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

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

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

Date of report (Date of earliest event reported): June 30, 2023

VITAL ENERGY, INC.
(Exact name of registrant as specified in charter)

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

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

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

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

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

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

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

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.01 par value	**VTLE**	**New York Stock Exchange**

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

Emerging Growth Company ☐

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

Explanatory Note

As previously disclosed in its Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2023 (the "Original Form 8-K"), on June 30, 2023 (the "Closing Date"), Vital Energy, Inc. (the "Company") completed the acquisition of oil and gas properties from Forge Energy II Delaware, LLC for aggregate consideration of approximately $391.6 million in cash, after closing price adjustments.

This Amendment to Current Report on Form 8-K is being filed to amend and supplement the Original Form 8-K, the sole purpose of which is to provide the financial statements required by Item 9.01(a), which were excluded from the Original Form 8-K and are filed as exhibits hereto and are incorporated herein by reference. All other items in the Original Form 8-K remain the same.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of business to be acquired.

The audited financial statements of Forge Energy II Delaware, LLC ("Forge"), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the audited financial statements, are filed as Exhibit 99.1 hereto and incorporated by reference herein.

The unaudited quarterly financial statements of Forge, which comprise the balance sheet as of March 31, 2023, the related statements of operations, members' equity, and cash flows for the three-month periods ended March 31, 2023 and 2022, and the related notes to the unaudited quarterly financial statements, are filed as Exhibit 99.2 hereto and incorporated by reference herein.

(b) Pro forma financial information.

The Company will file the pro forma financial information required by Item 9.01(b) of Form 8-K by an amendment to the Original Form 8-K no later than 71 days from the date the Original Form 8-K was required to be filed.

(d) Exhibits.

Exhibit Number	Description
23.1	Consent of Weaver and Tidwell, L.L.P.
23.2	Consent of Ryder Scott Company, L.P.
99.1	Audited financial statements of Forge as of December 31, 2022 and 2021 and for the years then ended.
99.2	Unaudited financial statements of Forge as of March 31, 2023 and for the three-month periods ended March 31, 2023 and March 31, 2022.
99.3	Reserves report of Ryder Scott Company, L.P. with respect to Forge as of December 31, 2022.
99.4	Reserves report of Ryder Scott Company, L.P. with respect to Forge as of December 31, 2021.
104	Cover Page Interactive Data File (formatted as Inline XBRL).

SIGNATURES

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

VITAL ENERGY, INC.

Date: July 13, 2023	By:	/s/ Bryan J. Lemmerman
		Bryan J. Lemmerman
		Senior Vice President and Chief Financial Officer

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-257799, File No. 333-260479, File No. 333-263752, and File No. 333-271095), and Form S-8 (File No. 333-178828, File No. 333-211610, File No. 333-231593, and File No. 333-256431) of Vital Energy, Inc. of our report dated July 7, 2023, with respect to the balance sheets of Forge Energy II Delaware, LLC as of December 31, 2022 and 2021 and the related statements of operations, changes in members' equity, and cash flows for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, included in this Current Report on Form 8-K dated July 13, 2023.

/s/ WEAVER AND TIDWELL, L.L.P.

Austin, Texas
July 13, 2023

Weaver and Tidwell, L.L.P.
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746
Main: 512.609.1900
CPAs AND ADVISORS | WEAVER.COM

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPELS REGISTERED ENGINEERING FIRM F-1580
1100 LOUISIANA SUITE 4600 HOUSTON, TEXAS 77002-5294 FAX (713) 651-0849
TELEPHONE (713) 651-9191

Consent of Independent Petroleum Engineers

Ryder Scott Company, L.P. hereby consents to the incorporation by reference in Vital Energy, Inc.'s Registration Statements on Form S-3 (File Nos. 333-257799, 333-260479, 333-263752 and 333-271095) and Form S-8 (File Nos. 333-178828, 333-211610, 333-231593 and 333-256431) of all references to our firm and information from our reserves reports as of December 31, 2022, and December 31, 2021, dated May 17, 2023, relating to the oil and gas reserves of Forge Energy II Delaware, LLC.

/s/ RYDER SCOTT COMPANY, L.P.

RYDER SCOTT COMPANY, L.P.
TBPELS Firm Registration No. F-1580

Houston, Texas
July 13, 2023

FORGE ENERGY II DELAWARE, LLC

FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021
with Report of Independent Certified Public Accountants

FORGE ENERGY II DELAWARE, LLC

FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

Table of Contents

Independent Auditor's Report

To the Members of
Forge Energy II Delaware, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Forge Energy II Delaware, LLC (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Forge Energy II Delaware, LLC as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

The Members of
Forge Energy II Delaware, LLC

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

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

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
July 7, 2023

FORGE ENERGY II DELAWARE, LLC

BALANCE SHEETS

	December 31,	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	$ 513,351	$ 3,945,255
Accounts receivable		
Oil and natural gas sales	21,180,129	11,230,000
Contingent consideration receivable	3,000,000	—
Other receivables	1,353,735	418,818
Derivative asset, current	565,826	—
Inventory	624,889	—
Total current assets	27,237,930	15,594,073
Oil and natural gas properties, successful efforts method of accounting	463,842,488	230,928,063
Less accumulated depletion and depreciation	(57,144,260)	(11,870,788)
Total oil and natural gas properties	406,698,228	219,057,275
Other assets:		
Other property and equipment, net	32,916,833	34,342,833
Contingent consideration, non-current	2,201,963	—
Derivative asset, non-current	85,072	—
Debt financing costs, net	992,123	816,322
Accounts receivable, related parties, non-current	10,798,959	9,801,930
Total other assets	46,994,950	44,961,085
Total assets	$ 480,931,108	$ 279,612,433
Liabilities and Members' Equity		
Current liabilities:		
Accrued liabilities	$ 37,347,865	$ 32,846,101
Asset retirement obligation, current	—	120,056
Derivative liability, current	7,080,068	20,539,154
Total current liabilities	44,427,933	53,505,311
Long-term liabilities		
Accounts payable, related parties	52,269,042	26,972,872
Asset retirement obligations	9,594,268	9,965,231
Derivative liability	—	2,937,565
Line-of-credit	52,535,986	30,000,000
Commitments and contingencies		
Members' equity	322,103,879	156,231,454
Total liabilities and members' equity	$ 480,931,108	$ 279,612,433

See accompanying notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF INCOME

Years Ended December 31, 2022 and 2021

	2022	2021
Revenue:		
Oil sales	$ 245,168,750	$ 77,087,587
Natural gas sales	17,597,745	7,479,827
Natural gas liquids	26,593,170	11,089,830
Other revenue	456,429	237,834
Total revenue	289,816,094	95,895,078
Operating expenses:		
Lease operating expenses	36,020,746	22,787,204
Geological and geophysical expenses	143,866	26,657
Workover expenses	1,691,050	1,959,922
Production and ad valorem taxes	17,281,874	6,155,286
Depletion and depreciation	45,273,471	11,215,586
Accretion	480,708	356,051
Impairment of oil and natural gas properties	—	42,805
General and administrative expenses	1,576,076	1,063,742
Total operating expenses	102,467,791	43,607,253
Operating income	187,348,303	52,287,825
Other income (expense):		
Gain on sale of oil and natural gas properties	131,897	—
Loss on realized derivatives	(41,892,633)	(25,132,830)
Gain (loss) on unrealized derivatives	17,047,549	(13,885,894)
Gain on unrealized fair value of contingent consideration	183,242	—
Interest expense	(2,864,654)	(457,522)
Total other expense	(27,394,599)	(39,476,246)
Net income	$ 159,953,704	$ 12,811,579

See accompanying notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31, 2022 and 2021

Balance at January 1, 2021	$	114,900,458
Member contributions		33,860,470
Contribution, common control		6,186,947
Distribution of oil and natural gas properties, to affiliate		(11,528,000)
Net income		12,811,579
Balance at December 31, 2021		156,231,454
Contribution of contingent consideration, from affiliate		5,918,721
Net income		159,953,704
Balance at December 31, 2022	$	322,103,879

See accompanying notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Net income	$ 159,953,704	$ 12,811,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and accretion	47,180,180	12,878,805
Impairment of oil and natural gas properties	—	42,805
Gain on unrealized fair value of contingent consideration	(183,242)	-
Gain on unrealized derivatives	(16,147,549)	—
(Gain) loss on sale of assets	(131,897)	13,885,894
Amortization of debt financing costs	402,339	167,159
Changes in operating assets and liabilities:		
Accounts receivable	(9,950,129)	13,830,662
Other receivables	(934,917)	(418,818)
Inventory	(624,889)	—
Accounts payable and accrued liabilities	1,829,466	13,272,441
Accounts payable, related parties	13,070,437	(15,407,164)
Revenue and suspense payable	—	(2,790,625)
Net cash provided by operating activities	194,463,503	48,272,738
Cash Flows From Investing Activities		
Investments in oil and natural gas properties	(210,159,960)	(74,504,034)
Acquisitions of oil and natural gas properties	(9,246,661)	(33,308,114)
Proceeds from sale of assets	89,354	—
Net cash used in investing activities	(219,317,267)	(107,812,148)
Cash Flows From Financing Activities		
Contributions from members	—	33,860,471
Common control contribution	—	607,674
Proceeds from line-of-credit	22,000,000	30,000,000
Payment of debt issuance costs	(578,140)	(983,480)
Net cash provided by financing activities	21,421,860	63,484,665
Net increase (decrease) in cash and cash equivalents	(3,431,904)	3,945,255
Cash and cash equivalents at beginning of year	3,945,255	—
Cash and cash equivalents at end of year	$ 513,351	$ 3,945,255
Supplemental Cash Flow Information		
Cash paid for interest	$ 1,314,522	$ 139,481
Additions to oil and natural gas properties through accounts payable and accrued liabilitie	$ 14,378,338	$ 32,689,776
Additions to asset retirement obligations	$ 2,398,729	$ 4,335,256
Member contributions, common control, net of cash	$ —	$ 5,579,273
Member contributions, from affiliate	$ 5,918,721	$ —

See accompanying notes to financial statements.

