Combined
Proved developed and undeveloped reserves:					
Balance as of January 1, 2020	78,639	36,647	3,841	(21,837)	97,290
Revisions of previous estimates	(10,517)	(7,876)	(163)	1,691	(16,865)
Extensions, discoveries and other additions	4,282	32,495	-	-	36,777
Acquisitions of reserves in place	5,182	-	-	-	5,182
Production	(9,827)	(2,618)	(630)	3,410	(9,665)
Balance as of December 31, 2020	67,759	58,648	3,048	(16,736)	112,719
Proved developed reserves:					
Balance as of January 1, 2020	52,711	20,006	3,841	(21,837)	54,721
Balance as of December 31, 2020	51,751	15,388	3,048	(16,736)	53,451
Proved undeveloped reserves:					
Balance as of January 1, 2020	25,928	16,641	-	-	42,569
Balance as of December 31, 2020	16,008	43,260	-	-	59,268

	Natural Gas (Millions of cubic feet)				
	Historical				
	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Disposition	Pro Forma Combined
Proved developed and undeveloped reserves:					
Balance as of January 1, 2020	675,237	31,009	5,041	(238,772)	472,515
Revisions of previous estimates	34,376	(9,052)	(2,087)	(19,211)	4,026
Extensions, discoveries and other additions	10,772	29,989	-	-	40,761
Acquisitions of reserves in place	6,948	-	-	-	6,948
Production	(70,049)	(1,803)	(547)	25,710	(46,689)
Balance as of December 31, 2020	657,284	50,143	2,407	(232,273)	477,561
Proved developed reserves:					
Balance as of January 1, 2020	600,334	18,388	5,041	(238,772)	384,991
Balance as of December 31, 2020	633,503	9,894	2,407	(232,273)	413,531
Proved undeveloped reserves:					
Balance as of January 1, 2020	74,903	12,621	-	-	87,524
Balance as of December 31, 2020	23,781	40,249	-	-	64,030

	Natural Gas Liquids (Thousand of barrels)				
	Historical				
	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Disposition	Pro Forma Combined
Proved developed and undeveloped reserves:					
Balance as of January 1, 2020	102,198	7,711	1,243	(36,137)	75,015
Revisions of previous estimates	6,218	(1,932)	(488)	(2,713)	1,085
Extensions, discoveries and other additions	1,811	8,174	-	-	9,985
Acquisitions of reserves in place	1,310	-	-	-	1,310
Production	(10,615)	(288)	(99)	3,856	(7,146)
Balance as of December 31, 2020	100,922	13,665	656	(34,994)	80,249
Proved developed reserves:					
Balance as of January 1, 2020	90,861	4,599	1,243	(36,137)	60,566
Balance as of December 31, 2020	96,251	2,695	656	(34,994)	64,608
Proved undeveloped reserves:					
Balance as of January 1, 2020	11,337	3,112	-	-	14,449
Balance as of December 31, 2020	4,671	10,970	-	-	15,641

	Total Equivalent Reserves (Thousands barrels of oil equivalent)				
	Historical				

	Laredo - As Reported	Sabalo - As Reported	Shad - As Reported	Disposition	Pro Forma Combined
Proved developed and undeveloped reserves:					
Balance as of January 1, 2020	293,377	49,527	5,925	(97,771)	251,058
Revisions of previous estimates	1,430	(11,317)	(999)	(4,223)	(15,109)
Extensions and discoveries	7,888	45,667	-	-	53,555
Purchases of minerals in place	7,650	-	-	-	7,650
Production	(32,117)	(3,207)	(820)	11,551	(24,593)
Balance as of December 31, 2020	278,228	80,670	4,106	(90,443)	272,561
Proved developed reserves:					
Balance as of January 1, 2020	243,628	27,670	5,925	(97,771)	179,452
Balance as of December 31, 2020	253,586	19,732	4,106	(90,443)	186,981
Proved undeveloped reserves:					
Balance as of January 1, 2020	49,749	21,857	-	-	71,606
Balance as of December 31, 2020	24,642	60,938	-	-	85,580