A. Nature of Business

Forge Energy II Delaware, LLC (the "Company"), a limited liability company (wherein members of the Company are not obligated for liabilities of the Company), was formed on May 11, 2018 to acquire oil and natural gas properties. The oil and natural gas properties are operated by Forge Energy Operating, LLC ("FEO", "Operator"). The Company and the Operator are 100% owned by Forge Energy II, LLC.

The Company's executive offices are located in San Antonio, Texas.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions. Significant assumptions are required in the valuation of proved oil and natural gas reserves, asset retirement obligations ("ARO") and derivative instruments. It is at least reasonably possible these estimates could be revised in the near term, and these revisions could be material.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 2022 and 2021, the Company had no such investments. The Company maintains deposits in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

B. Summary of Significant Accounting Policies – continued

Accounts Receivable

Oil and Natural Gas Sales

Accounts receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance for the years ended December 31, 2022 and 2021.

Contingent Consideration

On December 9, 2022, Forge Energy II Midstream, LLC, a related party, entered into a purchase and sale agreement to sell Forge Energy II Midstream, LLC. As part of this divestiture, the Company also agreed to a contingent consideration arrangement should certain performance incentives be fulfilled.

The performance incentive agreement executed concurrent to the purchase and sale agreement of the Forge Energy II Midstream, LLC entity includes contingent consideration arrangements that require the buyer to pay the Company if certain performance obligations are fulfilled through development of certain properties in Ward and Reeves counties. The incentive period is from December 9, 2022 through December 31, 2025. The maximum aggregate payment is $9,000,000 during the incentive period.

As of December 31, 2022, the fair value of the contingent consideration was $6,101,963, of which $3,000,000 was included in current contingent consideration receivable, $900,000 was included in other receivables, and $2,201,963 was included in long-term contingent consideration.

Derivatives

Commodity Derivatives

To mitigate risks associated with market volatility, the Company enters into derivative financial instruments, including commodity swaps, to reduce the effects of oil and natural gas price fluctuations on revenue.

B. Summary of Significant Accounting Policies – continued

Derivatives – continued

Commodity Derivatives – continued

Derivatives are recognized as an asset or liability measured at fair value, with their changes in fair value recognized in earnings in the statements of income. The fair value of commodity swaps is determined by references to published future market prices. The Company's derivatives feature monthly settlements with the counterparties, the impact of which is reflected as an operating cash flow. The Company has not designated any derivative instruments as hedges and do not enter into such instruments for speculative purposes. Cash paid in settlement of commodity derivatives are classified as cash flows from operating activities in accordance with the underlying derivative asset or liability.

Embedded Derivatives

The Company has entered into agreements related to acquisitions of oil and natural gas properties that includes obligations to pay the seller additional consideration if commodity prices exceed specified thresholds during certain periods in the future. These contingent consideration liabilities are required to be bifurcated and accounted for separately as derivative instruments as they are not considered to be clearly and closely related to the host contract. Accordingly, these liabilities are initially recognized at their acquisition date fair value in the balance sheets and revalued at each reporting period, with any change in their fair value recognized in earnings.

Cash paid or received in settlement of contingent consideration assets and liabilities are classified as cash flows from financing activities up to the acquisition date fair value with any excess classified as cash flows from operating activities.

Inventory

Inventory includes equipment the Company plans to utilize in ongoing exploration, development, and production activities and is carried at the net realizable value. The cost of inventory is capitalized into oil and natural gas properties once it has been placed into service.

B. Summary of Significant Accounting Policies – continued

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting to account for its oil and natural gas properties. Under this method, costs of acquiring properties, costs of drilling successful exploration wells, and development costs are capitalized. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. At the completion of drilling activities, the costs of exploratory wells remain capitalized if a determination is made that proved reserves have been found. If no proved reserves have been found, the costs of each of the related exploratory wells are charged 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's policy is to expense the costs of such exploratory wells if a determination of proved reserves has not been made within a twelve-month period after drilling is complete.

Exploration costs such as geological, geophysical, and seismic costs are expensed as incurred, unless such costs relate to seismic surveys to further develop a proven area and then, those costs are capitalized.

As exploration and development work progresses and the reserves on these properties are proven, capitalized costs attributed to the properties are subject to depreciation, depletion, and amortization. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the specific oil and natural gas property. If development wells are unsuccessful, the capitalized costs of the properties related to this unsuccessful work are expensed in the year in which the determination was made.

On the sale or retirement of a complete or partial unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and any gain or loss is recognized.

Maintenance and repairs are charged to operations. Major renewals and improvements, which substantially extend the useful lives of assets, are capitalized.

Impairment of Long-Lived Assets

The carrying value of the oil and natural gas properties and other property and equipment are periodically evaluated for impairment. GAAP requires long-lived assets and certain identifiable intangibles to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is determined that the estimated future net cash flows of an asset will not be sufficient to recover its carrying amount, an impairment loss must be recorded to reduce the carrying amount to its estimated fair value.

B. Summary of Significant Accounting Policies – continued

Impairment of Long-Lived Assets – continued

The Company evaluates impairment of their proven oil and natural gas properties on a single cost pool as the Company operates in one primary area. On this basis, impairment may be recorded if the Company is not expected to recover their entire carrying value from future net cash flows. The Company evaluates impairment of unproven oil and natural gas properties by tracking expiring leases and whether the Company renews the leases. Impairment expense of $0 and $42,805 related to unproved properties was recorded as of December 31, 2022 and 2021, respectively.

Other Property and Equipment

Other property and equipment are carried at cost. Depreciation is provided on the straight-line method over the assets' estimated service lives. Expenditures for maintenance and repairs are charged to expense in the period in which they are incurred, and betterments are capitalized. The cost of assets sold or abandoned, and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying consolidated statement of income for the respective period. The estimated useful lives of midstream infrastructure (capitalized central tank batteries) is 25 years. Depreciation expense of $1,359,083 and $811,955 is included in lease operating expenses on the statements of income.

Debt Financing Costs

Debt financing costs are stated at cost, net of amortization, and as an asset on the balance sheet. Amortization of deferred financing costs is computed using the straight-line method over the life of the line-of-credit.

Accounts Payable – Related Parties

Accounts Payable – Related Parties represent business expenditures due and payable in the normal course of business. The majority of these expenses are incurred and processed by the Operator, creating a payable amount from the Company and recorded as Accounts Payable – Related Parties. The Operator of the oil and natural gas properties generates revenue transactions for the Company on a regular basis creating receivable balances for the Company. As of December 31, 2022 and 2021, the combined net of all amounts due to/from related parties resulted in a payable balance from the Company and receivables and payables are presented on the balance sheets.

B. Summary of Significant Accounting Policies – continued

Asset Retirement Obligations

The Company recognizes an asset retirement obligation for legal obligations associated with the retirement of the Company's long-lived assets. Oil and natural gas producing companies incur such a liability upon acquiring or drilling a well. An asset retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to producing properties in the accompanying balance sheet which is allocated to expense over the useful life of the asset. Periodic accretion of the discount on asset retirement obligations is recorded as accretion expense in the accompanying statements of income.

Revenue Recognition

Oil, natural gas and natural gas liquids (NGL) revenues are recognized when title to the product transfers to the purchaser. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than the expected remaining proved reserves.

Oil Sales

Sales under the Company's oil contracts are generally considered performed when the Company sells oil production at the wellhead and receives an agreed-upon index price, net of any price differentials. The Company recognizes revenue when control transfers to the purchaser at the wellhead based on the net price received.

NGL and Natural Gas Sales

The Company evaluated whether it was the principal or the agent in gas processing transactions and concluded that it is the principal when it has the ability to take-in-kind, which is the case in the majority of the Company's gas processing and transportation contracts. The Company recognizes revenue on a net basis, with the gathering, processing and transportation costs associated with its take-in-kind arrangements being recorded net of revenue in the statement of income.

Other Revenue

The Company's other revenue is for saltwater disposal facility fees and gas lift income. The Company recognizes revenue related to these at the time the service is completed, and the Company's performance is satisfied.

B. Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

Performance Obligations and Contract Balances

The majority of the Company's product sale commitments are short-term in nature with a contract term of one year or less. The Company typically satisfies its performance obligations upon transfer of control as described above and records the related revenue in the month production is delivered to the purchaser. Settlement statements for sales of oil and natural gas may not be received for 30 to 60 days after the date the volumes are delivered, and as a result, the Company is required to estimate the amount of volumes delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. Historically, differences between the Company's revenue estimates and actual revenue received have not been significant. For the years of December 31, 2022 and 2021, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was $21,180,129 and $11,230,000, respectively.

Fair Value Measurement

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

- Level 1 — observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

- Level 2 — observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

- Level 3 — inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

The ARO is classified within Level 3 as the fair value is estimated using discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, estimated amounts and timing of settlements, the credit-adjusted risk free rate to be used and inflation rates. See Note G for the summary of changes in the fair value of the asset retirement obligation for the years ended December 31, 2022 and 2021.

B. Summary of Significant Accounting Policies – continued

Fair Value Measurement – continued

The fair value of derivative instruments is derived using published forward commodity price curves, market volatility, and contract terms as of the date of the estimate. 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 most 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 I for the summary of changes in the fair value of derivative hedges for the years ended December 31, 2022 and 2021.

The contingent consideration is classified within Level 3 as the fair value is estimated using discounted cash flow projections using assumptions and judgements based on the Company's development plans and weighted average cost of capital.

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities, which qualify as financial instruments and includes this information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accounts receivable, prepaid expenses, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying value of the line-of-credit also approximates fair value since this instrument bears market rates of interest. None of these instruments are held for trading purposes.

Income Taxes

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

Income tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not threshold, it is then measured to determine the amount of expense to record in the financial statements. The tax expense recorded would equal the largest amount of expense related to the outcome that is 50% or greater likely to occur. The Company classifies any potential accrued interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as operating expense. Management of the Company has not taken a tax position that, if challenged, would be expected to have a material effect on the financial statements as of December 31, 2022 and 2021.

B. Summary of Significant Accounting Policies – continued

Income Taxes – continued

The Company did not incur any penalties or interest related to its tax returns during the years ended December 31, 2022 and 2021.

Concentrations of Credit Risk

For the years ended December 31, 2022 and 2021, two purchasers accounted for 73% and 98% of the Company's revenue. These significant purchasers' account receivable balance approximates 76% and 95% of the total accounts receivable as of December 31, 2022 and 2021. Receivables from purchasers are generally unsecured; however, the Company has not experienced any credit losses to date. Additionally, due to the nature of the markets for oil and natural gas, the Company does not believe the loss of any one or all purchasers would have a material adverse impact on its financial position, results of operations or cash flows for any significant period of time.

The counterparties to the Company's derivative financial instruments are financial institutions that management believes have acceptable credit ratings.

Risks and Uncertainties

As an oil and natural gas producer, the Company's revenue, profitability, and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which are dependent upon numerous factors beyond its control such as economic, political, and regulatory developments and competition from other energy sources. The energy markets have historically been very volatile and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future.

A substantial or extended decline in oil and natural gas prices could have a material adverse effect on the Company's financial position, results of operations, cash flows, and quantities of oil and natural gas reserves that may be economically produced. Other risks and uncertainties that could affect the Partnership in the current price environment include, but are not limited to, counterparty credit risk for our receivables, access to credit markets and ability to meet financial ratios and covenants in the Company's financing agreements.

C. Acquisitions & Divestitures

2022 Acquisitions, Divestitures & Trades

The Company closed an aggregate of $9,246,661 in oil and natural gas asset acquisitions during the year ended December 31, 2022.

The Company entered into various agreements to trade or dispose oil and natural gas assets during the year ended December 31, 2022. An aggregate gain of $131,897 was recognized on the disposals.

C. Acquisitions & Divestitures – continued

Reeves County Acquisition #1

On January 18, 2021, the Company completed an acquisition of certain membership interests (the “Reeves County Acquisition #1”). All assets involved in the acquisition are under common control and the net assets were recorded using the historical book value of the assets at the date of the acquisition. The excess historical book value acquired is treated as an equity transaction.

The following table summarizes the assets, liabilities and excess historical book value amounts related to the acquisitions:

Historical book value of assets acquired:		
Cash	$	607,674
Accounts receivable		568,454
Oil and gas properties, net		5,056,391
Total historical book value of assets acquired		6,232,519
Historical book value of liabilities acquired:		
Revenue suspense		(45,572)
Total historical book value of liabilities acquired		(45,572)
Contributed capital	$	6,186,947

Ward County Acquisition

On February 1, 2021, the Company closed the acquisition of certain oil and natural gas properties located in the Permian Basin for a total consideration of $28,726,550 with an effective date of January 1, 2021 (the “Ward County Acquisition”). Additionally, as part of this acquisition, the Company agreed to a contingent consideration arrangement that involves obligations to pay the seller additional consideration if commodity prices exceed specified thresholds during certain periods in the future. Due to the nature of the contingent arrangement in relation to the host contract, these liabilities were determined to be embedded derivatives. Acquisition date fair value of these instruments amounted to $3,562,445 and are included the total consideration.

The Ward County Acquisition was accounted for as a business combination and therefore, recorded the assets acquired at their estimated acquisition date fair values. The fair values of the oil and natural gas assets were estimated by applying the discounted cash flow analysis approach. These fair value measurements are based on significant inputs that are not observable in the market and thus represent Level 3 measurements. Key assumptions to the valuations of oil and natural gas properties include (a) the amount and timing of future reserves; (b) the amount and timing of future operating and developmental costs; (c) future commodity prices; and (d) a market-based weighted average costs of capital.

C. Acquisitions & Divestitures – continued

Ward County Acquisition – continued

The following table summarizes the fair value of the assets and liabilities acquired in the Ward County Acquisition:

Consideration:		
Consideration, net of purchase price adjustments	$	28,726,550
Estimated fair value of assets acquired		
Proved oil and natural gas properties	$	28,726,550
Asset retirement costs		3,139,484
Total		31,866,034
Estimated fair value of liabilities acquired		
Asset retirement obligation		(3,139,484)
Total		(3,139,484)
Total assets and liabilities acquired	$	28,726,550

Reeves County Acquisition #2

On December 17, 2021, the Company closed the acquisition of certain oil and natural gas properties located in the Permian Basin for a total consideration of $12,642,477 with an effective date of October 1, 2021 (the “Reeves County Acquisition #2”).

The Reeves County Acquisition #2 was accounted for as a business combination and therefore, recorded the assets acquired at their estimated acquisition date fair values. The fair values of the oil and natural gas assets were estimated by applying the discounted cash flow analysis approach. These fair value measurements are based on significant inputs that are not observable in the market and thus represent Level 3 measurements. Key assumptions to the valuations of oil and natural gas properties include (a) the amount and timing of future reserves; (b) the amount and timing of future operating and developmental costs; (c) future commodity prices; and (d) a market-based weighted average costs of capital.

C. Acquisitions & Divestitures – continued

Reeves County Acquisition #2 – continued

The following table summarizes the fair value of the assets and liabilities acquired in the Reeves County Acquisition #2:

Consideration:		
Consideration, net of purchase price adjustments	$	12,642,477
Estimated fair value of assets acquired		
Proved oil and natural gas properties	$	12,678,976
Asset retirement costs		90,510
Total		12,769,486
Estimated fair value of liabilities acquired		
Revenue suspense liability		(36,499)
Asset retirement obligation		(90,510)
Total		(127,009)
Total assets and liabilities acquired	$	12,642,477

D. Oil and Natural Gas Properties

Oil and natural gas properties consisted of the following at December 31:

	2022		2021	
Proved oil and natural gas properties	$	463,842,488	$	227,824,126
Unproved oil and natural gas properties		—		3,103,937
Less accumulated depletion		(57,144,260)		(11,870,788)
Total oil and natural gas properties	$	406,698,228	$	219,057,275
Depletion expense for the year ended	$	45,273,471	$	11,215,586

E. Other Property and Equipment

Other property and equipment consisted of the following at December 31:

	2022		2021	
Facilities – battery	$	35,650,000	$	35,650,000
Less: accumulated depreciation		(2,733,167)		(1,307,167)
Other property and equipment, net	$	32,916,833	$	34,342,833

F. Accrued Liabilities

Accrued liabilities consisted of the following at December 31:

	2022	2021
Accrued oil and natural gas capitalized costs	$ 25,781,448	$ 22,573,166
Accrued lease operating expenses	3,743,800	2,301,176
Accrued contingency payable	2,875,000	2,875,000
Accrued ad valorem taxes	2,669,425	1,236,682
Accrued workovers	1,318,222	2,214,363
Accrued liabilities - other	959,970	1,645,714
	$ 37,347,865	$ 32,846,101

G. Asset Retirement Obligations

The Company recognizes the fair value of its asset retirement obligations related to the plugging, abandonment, and remediation of oil and natural gas producing properties. The present value of the estimated asset retirement costs has been capitalized as part of the proved oil and natural gas properties. The fair value of additions to the asset retirement obligation liability is measured using valuation techniques consistent with the income approach, which converts future cash flows into a single discounted amount. Significant inputs to the valuation include (i) estimated plug and abandonment or removal and remediation cost per well based on Company experience, in accordance with applicable state laws, (ii) estimated remaining life per well, (iii) future inflation factors and (iv) the Company's average credit-adjusted risk-free rate. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including, in addition to those noted above, the ultimate settlement of these amounts, the ultimate timing of such settlement and changes in technology, regulatory, political, environmental, safety and public relations matters. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, an adjustment will be made to the asset balance.