The pro forma standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves as of December 31, 2020 is as follows:

	Historical				
	Laredo - As Reported	**Sabalo - As Reported**	**Shad - As Reported**	**Disposition**	**Pro Forma Combined**
Future cash inflows	$ 3,824,104	$ 2,524,116	$ 130,147	$ (1,074,768)	$ 5,403,599
Future production costs	(1,740,537)	(1,018,511)	(67,317)	520,449	(2,305,916)
Future development costs	(351,568)	(772,141)	(4,245)	23,056	(1,104,898)
Future income tax expenses	(20,076)	(13,252)	(683)	5,643	(28,368)
Future net cash flows	1,711,923	720,212	57,902	(525,620)	1,964,417
10% annual discount for estimated timing of cash flows	(697,069)	(405,261)	(19,931)	214,824	(907,437)
Standardized measure of discounted future net cash flows	$ 1,014,854	$ 314,951	$ 37,971	$ (310,796)	$ 1,056,980

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, 2020 are as follows:

	Historical				
	Laredo - As Reported	**Sabalo - As Reported**	**Shad - As Reported**	**Disposition**	**Pro Forma Combined**
Standardized measure of discounted future net cash flows, beginning of year	$ 1,662,261	$ 534,506	$ 76,370	$ (578,597)	$ 1,694,540
Changes in the year resulting from:					
Net change in prices and production costs	(770,885)	(201,330)	(17,075)	246,213	(743,077)
Changes in estimated future development costs	64,146	20,624	(221)	(1,164)	83,385
Sales, less production costs	(331,358)	(67,750)	(12,994)	130,583	(281,519)
Extensions, discoveries and other additions	60,004	102,442	-	-	162,446
Acquisitions of reserves in place	14,208	-	-	-	14,208
Revisions of previous quantity estimates	199	(140,084)	(13,499)	(11,408)	(164,792)
Previously estimated development costs incurred during the period	186,261	15,453	576	(40,054)	162,236
Net change in income taxes	(1,205)	(1,775)	312	(1,449)	(4,117)
Accretion of discount	167,227	54,060	7,709	(58,319)	170,677
Timing differences and other	(36,004)	(1,195)	(3,207)	3,399	(37,007)
Balance at December 31, 2020	$ 1,014,854	$ 314,951	$ 37,971	$ (310,796)	$ 1,056,980

Exhibit 99.6

W.D.Von Gonten&Co.
Petroleum Engineering

10496 Old Katy Road, Suite 200 Houston, Texas 77043

t: 713.224.6333 f: 713.224.6330 www.wdvgco.com

May 5, 2021

Mr. Barry Clark
President
Sabalo Energy, LLC
800 North Shoreline Blvd Suite 900N
Corpus Christi, TX 78401

Re: Sabalo Energy, LLC Interests
Midland Basin Oil & Gas Assets
Estimate of Reserves and Revenues
SEC Pricing Case
“As of” January 1, 2021

Dear Mr. Clark:

At your request, W.D. Von Gonten & Co. has prepared estimates of future reserves and projected net revenues for certain property interests owned by Sabalo Energy, LLC (“Sabalo”). This report was prepared in accordance with guidelines specified in item 1202(a)(8) of Regulation S-K and may be used for inclusion in certain SEC filings by Sabalo. These properties include producing, non-producing and undeveloped locations located in Howard and Borden counties, Texas. This report excludes effects of commodity derivatives. Our third party evaluation was completed on May 5, 2021. Our conclusions, as of January 1, 2021, are as follows:

	Sabalo Energy, LLC			
SEC Price Case	Proved Producing	Proved Non-Producing	Proved Undeveloped	Total Proved
Reserve Estimates				
Oil, MBbls	12,159.7	3,228.3	43,260.3	58,648.3
Gas, MMcf	6,945.6	2,948.4	40,249.0	50,143.0
NGL, MBbls	1,891.4	803.6	10,969.8	13,664.8
Revenues				
Oil, $ (93%)	467,540,960	124,129,056	1,663,357,952	2,255,027,968
Gas, $ (1%)	6,190,397	2,627,842	35,872,512	44,690,751
NGL's $ (6%)	31,059,796	13,196,268	180,141,504	224,397,568
Total, $	504,791,153	139,953,166	1,879,371,968	2,524,116,287
Expenditures				
Ad valorem Taxes, $	12,024,371	3,331,925	44,741,840	60,098,136
Severance Taxes, $	23,816,252	6,676,152	89,698,008	120,190,412
Fixed Operating Expense, $	193,466,160	38,914,812	475,081,088	707,462,060
Variable Operating Expense, $	26,473,408	7,256,314	97,030,520	130,760,242
Total, $	255,780,191	56,179,203	706,551,456	1,018,510,850
Investments, $	14,720,661	38,667,144	713,972,864	767,360,669
Plugging & Abandonment, $	975,080	195,486	3,609,567	4,780,133
Total, $	15,695,741	38,862,630	717,582,431	772,140,802
Estimated Future Net Revenues (FNR)				
Undiscounted FNR, $	*233,315,184*	*44,911,316*	*455,237,952*	*733,464,452*
FNR Disc. @ 10%, $	*158,396,288*	*27,466,328*	*136,959,696*	*322,822,312*
Allocation Percentage by Classification				
FNR Disc. @ 10%	49.1%	8.5%	42.4%	100.0%

**Due to computer rounding, numbers in the above table may not sum exactly.*

Purpose of Report – The purpose of this report is to provide Sabalo with an estimate of future reserves and net revenues attributable to interests owned by Sabalo in the Wolfcamp and Spraberry formations effective January 1, 2021 and in accordance with SEC guidelines.

Scope of Work – W.D. Von Gonten & Co. was engaged by Sabalo to develop the appropriate reserve projections and estimate the remaining reserves associated with the developed and undeveloped properties included in this report. The properties evaluated by W.D. Von Gonten & Co. represent 100% of the total net proved gas reserves owned by Sabalo as of January 1, 2021. Once the reserves were estimated, future revenues were determined in accordance with SEC 12/31/2020 oil and gas pricing.

Reporting Requirements – Securities and Exchange Commission (SEC) Regulation S-X 210, Rule 4-10 and Regulation S-K 229, Item 1200 (as revised in December 2008, effective 1-1-10), and Accounting Standards Codification Topic 932 require oil and gas reserve information to be reported by publicly held companies as supplemental financial data. These regulations and standards provide for estimates of Proved reserves and revenues discounted at 10% and based on un-escalated prices and costs.

The estimated Proved reserves herein have been prepared in conformance with all SEC definitions and requirements.

Projections – The attached reserves and revenue projections are on a calendar year basis with the first time period being January 1, 2021 through December 31, 2021.

Reserve Estimates

Producing Properties – Reserve estimates for the PDP properties were based on volumetric calculations, log analysis, decline curve analysis, and/or analogy to nearby production, including from other operators.

Undeveloped Properties – The undeveloped reserves were necessarily estimated using volumetric calculations, log analysis, core analysis, geophysical interpretation and/or analogy to nearby recently drilled wells with comparative completion practices to that which Sabalo will implement. In addition, W.D. Von Gonten & Co. has performed a field study of the Midland basin independent of this report. Our conclusion, from that field study have fortified our confidence in the producing and undeveloped reserves included herein.

Based on SEC reserves reporting requirements, only those undeveloped volumes scheduled to be drilled within five years of their initial recognition have been included within the Proved Undeveloped category of reserves. That volume, as reflected in the results table of page 1 of this report, is approximately 43,260 MBbls of oil, 40,249 MMcf of natural gas, and 10,970 MBbls of natural gas liquids (NGL's)

Reserves and schedules of production included in this report are only estimates. The amount of available data, reservoir and geological complexity, reservoir drive mechanism, and mechanical aspects can have a material effect on the accuracy of these reserve estimates. Due to inherent uncertainties in future production rates, well costs, commodity prices, and geologic conditions, it should be realized that the reserve estimates, the reserves recovered, the revenue derived therefrom, and the actual cost incurred could be more or less than the estimated amounts. We consider the assumptions, data, methods, and procedures used in this report appropriate hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves and future net revenues.

Product Prices

The estimated revenues shown herein were based on SEC pricing guidelines effective January 1, 2021. SEC pricing is determined by averaging the first day of each month's closing price for the previous twelve months using published benchmark oil and gas prices. This method renders a West Texas Intermediate ("WTI") price of 39.57/Bbl. and Henry Hub gas price of $1.985/MMBtu. These prices were held constant throughout the life of the properties as per SEC guidelines. A pricing differential was applied to all properties on an individual property basis in order to reflect prices actually received at the point of sale. The average realized oil and gas price, after adjustments for location and differentials such as transportation to comply with Item 1202(a)(8)(v) are $38.45/Bbl. and $0.891/Mcf.

Operating Expenses and Capital Cost

Monthly operating expenses for wells operated by Sabalo and other 3rd party companies were provided by Sabalo. Sabalo provided W.D. Von Gonten & Co. with twelve months (December 2019 – November 2020) of Sabalo operated and non-operated historical fixed and variable operating expense data. W.D Von Gonten & Co. then reconciled, adjusted accordingly and applied internally determined fixed and variable costs to each individual operated and non-operated property.

Capital costs associated with the drilling and completion of future undeveloped locations were provided by Sabalo including tangible and intangible drilling and completion costs, facility costs, and flowline costs. Where available, these costs were further verified from recently drilled and completed wells from other regional and/or offsetting operators.

All operating expenses and capital costs were held constant for the life of the properties in accordance with SEC guidelines.

Other Considerations

Abandonment Costs – The costs necessary for abandonment of certain properties were provided by Sabalo. W.D. Von Gonten & Co. expresses no warranties regarding the accuracy or validity of these costs for the generation of this report.

Additional Costs – Costs were not deducted for general and administrative expenses, depletion, depreciation and/or amortization (a non-cash item) or federal income tax.

Data Sources – Data furnished by Sabalo included basic well information including working and net revenue interests, daily and monthly oil, gas, and water production, flowing pressure data and costs (LOE and CAPEX). Public data sources such as IHS Energy and the U.S. Geological Survey (USGS) were used to gather any additional necessary data.

Context – We specifically advise that any reserve estimate for a specific property not be used out of context from the overall report. The revenues and present worth of future net revenues are not represented to be market value either for individual properties or on a total property basis. The estimation of fair market value for oil and gas properties requires additional analysis other than evaluating undiscounted and discounted future net revenues.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the January 1, 2021 estimated oil and gas volumes. The reserves in this report can be produced under current regulatory guidelines. Actual future commodity prices may differ substantially from the utilized pricing scenario which may or may not extend or limit the estimated reserve and revenue quantities presented in this report.

We have not inspected the properties included in this report, nor have we conducted independent well tests. W.D. Von Gonten & Co. and our employees have no direct ownership in any of the properties included in this report. Our fees are based on hourly expenses and are not related to the reserve and revenue estimates produced in this report. The responsible technical personnel referenced below have obtained the qualifications and meet the requirements of objectivity for Qualified Reserves Evaluator employed internally by W.D. Von Gonten & Co. as set forth in the *Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information* (2019 ed.) promulgated by the SPE.

Thank you for the opportunity to assist Sabalo with this report.

Respectfully submitted,

STATE OF TEXAS
WILLIAM D. VON GONTEN JR.
73244
REGISTERED
PROFESSIONAL ENGINEER

W.D. Von Gonten Jr.