The following table summarizes the changes in the Company's asset retirement obligations at December 31:

	2022	2021
Asset retirement obligations at beginning of year	$ 10,085,287	$ 5,393,980
Wells acquired during the period	—	3,659,334
Additions during the period	2,398,729	675,922
Disposals during the period	(3,370,456)	—
Accretion of discount	480,708	356,051
Asset retirement obligations at end of year	$ 9,594,268	$ 10,085,287

H. Line-Of-Credit

On May 3, 2021, the Company entered into an $400,000,000 credit agreement (“Credit Agreement”) with a syndicate of financial institutions that matures on October 30, 2024. This reserves-based facility features a borrowing base which was initially set to an amount of $63,000,000. Effective April 25, 2022, the Company’s Borrowing Base was increased to $125,000,000 and with this increase the Company established an Elected Commitment Amount of $100,000,000. Effective November 4, 2022, the Company’s Borrowing Base was increased to $160,000,000 and with this increase the Company established an Elected Commitment Amount of $125,000,000. As part of this increase, two new banks were added to the syndicate to accommodate the expansion. The borrowing base for the RBL is supported by the value of proved reserves and is subject to scheduled semi-annual, in April and October, and other elective redeterminations as provided in the Credit Agreement. The line-of-credit has a variable annual interest rate based on adjusted Eurodollar or Alternate Base Rate (“ABR”) plus an applicable margin. Eurodollar loans bear interest at the U.S. dollar SOFR rate plus a margin ranging between 3% and 4% per annum depending on the borrowing base utilization. ABR loans bear interest at the ABR rate plus a margin ranging between 2% and 3% per annum depending on the borrowing base utilization. Additionally, a commitment fee of 0.5% per annum is charged on the unutilized balance of the committed borrowing base and is included in interest expense. As of December 31, 2022 and 2021, borrowings under the line-of-credit had an effective interest rate of 8% and 4%.

The Company is to make quarterly interest payments on the outstanding balance and repay any unpaid principal at the maturity date. Subject to the terms of the agreement, the Company may borrow, repay, and re-borrow hereunder at any time, provided that the Company is not in default. At December 31, 2022 and 2021, the outstanding principal balance of the line-of-credit was $52,535,986 and $30,000,000, respectively.

As part of the Credit Agreement, the Company can have letters of credit outstanding as well. As of December 31, 2022 and 2021, the Company had $0 and $250,000, respectively, letters of credit outstanding.

The Company incurred expense of $2,023,617 and $298,594 for the years ended December 31, 2022 and 2021, which includes commitment fees within interest expense on the accompanying statements of income.

The Credit Agreement contains affirmative, negative, and financial covenants customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments and dispositions, limitations on fundamental changes to the Loan Parties, a maximum consolidated leverage ratio and a current ratio. Upon an event of default, and after any applicable cure period, the administrative agent can accelerate the maturity of the loan. Events of default include customary items, such as failure to pay principal and interest in a timely manner and breach of covenants. As of December 31, 2022 and 2021, the Company was in compliance with all financial covenants related to the Credit Agreement.

H. Line-Of-Credit – continued

Debt financing cost related to the Credit Agreement is amortized over the life of the line-of-credit. Unamortized deferred financing costs totaled $992,123 and $816,322 at December 31, 2022 and 2021, respectively, and are classified as debt financing costs on the balance sheets. Interest expense related to amortization of debt financing costs was $402,339 and $167,159 for years ended December 31, 2022 and 2021, respectively, and are included in interest expense on the statements of income.

I. Derivative Activities

Commodity Derivative Activities

The Company has implemented a comprehensive hedging strategy to reduce the effects of volatility of commodity prices on the Company's results of operations.

Inherent in the Company's portfolio of commodity derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that commodity prices will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not require collateral from its counterparties.

During 2022 and 2021, the Company entered into derivative contracts listed below in order to manage market risk due to the fluctuation of oil and natural gas prices. The unrealized gains and losses related to these derivatives are included in the accompanying statements of income.

I. Derivative Activities – continued

Commodity Derivative Activities – continued

The following summarizes the Company's open commodity derivative positions, which are comprised of fixed price swaps and costless collars for WTI oil, Midland-Cushing differential, HHUB gas and WAHA differential as of the year ended December 31, 2022:

Period	Commodity	Contract Type	Volumes (BBls, Mcf)	Price ($/Bbl, Mcf)
January 2023 - March 2023	Oil	Put	69,864	$50.00
January 2023 - March 2023	Oil	Call	(69,864)	$62.50
January 2023 - March 2023	Oil	Put	30,486	$50.00
January 2023 - March 2023	Oil	Call	(30,486)	$71.00
January 2023 - March 2023	Oil	Put	50,514	$50.00
January 2023 - March 2023	Oil	Call	(50,514)	$78.75
April 2023 - June 2023	Oil	Put	67,011	$50.00
April 2023 - June 2023	Oil	Call	(67,011)	$61.35
April 2023 - June 2023	Oil	Put	29,144	$50.00
April 2023 - June 2023	Oil	Call	(29,144)	$69.00
April 2023 - June 2023	Oil	Put	48,282	$50.00
April 2023 - June 2023	Oil	Call	(48,282)	$76.45
July 2023 - September 2023	Oil	Put	91,231	$50.00
July 2023 - September 2023	Oil	Call	(91,231)	$67.55
July 2023 - September 2023	Oil	Put	44,775	$50.00
July 2023 - September 2023	Oil	Call	(44,775)	$74.05
October 2023 - December 2023	Oil	Put	130,267	$50.00
October 2023 - December 2023	Oil	Call	(130,267)	$71.80
January 2023 - December 2023	Oil	Put	100,415	$60.00
January 2023 - December 2023	Oil	Call	(100,415)	$116.50
January 2023 - December 2023	Oil	Put	100,482	$60.00
January 2023 - December 2023	Oil	Call	(100,482)	$87.20
January 2024 - March 2024	Oil	Put	138,903	$60.00
January 2024 - March 2024	Oil	Call	(138,903)	$98.20
January 2023	Oil	Price Swap	13,694	$89.19
February 2023	Oil	Price Swap	11,919	$88.04
March 2023	Oil	Price Swap	10,595	$86.79
April 2023	Oil	Price Swap	9,592	$85.73
May 2023	Oil	Price Swap	8,734	$84.75
June 2023	Oil	Price Swap	8,002	$83.72
July 2023	Oil	Price Swap	7,395	$82.88
August 2023	Oil	Price Swap	6,880	$82.14
September 2023	Oil	Price Swap	6,448	$81.38
October 2023	Oil	Price Swap	6,031	$80.75
November 2023	Oil	Price Swap	5,752	$80.08
December 2023	Oil	Price Swap	5,440	$79.42
January 2023 - December 2023	Mid-Cush	Price Swap	561,573	$0.15
January 2023 - March 2024	Mid-Cush	Price Swap	239,319	$0.60
January 2023 - December 2024	Mid-Cush	Price Swap	100,482	$1.30
January 2023 - December 2023	Mid-Cush	Price Swap	100,482	$0.35
January 2023 - March 2023	Gas	Put	482,910	$7.00
January 2023 - March 2023	Gas	Call	(482,910)	$11.40
January 2023 - March 2023	WAHA	Price Swap	482,910	($1.17)

I. Derivative Activities – continued

Commodity Derivative Activities – continued

Subsequent to December 31, 2022, the Company has added the following positions:

Period	Commodity	Contract Type	Volumes (BBls, Mcf)	Price ($/Bbl, Mcf)
April 2023 – March 2024	Oil	Put	213,251	$60.00
April 2023 – March 2024	Oil	Call	(213,251)	$83.65
January 2024 – March 2024	Oil	Put	28,892	$50.00
January 2024 – March 2024	Oil	Call	(28,892)	$82.50
April 2023 – March 2024	Mid-Cush	Price Swap	213,251	$0.55
January 2024 – March 2024	Mid-Cush	Price Swap	28,892	$1.20

The purchase and sale agreement of the Ward County Acquisition and an acquisition completed in 2020 included contingent consideration arrangements that require the Company to pay the seller if commodity prices exceed specified thresholds. The Company incurred expense of $11,500,000 and
$7,885,000 for the years ended December 31, 2022 and 2021, respectively, and zero obligation remains as of December 31, 2022.