William D. Von Gonten, Jr., P.E.
TX # 73244

W.D. Von Gonten&Co.
Petroleum Engineering

TX Lic # F-1855

John M. Parker

John M. Parker

PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

This document contains information excerpted from definitions and guidelines prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that this document will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

1.1 Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term "resources" as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "conventional" or "unconventional."

Figure 1-1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

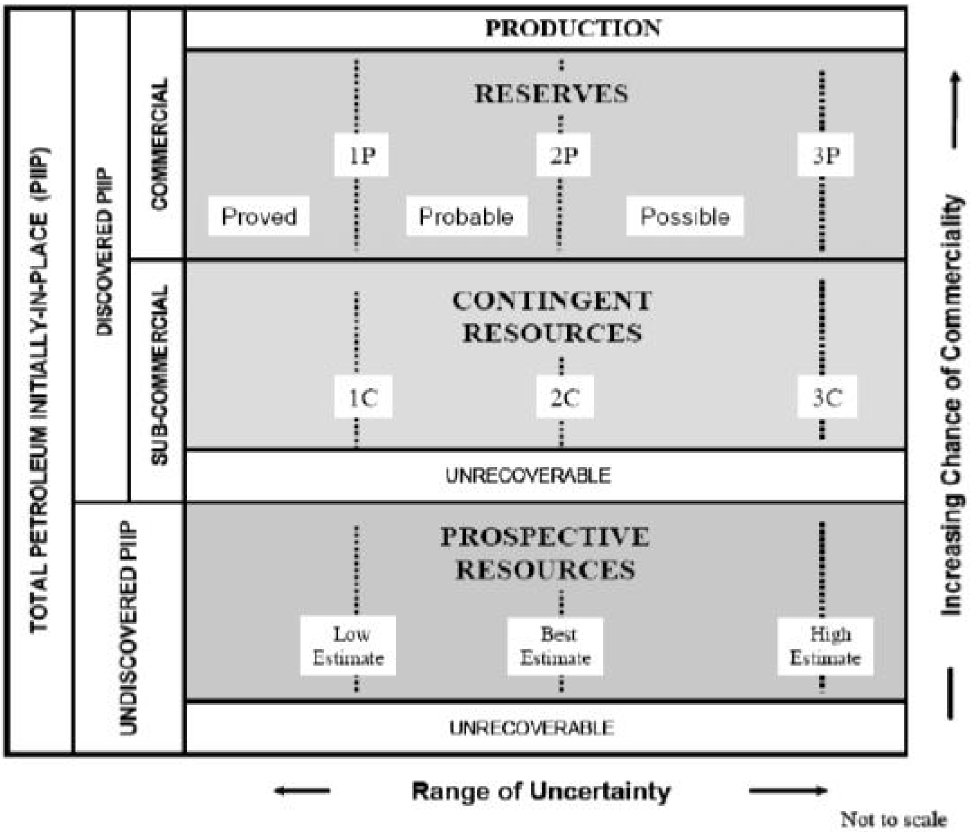

Figure 1-1: Resources Classification Framework.

The “Range of Uncertainty” reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the “Chance of Commerciality, that is, the chance that the project that will be developed and reach commercial producing status.

The following pages contain the definitions in **Tables 1, 2, and 3** that display the major classes and sub-classes of petroleum reserves and resources as defined by the SPE:

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.
On Production	The development project is currently producing and selling petroleum to market.	The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project “chance of commerciality” can be said to be 100%. The project “decision gate” is the decision to initiate commercial production from the project.
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity’s current or following year’s approved budget. The project “decision gate” is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Class/Sub-Class	Definition	Guidelines
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Class/Sub-Class	Definition	Guidelines
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Table 2: Reserves Status Definitions and Guidelines

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	(1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Table 3: Reserves Category Definitions and Guidelines

Category	Definition	Guidelines
Proved Reserves	Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.	If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines,” Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that: •The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. •Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.
Probable Reserves	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.	It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Category	Definition	Guidelines
Possible Reserves	Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.	The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.
Probable and Possible Reserves	(See above for separate criteria for Probable Reserves and Possible Reserves.)	The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