Derivative Assets and Liabilities

The derivative instrument fair values recorded in the accompanying balance sheets as of December 31, 2022 and 2021 are as follows:

	2022		
	Gross Amounts	Netting Adjustment	Net Amounts Presented
Assets			
Commodity derivative instruments, current	$ 2,857,991	$ (2,292,165)	$ 565,826
Commodity derivative instruments, non-current	840,750	(755,678)	85,072
Derivative assets	$ 3,698,741	$ (3,047,843)	$ 650,898
Liabilities			
Commodity derivative instruments, current	$ 9,372,233	$ (2,292,165)	$ 7,080,068
Derivative liabilities	$ 9,372,233	$ (2,292,165)	$ 7,080,086

I. Derivative Activities – continued

Derivative Assets and Liabilities – continued

	2021		
	Gross Amounts	**Netting Adjustment**	**Net Amounts Presented**
Liabilities			
Commodity derivative instruments, current	$ 9,039,154	$ —	$ 9,039,154
Commodity derivative instruments, non-current	2,937,565	—	2,937,565
Contingent consideration, current	11,500,000	—	11,500,000
Derivative liabilities	$ 23,476,719	$ —	$ 23,476,719

The components of derivative gains (losses) in the statements of income are as follows:

	2022	2021
Unrealized commodity derivative instruments	$ 5,547,549	$ (10,963,224)
Unrealized contingent consideration	11,500,000	(2,922,670)
Unrealized gain (loss) on derivatives	$ 17,047,549	$ (13,885,894)
Commodity derivative instruments settled	$ (30,392,633)	$ (17,247,830)
Contingent derivative instruments settled	(11,500,000)	(7,885,000)
Realized derivative loss	$ (41,892,633)	$ (25,132,830)

J. Members' Equity

Capital contributions will be based on capital calls, to be determined by the Board of Managers. Contribution requests to the Members will be based on their commitment and any items in nature of income or gain will be applied to the Members' capital accounts in accordance with their earnings interest, as defined by in the Limited Liability Company Agreement (the "Agreement") of the parent company, Forge Energy II, LLC.

Total contributions of $149,984,626, including $5,981,721 of contingent consideration, and
$144,065,905, including $6,186,947 of common control contributions, was recorded as of December 31, 2022 and 2021, respectively.

K. Commitments and Contingencies

Litigation

In the normal course of business, the Company may at times be subject to claims and legal actions. The Company is not currently involved in any legal proceedings that management believes are likely to have a material adverse effect on the Company's financial statements.

Environmental Remediation

Various federal, state, and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the Company's operations and the costs of its oil and natural gas exploration, development, and production operations. As of December 31, 2022 and 2021, the Company has no claims and is not aware of any claims made related to environmental remediation. The Company recorded no contingent environmental remediation expense as within the statement of income for the years ended December 31, 2022 and 2021.

L. Related Party Transactions

The Company shares costs with other affiliated entities. The following summarizes the Company's related party balances as of December 31, 2022 and 2021.

Forge Energy Operating, LLC serves as the Operator for Company's oil and natural gas assets and incurs capital expenditures, operating expenses and general and administrative expenses. All oil and natural gas revenues and expenditures are processed by the Operator and allocated to the Company based on interest ownership percentages.

As of December 31 2022 and 2021, the amounts payable and receivable to/from the related parties, net are as follows:

2022 – Related Party	**Payable**	**Receivable**	**Net**
Forge Energy Operating, LLC	$ (52,269,042)	$ —	$ (52,269,042)
Forge Energy II Interests, LLC	—	7,412,796	7,412,796
Forge Energy II Delaware Midstream, LLC	—	1,000,000	1,000,000
Forge Energy II, LLC	—	2,386,163	2,386,163
Total Accounts Payable – Related Parties	$ (52,269,042)	$ 10,798,959	$ (41,470,083)

L. Related Party Transactions – continued

2021 – Related Party	**Payable**	**Receivable**	**Net**
Forge Energy Operating, LLC	$ (26,972,872)	$ —	$ (26,972,872)
Forge Energy II Interests, LLC	—	7,412,796	7,412,796
Forge Energy II Delaware Midstream, LLC	—	2,971	2,971
Forge Energy II, LLC	—	2,386,163	2,386,163
Total Accounts Payable – Related Parties	$ (26,972,872)	$ 9,801,930	$ (17,170,942)

M. Oil and Natural Gas Reserve and Standardized Measure (UNAUDITED)

The following tables provide an analysis of the changes in estimated proved reserve quantities of oil, natural gas and natural gas liquids (NGL) for the years ended December 31, 2022 and, all of which are located within the United States:

	Oil (Bbl)	**Natural Gas (Mcf)**	**NGL (Bbl)**	**Total (BOE)**
As of December 31, 2021	39,364,000	70,421,000	11,108,000	62,208,833
Revisions	6,016,678	9,202,761	1,798,481	9,348,953
Extensions	4,645,294	6,319,786	1,205,013	6,903,605
Acquisitions	407,775	665,112	113,917	632,544
Production	(2,571,747)	(4,522,659)	(716,412)	(4,041,935)
As of December 31, 2022	47,862,000	82,086,000	13,509,000	75,052,000
Proved developed reserves:				
2021	14,577,787	35,745,058	5,371,361	25,906,658
2022	18,499,602	38,900,407	6,065,098	31,048,101
Proved undeveloped reserves:				
2021	24,786,561	34,676,267	5,737,036	36,302,975
2022	29,361,960	43,185,647	7,443,536	44,003,104

For the year ended December 31, 2022, extensions, discoveries, and other additions resulted primarily from 38 new proved undeveloped locations for 7,536,149 BOE added in the Delaware Basin by the Company.

M. Oil and Natural Gas Reserve and Standardized Measure (UNAUDITED) – continued

In accordance with U.S. GAAP and Securities and Exchange Commission rules and regulations, the following information is presented with regard to the working interest properties oil and natural gas reserves, all of which are proved, developed and located in the United States. These rules require inclusion as a supplement to the basic financial statements a standardized measure of discounted net future cash flows relating to proved oil and natural gas reserves. The standardized measure, in management's opinion, should be examined with caution. The basis for these disclosures are petroleum engineers' reserve studies which contain estimates of quantities and rates of production of reserves. Revision of prior year estimates can have a significant impact on the results. Changes in production costs may result in significant revisions to previous estimates of proved reserves and their future value.

Therefore, the standardized measure is not necessarily a best estimate of the fair value of oil and natural gas properties or future net cash flows.

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

	2022	2021
Future cash inflows	$ 5,312,733,000	$3,100,974,000
Future production costs	(1,558,892,000)	(1,117,181,000)
Future development and abandonment costs	(718,183,000)	(365,637,000)
Future income tax expense	(27,891,848)	(16,280,114)
Future net cash flows	3,007,766,152	1,301,875,887
10% annual discount for estimated timing of cash flows	(1,625,915,879)	(846,586,781)
Standardized measure of discounted future net cash flows	$ 1,381,850,273	$ 755,289,105

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

	2022	2021
Beginning of year	$ 755,289,105	$ 72,738,950
Net change in prices and production costs	568,671,772	130,305,678
Net change in future production costs	(80,027,918)	(321,084)
Oil and gas net revenue	(237,003,556)	(65,988,621)
Extensions	128,464,960	—
Acquisition of reserves	13,061,237	—
Revisions of previous quantity estimates	137,551,024	644,369,507
Previously estimated development costs incurred	60,780,125	—
Net changes in taxes	(5,410,832)	(6,862,005)
Accretion of discount	76,313,700	7,372,484
Changes in timing and other	(35,839,344)	(26,325,804)
Standardized measure of discounted future net cash flows	1,381,850,273	755,289,105

N. Subsequent Events

The Company has drawn additional borrowings on the line-of-credit for a net total of $28,000,000.

On April 6, 2023, the Company assigned the contingent consideration from the performance incentive agreement related to the Forge Energy II Midstream, LLC divestiture to Forge II, LLC, a related party.

Effective April 20, 2023, the Company's Borrowing Base was reduced from $160,000,000 to $140,000,000.

On May 11, 2023, the Company entered into a Purchase and Sale Agreement with two companies to divest certain assets including all oil and natural gas properties for a purchase price of $540,000,000 subject to customary purchase price adjustments. As it relates to the sale of the assets, the Company liquidated all derivative positions effective June 23, 2023. The Company closed on the sale on June 30, 2023.

On June 30, 2023, the Company paid off the principal, interest and associated fees related to the Line- Of-Credit.

In preparing the accompanying consolidated financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through July 7, 2023, the date the financial statements were available for issuance.

FORGE ENERGY II DELAWARE, LLC

FINANCIAL STATEMENTS

For the Three Month Periods Ended March 31, 2023 and 2022

FORGE ENERGY II DELAWARE, LLC

FINANCIAL STATEMENTS

For the Three Month Periods Ended March 31, 2023 and 2022

Table of Contents

FORGE ENERGY II DELAWARE, LLC

BALANCE SHEETS

		March 31, 2023		December 31, 2022
		(unaudited)		
Assets				
Current assets:				
Cash and cash equivalents	$	47,793	$	513,351
Accounts receivable				
Oil and natural gas sales		21,265,383		21,180,129
Contingent consideration receivable		1,042,153		3,000,000
Other receivables		3,000,000		1,353,735
Derivative asset, current		281,687		565,826
Inventory		1,437,934		624,889
Total current assets		27,074,950		27,237,930
Oil and natural gas properties, successful efforts method of accounting		533,760,197		463,842,488
Less accumulated depletion and depreciation		(68,111,582)		(57,144,260)
Total oil and natural gas properties		465,648,615		406,698,228
Other assets:				
Other property and equipment, net		32,560,333		32,916,833
Contingent consideration, non-current		2,254,539		2,201,963
Derivative asset, non-current		—		85,072
Debt financing costs, net		865,245		992,123
Accounts receivable, related parties, non-current		10,798,959		10,798,959
Total other assets		46,479,076		46,994,950
Total assets	$	539,202,641	$	480,931,108
Liabilities and Members' Equity				
Current liabilities:				
Accrued liabilities	$	34,306,115	$	37,347,865
Derivative liability, current		3,617,149		7,080,068
Total current liabilities		37,923,264		44,427,933
Long-term liabilities				
Accounts payable, related parties		57,776,098		52,269,042
Asset retirement obligations		9,905,550		9,594,268
Line-of-credit		74,535,986		52,535,986
Commitments and contingencies				
Members' equity		359,061,743		322,103,879
Total liabilities and members' equity	$	539,202,641	$	480,931,108

See accompanying condensed notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF INCOME - ***UNAUDITED***

	Three Month Period Ended March 31,	
	2023	**2022**
Revenue:		
Oil sales	$ 59,442,600	$ 56,924,858
Natural gas sales	140,431	2,995,381
Natural gas liquids	5,242,446	6,627,348
Other revenue	107,232	128,175
Total revenue	64,932,709	66,675,762
Operating expenses:		
Lease operating expenses	12,275,890	6,613,548
Workover expenses	2,441,990	720,514
Production and ad valorem taxes	3,683,811	3,759,730
Depletion and depreciation	10,967,323	4,887,249
Accretion	118,985	101,472
General and administrative expenses	452,196	266,311
Total operating expenses	29,940,195	16,348,824
Operating income	34,992,514	50,326,938
Other income (expense):		
Gain on sale of oil and natural gas properties	301	—
Gain (loss) on realized derivatives	327,991	(11,818,285)
Gain (loss) on unrealized derivatives	3,093,708	(17,453,752)
Gain on unrealized fair value of contingent consideration	52,576	—
Interest expense	(1,509,226)	(449,574)
Total other income (expense)	1,965,350	(29,721,611)
Net income	$ 36,957,864	$ 20,605,327

See accompanying condensed notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF CHANGES IN MEMBERS' EQUITY - *UNAUDITED*

	Three Month Period Ended March 31,	
	2023	**2022**
Balance at January 1	$322,103,879	$156,231,456
Net income	36,957,864	20,605,327
Balance at March 31	$359,061,743	$176,836,783

See accompanying condensed notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

STATEMENTS OF CASH FLOWS - *UNAUDITED*

	Three Month Period Ended March 31, 2023	
	2023	2022
Cash Flows From Operating Activities		
Net income	$ 36,957,864	$ 20,605,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and accretion	11,442,808	5,345,221
Gain on unrealized fair value of contingent consideration	(52,576)	—
(Gain) loss on unrealized derivatives	(3,093,708)	17,453,752
Gain on sale of assets	(301)	—
Amortization of debt financing costs	136,550	72,527
Changes in operating assets and liabilities:		
Accounts receivable	(85,254)	(14,068,927)
Other receivables	311,582	377,425
Inventory	(813,045)	—
Accounts payable, related parties	4,483,329	(3,084,172)
Accounts payable and accrued liabilities	(848,073)	2,775,058
Net cash provided by operating activities	48,439,176	29,476,211
Cash Flows From Investing Activities		
Investments in oil and natural gas properties	(70,895,062)	(40,331,306)
Net cash used in investing activities	(70,895,062)	(40,331,306)
Cash Flows From Financing Activities		
Proceeds from line-of-credit	22,000,000	7,000,000
Payment of debt issuance costs	(9,672)	(6,373)
Net cash provided by financing activities	21,990,328	6,993,627
Net decrease in cash and cash equivalents	(465,558)	(3,861,468)
Cash and cash equivalents at beginning of year	513,351	3,945,255
Cash and cash equivalents at end of year	$ 47,793	$ 83,787
Supplemental Cash Flow Information		
Cash paid for interest	$ 868,968	$ —
Changes to oil and natural gas properties through accounts payable and accrued liabilities	$ (1,169,950)	$ (8,057,221)
Additions to asset retirement obligations	$ 192,297	$ 112,235

See accompanying condensed notes to financial statements.

FORGE ENERGY II DELAWARE, LLC

CONDENSED NOTES TO FINANCIAL STATEMENTS – *UNAUDITED*

A. Nature of Business

Forge Energy II Delaware, LLC (the "Company"), a limited liability company (wherein members of the Company are not obligated for liabilities of the Company, was formed on May 11, 2018 to acquire oil and natural gas properties. The oil and natural gas properties are operated by Forge Energy Operating, LLC ("FEO", "Operator"). The Company and the Operator are 100% owned by Forge Energy II, LLC.

The Company's executive offices are located in San Antonio, Texas.

B. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. The interim unaudited financial statements were derived from the historical accounting records of the Company and reflect the historical financial position, results of operations and cash flows for the periods described herein. The unaudited financial statements of the Company should be read in conjunction with the Company's audited financial statements and notes included in the 2022 Annual Report. The balance sheet as of December 31, 2022 is derived from the Company's audited financial statements. In the opinion of management, the unaudited financial statements reflect all necessary adjustments to present fairly the Company's financial position as of March 31, 2023, results of operations for the three months ended March 31, 2023 and 2022 and cash flows for the three months ended March 31, 2023 and 2022.

Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions. Significant assumptions are required in the valuation of proved oil and natural gas reserves and asset retirement obligations ("ARO") and derivative instruments. It is at least reasonably possible these estimates could be revised in the near term, and these revisions could be material.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 2022 and 2021, the Company had no such investments. The Company maintains deposits in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

B. Summary of Significant Accounting Policies – continued

Accounts Receivable

Oil and Natural Gas Sales

Accounts receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance for the periods ended March 31, 2023 and 2022.

Contingent Consideration

On December 9, 2022, Forge Energy II Midstream, LLC, a related party, entered into a purchase and sale agreement to sell Forge Energy II Midstream, LLC. As part of this divestiture, the Company also agreed to a contingent consideration arrangement should certain performance incentives be fulfilled.

The performance incentive agreement executed concurrent to the purchase and sale agreement of the Forge Energy II Midstream, LLC entity includes contingent consideration arrangements that require the buyer to pay the Company if certain performance obligations are fulfilled through development of certain properties in Ward and Reeves counties. The incentive period is from December 9, 2022 through December 31, 2025. The maximum aggregate payment is $9,000,000 during the incentive period.

As of March 31, 2023, the fair value of the contingent consideration was $6,154,539, of which $3,000,000 was included in current contingent consideration receivable, $900,000 was included in other receivables, and $2,254,539 was included in long-term contingent consideration.

Oil and Natural Gas Properties

The Company uses the successful efforts method of accounting to account for its oil and natural gas properties. Under this method, costs of acquiring properties, costs of drilling successful exploration wells, and development costs are capitalized. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. At the completion of drilling activities, the costs of exploratory wells remain capitalized if a determination is made that proved reserves have been found. If no proved reserves have been found, the costs of each of the related exploratory wells are charged 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's policy is to expense the costs of such exploratory wells if a determination of proved reserves has not been made within a twelve-month period after drilling is complete.

B. Summary of Significant Accounting Policies – continued

Oil and Natural Gas Properties – continued

Exploration costs such as geological, geophysical, and seismic costs are expensed as incurred, unless such costs relate to seismic surveys to further develop a proven area and then, those costs are capitalized.