W.D. Von Gonten&Co.
Petroleum Engineering
10496 Old Katy Road, Suite 200 Houston, Texas 77043 *t:* **713.224.6333** *f:* 71**3.224.6330** **www.wdvgco.com**

May 5, 2021

Mr. Barry Clark
President
Sabalo Energy, LLC
800 North Shoreline Blvd Suite 900N
Corpus Christi, TX 78401

Re: Shad Permian, LLC Interests
Midland Basin Oil & Gas Assets
Estimate of Reserves and Revenues
SEC Pricing Case
"As of" January 1, 2021

Dear Mr. Clark:

At your request, W.D. Von Gonten & Co. has prepared estimates of future reserves and projected net revenues for certain property interests owned by Shad Permian, LLC ("Shad" or "Sabalo"). This report was prepared in accordance with guidelines specified in item 1202(a)(8) of Regulation S-K and may be used for inclusion in certain SEC filings by Sabalo. These properties include producing locations located in Howard and Borden counties, Texas. This report excludes effects of commodity derivatives. Our third party evaluation was completed on May 5, 2021. Our conclusions, as of January 1, 2021, are as follows:

	Shad Permian, LLC	
SEC Price Case	**Proved Producing**	**Total Proved**
Reserve Estimates		
Oil, MBbls	**3,048.8**	**3,048.8**
Gas, MMcf	**2,407.3**	**2,407.3**
NGL, MBbls	**656.1**	**656.1**
Revenues		
Oil, $ (90%)	**117,227,592**	**117,227,592**
Gas, $ (2%)	**2,145,529**	**2,145,529**
NGL's $ (8%)	**10,774,234**	**10,774,234**
Total, $	**130,147,355**	**130,147,355**
Expenditures		
Ad valorem Taxes, $	**3,099,071**	**3,099,071**
Severance Taxes, $	**6,184,524**	**6,184,524**
Fixed Operating Expense, $	**51,147,640**	**51,147,640**
Variable Operating Expense, $	**6,886,127**	**6,886,127**
Total, $	**67,317,362**	**67,317,362**
Investments, $	**3,972,975**	**3,972,975**
Plugging & Abandonment, $	**272,135**	**272,135**
Total, $	**4,245,110**	**4,245,110**
Estimated Future Net Revenues (FNR)		
Undiscounted FNR, $	***58,584,896***	***58,584,896***
FNR Disc. @ 10%, $	***38,381,384***	***38,381,384***
Allocation Percentage by Classification		
FNR Disc. @ 10%	**100.0%**	**100.0%**

**Due to computer rounding, numbers in the above table may not sum exactly*

Purpose of Report – The purpose of this report is to provide Sabalo with an estimate of future reserves and net revenues attributable to interests owned by Shad in the Wolfcamp and Spraberry formations effective January,1 2021 and in accordance with SEC guidelines.

Scope of Work – W.D. Von Gonten & Co. was engaged by Sabalo to develop the appropriate reserve projections and estimate the remaining reserves associated with the developed properties included in this report. The properties evaluated by W.D. Von Gonten & Co. represent 100% of the total net proved gas reserves owned by Shad as of January 1, 2021. Once the reserves were estimated, future revenues were determined in accordance with SEC 12/31/2020 oil and gas pricing.

Reporting Requirements – Securities and Exchange Commission (SEC) Regulation S-X 210, Rule 4-10 and Regulation S-K 229, Item 1200 (as revised in December 2008, effective 1-1-10), and Accounting Standards Codification Topic 932 require oil and gas reserve information to be reported by publicly held companies as supplemental financial data. These regulations and standards provide for estimates of Proved reserves and revenues discounted at 10% and based on un-escalated prices and costs.

The estimated Proved reserves herein have been prepared in conformance with all SEC definitions and requirements.

Projections – The attached reserves and revenue projections are on a calendar year basis with the first time period being January 1, 2021 through December 31, 2021.