As exploration and development work progresses and the reserves on these properties are proven, capitalized costs attributed to the properties are subject to depreciation, depletion, and amortization. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the specific oil and natural gas property. If development wells are unsuccessful, the capitalized costs of the properties related to this unsuccessful work are expensed in the year in which the determination was made.

On the sale or retirement of a complete or partial unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and any gain or loss is recognized.

Maintenance and repairs are charged to operations. Major renewals and improvements, which substantially extend the useful lives of assets, are capitalized.

Impairment of Long-Lived Assets

The carrying value of the oil and natural gas properties and other property and equipment are periodically evaluated for impairment. GAAP requires long-lived assets and certain identifiable intangibles to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is determined that the estimated future net cash flows of an asset will not be sufficient to recover its carrying amount, an impairment loss must be recorded to reduce the carrying amount to its estimated fair value.

The Company evaluates impairment of their proven oil and natural gas properties on a single cost pool as the Company operates in one primary area. On this basis, impairment may be recorded if the Company is not expected to recover their entire carrying value from future net cash flows. No impairment expense recorded for the three months ended March 31, 2023 and 2022.

Other Property and Equipment

Other property and equipment are carried at cost. Depreciation is provided on the straight-line method over the assets' estimated service lives. Expenditures for maintenance and repairs are charged to expense in the period in which they are incurred, and betterments are capitalized. The cost of assets sold or abandoned, and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying consolidated statement of income for the respective period. The estimated useful lives of midstream infrastructure (capitalized central tank batteries) is 25 years.

B. Summary of Significant Accounting Policies – continued

Revenue Recognition

Oil and natural gas revenues are recognized when title to the product transfers to the purchaser. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than the expected remaining proved reserves.

Oil Sales

Sales under the Company’s oil contracts are generally considered performed when the Company sells oil production at the wellhead and receives an agreed-upon index price, net of any price differentials. The Company recognizes revenue when control transfers to the purchaser at the wellhead based on the net price received.

NGL and Natural Gas Sales

The Company evaluated whether it was the principal or the agent in gas processing transactions and concluded that it is the principal when it has the ability to take-in-kind, which is the case in the majority of the Company's gas processing and transportation contracts. The Company recognizes revenue on a net basis, with the gathering, processing and transportation costs associated with its take-in-kind arrangements being recorded net of revenue in the statement of income.

Other Revenue

The Company’s other revenue is for saltwater disposal facility fees and gas lift income. The Company recognizes revenue related to these at the time the service is completed, and the Company’s performance is satisfied.

Performance Obligations and Contract Balances

The majority of the Company’s product sale commitments are short-term in nature with a contract term of one year or less. The Company typically satisfies its performance obligations upon transfer of control as described above and records the related revenue in the month production is delivered to the purchaser. Settlement statements for sales of oil and natural gas may not be received for 30 to 60 days after the date the volumes are delivered, and as a result, the Company is required to estimate the amount of volumes delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. Historically, differences between the Company’s revenue estimates and actual revenue received have not been significant. For the three months and years ended March 31, 2023 and December 31, 2022, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was $21,265,383 and $21,180,129, respectively.

B. Summary of Significant Accounting Policies – continued

Fair Value Measurement

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

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

The ARO is classified within Level 3 as the fair value is estimated using discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, estimated amounts and timing of settlements, the credit-adjusted risk free rate to be used and inflation rates. See Note G for the summary of changes in the fair value of the asset retirement obligation for the three months ended March 31, 2023.

The fair value of derivative instruments is derived using published forward commodity price curves, market volatility, and contract terms as of the date of the estimate. 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 most 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 I for the summary of changes in the fair value of derivative hedges.

The contingent consideration is classified within Level 3 as the fair value is estimated using discounted cash flow projections using assumptions and judgements based on the Company’s development plans and weighted average cost of capital.

B. Summary of Significant Accounting Policies – continued

Fair Value of Financial Instruments

The Company calculates the fair value of its assets and liabilities, which qualify as financial instruments and includes this information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accounts receivable, prepaid expenses, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying value of the line-of-credit also approximates fair value since this instrument bears market rates of interest. None of these instruments are held for trading purposes.

Concentrations of Credit Risk

For the three months ended March 31, 2023 and 2022, two purchasers accounted for 78% and 63% of the Company’s revenue. These significant purchasers’ account receivable balance approximates 82% and 76% of the total accounts receivable as of March 31, 2023 and December 31, 2022. Receivables from purchasers are generally unsecured; however, the Company has not experienced any credit losses to date. Additionally, due to the nature of the markets for oil and natural gas, the Company does not believe the loss of any one or all purchasers would have a material adverse impact on its financial position, results of operations or cash flows for any significant period of time.

The counterparties to the Company’s derivative financial instruments are financial institutions that management believes have acceptable credit ratings.

Risks and Uncertainties

As an oil and natural gas producer, the Company’s revenue, profitability, and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which are dependent upon numerous factors beyond its control such as economic, political, and regulatory developments and competition from other energy sources. The energy markets have historically been very volatile and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future.

A substantial or extended decline in oil and natural gas prices could have a material adverse effect on the Company’s financial position, results of operations, cash flows, and quantities of oil and natural gas reserves that may be economically produced. Other risks and uncertainties that could affect the Partnership in the current price environment include, but are not limited to, counterparty credit risk for our receivables, access to credit markets and ability to meet financial ratios and covenants in the Company’s financing agreements.

C. Acquisitions & Divestitures

A gain of $301 was recognized for the three months ended March 31, 2023, as an adjustment related to sale of assets in 2022.

D. Oil and Natural Gas Properties

Oil and natural gas properties consisted of the following at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Proved oil and natural gas properties	$ 533,760,197	$ 463,842,488
Unproved oil and natural gas properties	—	—
Less accumulated depletion	(68,111,582)	(57,144,260)
Total oil and natural gas properties	$ 465,648,615	$ 406,698,228
Depletion expense for the year ended	$ 10,967,323	$ 45,273,471

E. Other Property and Equipment

Other property and equipment consisted of the following at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Facilities – battery	$ 35,650,000	$ 35,650,000
Less: accumulated depreciation	(3,089,667)	(2,733,167)
Other property and equipment, net	$ 32,560,333	$ 32,916,833

F. Accrued Liabilities

Accrued liabilities consisted of the following at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Accrued oil and natural gas capitalized costs	$ 23,587,773	$ 25,781,448
Accrued lease operating expenses	4,283,536	3,743,800
Accrued contingency payable	—	2,875,000
Accrued ad valorem taxes	665,891	2,669,425
Accrued workovers	4,367,613	1,318,222
Accrued liabilities - other	1,401,302	959,970
	$ 34,306,115	$ 37,347,865

G. Asset Retirement Obligations

The Company recognizes the fair value of its asset retirement obligations related to the plugging, abandonment, and remediation of oil and natural gas producing properties. The present value of the estimated asset retirement costs has been capitalized as part of the proved oil and natural gas properties.

The following table summarizes the changes in the Company's asset retirement obligations for the three months ended March 31, 2023:

Asset retirement obligations at beginning of year	$	9,594,268
Wells acquired during the period		—
Additions during the period		192,297
Disposals during the period		—
Accretion of discount		118,985
Asset retirement obligations at end of year	$	9,905,550

H. Line-Of-Credit

On May 3, 2021, the Company entered into an $400,000,000 credit agreement ("Credit Agreement") with a syndicate of financial institutions that matures on October 30, 2024. This reserves-based facility features a borrowing base which was initially set to an amount of $63,000,000. Effective April 25, 2022, the Company's Borrowing Base was increased to $125,000,000 and with this increase the Company established an Elected Commitment Amount of $100,000,000. Effective November 4, 2022, the Company's Borrowing Base was increased to $160,000,000 and with this increase the Company established an Elected Commitment Amount of $125,000,000. As part of this increase, two new banks were added to the syndicate to accommodate the expansion. The borrowing base for the RBL is supported by the value of proved reserves and is subject to scheduled semi-annual, in April and October, and other elective redeterminations as provided in the Credit Agreement. The line-of-credit has a variable annual interest rate based on adjusted Eurodollar or Alternate Base Rate ("ABR") plus an applicable margin. Eurodollar loans bear interest at the U.S. dollar SOFR rate plus a margin ranging between 3% and 4% per annum depending on the borrowing base utilization. ABR loans bear interest at the ABR rate plus a margin ranging between 2% and 3% per annum depending on the borrowing base utilization. Additionally, a commitment fee of 0.5% per annum is charged on the unutilized balance of the committed borrowing base and is included in interest expense. As of March 31, 2023 and December 31, 2022, borrowings under the line-of-credit had an effective interest rate of 9% and 8%.