Reserve Estimates

Producing Properties – Reserve estimates for the PDP properties were based on volumetric calculations, log analysis, decline curve analysis, and/or analogy to nearby production, including from other operators.

Reserves and schedules of production included in this report are only estimates. The amount of available data, reservoir and geological complexity, reservoir drive mechanism, and mechanical aspects can have a material effect on the accuracy of these reserve estimates. Due to inherent uncertainties in future production rates, well costs, commodity prices, and geologic conditions, it should be realized that the reserve estimates, the reserves recovered, the revenue derived therefrom, and the actual cost incurred could be more or less than the estimated amounts. We consider the assumptions, data, methods, and procedures used in this report appropriate hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves and future net revenues.

Product Prices

The estimated revenues shown herein were based on SEC pricing guidelines effective January 1, 2021. SEC pricing is determined by averaging the first day of each month's closing price for the previous twelve months using published benchmark oil and gas prices. This method renders a West Texas Intermediate ("WTI") price of 39.57/Bbl. and Henry Hub gas price of $1.985/MMBtu. These prices were held constant throughout the life of the properties as per SEC guidelines. A pricing differential was applied to all properties on an individual property basis in order to reflect prices actually received at the point of sale. The average realized oil and gas price, after adjustments for location and differentials such as transportation to comply with Item 1202(a)(8)(v) is $38.45/Bbl. and $0.891/Mcf.

Operating Expenses

Monthly operating expenses for wells operated by Sabalo and other 3rd party companies were provided by Sabalo. Sabalo provided W.D. Von Gonten & Co. with twelve months (December 2019 – November 2020) of Sabalo operated and non-operated historical fixed and variable operating expense data. W.D Von Gonten & Co. then reconciled, adjusted accordingly and applied internally determined fixed and variable costs to each individual operated and non-operated property.

All operating expenses and capital costs were held constant for the life of the properties in accordance with SEC guidelines.

Other Considerations

Abandonment Costs – The costs necessary for abandonment of certain properties were provided by Sabalo. W.D. Von Gonten & Co. expresses no warranties regarding the accuracy or validity of these costs for the generation of this report.

Additional Costs – Costs were not deducted for general and administrative expenses, depletion, depreciation and/or amortization (a non-cash item) or federal income tax.

Data Sources – – Data furnished by Sabalo included basic well information including working and net revenue interests, daily and monthly oil, gas and water production, flowing pressure data and costs (LOE and CAPEX). Public data sources such as IHS Energy and the U.S. Geological Survey (USGS) were used to gather any additional necessary data.

Context – We specifically advise that any reserve estimate for a specific property not be used out of context from the overall report. The revenues and present worth of future net revenues are not represented to be market value either for individual properties or on a total property basis. The estimation of fair market value for oil and gas properties requires additional analysis other than evaluating undiscounted and discounted future net revenues.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the January 1, 2021 estimated oil and gas volumes. The reserves in this report can be produced under current regulatory guidelines. Actual future commodity prices may differ substantially from the utilized pricing scenario which may or may not extend or limit the estimated reserve and revenue quantities presented in this report.

We have not inspected the properties included in this report, nor have we conducted independent well tests. W.D. Von Gonten & Co. and our employees have no direct ownership in any of the properties included in this report. Our fees are based on hourly expenses and are not related to the reserve and revenue estimates produced in this report. The responsible technical personnel referenced below have obtained the qualifications and meet the requirements of objectivity for Qualified Reserves Evaluator employed internally by W.D. Von Gonten & Co. as set forth in the *Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information* (2019 ed.) promulgated by the SPE.

Thank you for the opportunity to assist Sabalo with this report.

Respectfully submitted,

STATE OF TEXAS
WILLIAM D. VON GONTEN JR.
73244
REGISTERED
PROFESSIONAL ENGINEER

W.D. Von Gonten&Co.
Petroleum Engineering
TX Lic # F-1855

William D. Von Gonten, Jr., P.E.
TX # 73244

John M. Parker

PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

This document contains information excerpted from definitions and guidelines prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that this document will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

1.1 Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term "resources" as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "conventional" or "unconventional."

Figure 1-1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

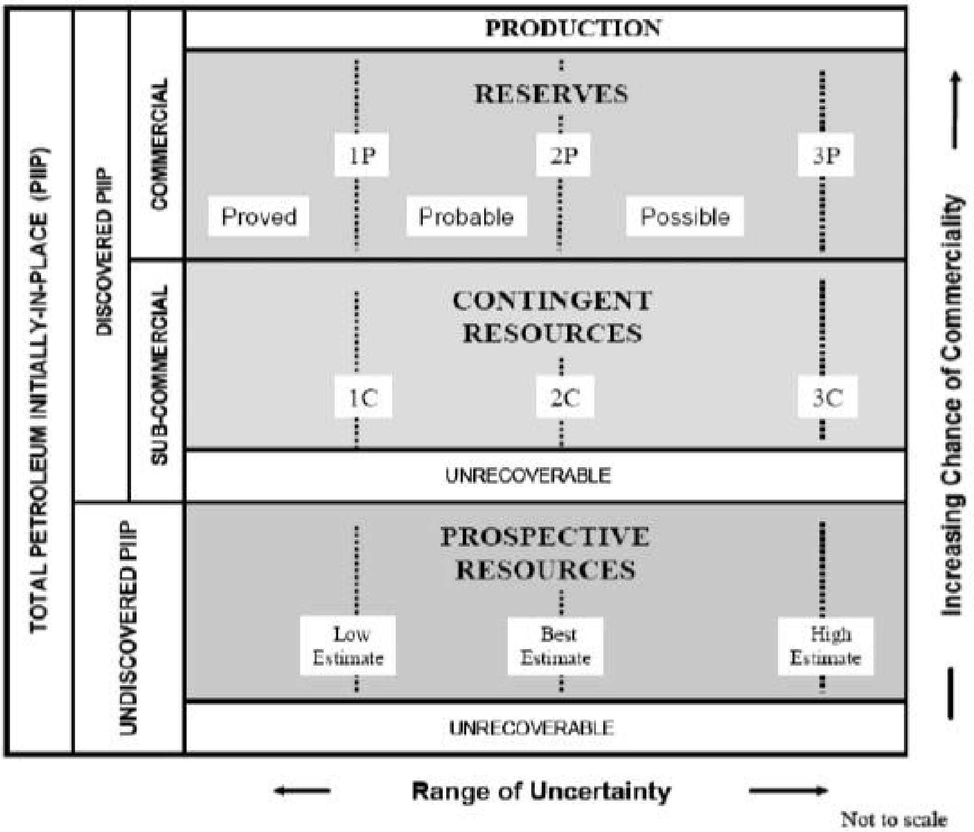

Figure 1-1: Resources Classification Framework.

The "Range of Uncertainty" reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the "Chance of Commerciality, that is, the chance that the project that will be developed and reach commercial producing status.

The following pages contain the definitions in **Tables 1, 2, and 3** that display the major classes and sub-classes of petroleum reserves and resources as defined by the SPE:

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.
On Production	The development project is currently producing and selling petroleum to market.	The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project “chance of commerciality” can be said to be 100%. The project “decision gate” is the decision to initiate commercial production from the project.
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity’s current or following year’s approved budget. The project “decision gate” is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Class/Sub-Class	Definition	Guidelines
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Class/Sub-Class	Definition	Guidelines
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to “Not Viable” status. The project “decision gate” is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project “decision gate” is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Table 2: Reserves Status Definitions and Guidelines

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	(1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Table 3: Reserves Category Definitions and Guidelines

Category	Definition	Guidelines
Proved Reserves	Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.	If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines,” Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that: •The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. •Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.
Probable Reserves	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.	It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Category	Definition	Guidelines
Possible Reserves	Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.	The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.
Probable and Possible Reserves	(See above for separate criteria for Probable Reserves and Possible Reserves.)	The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.