The Company is to make quarterly interest payments on the outstanding balance and repay any unpaid principal at the maturity date. Subject to the terms of the agreement, the Company may borrow, repay, and re-borrow hereunder at any time, provided that the Company is not in default. At March 31, 2023 and December 31, 2022, the outstanding principal balance of the line-of-credit was $74,535,986 and $52,535,986.

H. Line-Of-Credit – continued

The Credit Agreement contains affirmative, negative, and financial covenants customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments and dispositions, limitations on fundamental changes to the Loan Parties, a maximum consolidated leverage ratio and a current ratio. Upon an event of default, and after any applicable cure period, the administrative agent can accelerate the maturity of the loan. Events of default include customary items, such as failure to pay principal and interest in a timely manner and breach of covenants. As of March 31, 2023 and December 31, 2022, the Company was in compliance with all financial covenants related to the Credit Agreement.

Debt financing cost related to the Credit Agreement is amortized over the life of the line-of-credit. Interest expense related to amortization of debt financing costs was $136,550 and $72,527 for the three months ended March 31, 2023 and 2022, and are included in interest expense on the statements of income.

I. Derivative Activities

Commodity Derivative Activities

The Company has implemented a comprehensive hedging strategy to reduce the effects of volatility of commodity prices on the Company’s results of operations.

Inherent in the Company’s portfolio of commodity derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that commodity prices will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company’s counterparty to a contract. The Company does not require collateral from its counterparties.

The Company has entered into derivative contracts listed below in order to manage market risk due to the fluctuation of oil and natural gas prices. The unrealized gains and losses related to these derivatives are included in the accompanying statements of income.

I. Derivative Activities – continued

Commodity Derivative Activities – continued

The following summarizes the Company's open commodity derivative positions, which are comprised of fixed price swaps and costless collars for WTI oil, Midland-Cushing differential, HHUB gas and WAHA differential as of the three months ended March 31, 2023:

Period	Commodity	Contract Type	Volume s (BBls, Mcf)	Price ($/Bbl, Mcf)
April 2023 - June 2023	Oil	Put	67,011	$50.00
April 2023 - June 2023	Oil	Call	(67,011)	$61.35
April 2023 - June 2023	Oil	Put	29,144	$50.00
April 2023 - June 2023	Oil	Call	(29,144)	$69.00
April 2023 - June 2023	Oil	Put	48,282	$50.00
April 2023 - June 2023	Oil	Call	(48,282)	$76.45
July 2023 - September 2023	Oil	Put	91,231	$50.00
July 2023 - September 2023	Oil	Call	(91,231)	$67.55
July 2023 - September 2023	Oil	Put	44,775	$50.00
July 2023 - September 2023	Oil	Call	(44,775)	$74.05
October 2023 - December 2023	Oil	Put	130,267	$50.00
October 2023 - December 2023	Oil	Call	(130,267)	$71.80
April 2023 - December 2023	Oil	Put	64,665	$60.00
April 2023 - December 2023	Oil	Call	(64,665)	$116.50
April 2023 - December 2023	Oil	Put	64,274	$60.00
April 2023 - December 2023	Oil	Call	(64,274)	$87.20
April 2023 - March 2024	Oil	Put	213,251	$60.00
April 2023 - March 2024	Oil	Call	(213,251)	$83.65
January 2024 - March 2024	Oil	Put	138,903	$60.00
January 2024 - March 2024	Oil	Call	(138,903)	$98.20
January 2024 - March 2024	Oil	Put	28,892	$50.00
January 2024 - March 2024	Oil	Call	(28,892)	$82.50
April 2023	Oil	Price Swap	9,592	$85.73
May 2023	Oil	Price Swap	8,734	$84.75
June 2023	Oil	Price Swap	8,002	$83.72
July 2023	Oil	Price Swap	7,395	$82.88
August 2023	Oil	Price Swap	6,880	$82.14
September 2023	Oil	Price Swap	6,448	$81.38
October 2023	Oil	Price Swap	6,031	$80.75
November 2023	Oil	Price Swap	5,752	$80.08
December 2023	Oil	Price Swap	5,440	$79.42
April 2023 - December 2023	Mid-Cush	Price Swap	410,710	$0.15
April 2023 - March 2024	Mid-Cush	Price Swap	203,569	$0.60
April 2023 - December 2023	Mid-Cush	Price Swap	64,274	$1.30
April 2023 - December 2023	Mid-Cush	Price Swap	64,274	$0.35
April 2023 - March 2024	Mid-Cush	Price Swap	186,437	$0.55
January 2024 - March 2024	Mid-Cush	Price Swap	28,892	$1.20

The purchase and sale agreement of the Ward County Acquisition and an acquisition completed in 2020 included contingent consideration arrangements that require the Company to pay the seller if commodity prices exceed specified thresholds. The Company incurred expense of $0 and $2,875,000 for the three months ended March 31, 2023 and 2022 and $0 obligation remains as of March 31, 2023.

I. Derivative Activities – continued

Commodity Derivative Activities – continued

The following summarizes the Company's open commodity derivative positions, which are comprised of fixed price swaps and costless collars for WTI oil, Midland-Cushing differential, HHUB gas and WAHA differential as of the year ended December 31, 2022:

Period	Commodity	Contract Type	Volumes (BBls, Mcf)	Price ($/Bbl, Mcf)
January 2023 - March 2023	Oil	Put	69,864	$50.00
January 2023 - March 2023	Oil	Call	(69,864)	$62.50
January 2023 - March 2023	Oil	Put	30,486	$50.00
January 2023 - March 2023	Oil	Call	(30,486)	$71.00
January 2023 - March 2023	Oil	Put	50,514	$50.00
January 2023 - March 2023	Oil	Call	(50,514)	$78.75
April 2023 - June 2023	Oil	Put	67,011	$50.00
April 2023 - June 2023	Oil	Call	(67,011)	$61.35
April 2023 - June 2023	Oil	Put	29,144	$50.00
April 2023 - June 2023	Oil	Call	(29,144)	$69.00
April 2023 - June 2023	Oil	Put	48,282	$50.00
April 2023 - June 2023	Oil	Call	(48,282)	$76.45
July 2023 - September 2023	Oil	Put	91,231	$50.00
July 2023 - September 2023	Oil	Call	(91,231)	$67.55
July 2023 - September 2023	Oil	Put	44,775	$50.00
July 2023 - September 2023	Oil	Call	(44,775)	$74.05
October 2023 - December 2023	Oil	Put	130,267	$50.00
October 2023 - December 2023	Oil	Call	(130,267)	$71.80
January 2023 - December 2023	Oil	Put	100,415	$60.00
January 2023 - December 2023	Oil	Call	(100,415)	$116.50
January 2023 - December 2023	Oil	Put	100,482	$60.00
January 2023 - December 2023	Oil	Call	(100,482)	$87.20
January 2024 - March 2024	Oil	Put	138,903	$60.00
January 2024 - March 2024	Oil	Call	(138,903)	$98.20
January 2023	Oil	Price Swap	13,694	$89.19
February 2023	Oil	Price Swap	11,919	$88.04
March 2023	Oil	Price Swap	10,595	$86.79
April 2023	Oil	Price Swap	9,592	$85.73
May 2023	Oil	Price Swap	8,734	$84.75
June 2023	Oil	Price Swap	8,002	$83.72
July 2023	Oil	Price Swap	7,395	$82.88
August 2023	Oil	Price Swap	6,880	$82.14
September 2023	Oil	Price Swap	6,448	$81.38
October 2023	Oil	Price Swap	6,031	$80.75
November 2023	Oil	Price Swap	5,752	$80.08
December 2023	Oil	Price Swap	5,440	$79.42
January 2023 - December 2023	Mid-Cush	Price Swap	561,573	$0.15
January 2023 - March 2024	Mid-Cush	Price Swap	239,319	$0.60
January 2023 - December 2023	Mid-Cush	Price Swap	100,482	$1.30
January 2023 - December 2023	Mid-Cush	Price Swap	100,482	$0.35
January 2023 - March 2023	Gas	Put	482,910	$7.00
January 2023 - March 2023	Gas	Call	(482,910)	$11.40
January 2023 - March 2023	WAHA	Price Swap	482,910	($1.17)

I. Derivative Activities – continued

Derivative Assets and Liabilities

The derivative instrument fair values recorded in the accompanying balance sheets as of March 31, 2023 and December 31, 2022 are as follows:

	March 31, 2023		
	Gross Amounts	Netting Adjustment	Net Amounts Presented
Assets			
Commodity derivative instruments, current	$ 2,389,561	$ —	$ 2,389,561
Derivative assets	$ 2,389,561	$ —	$ 2,389,561
Liabilities			
Commodity derivative instruments, current	$ 5,725,023	$ —	$ 5,725,023
Derivative liabilities	$ 5,725,023	$ —	$ 5,725,023

	December 31, 2022		
	Gross Amounts	Netting Adjustment	Net Amounts Presented
Assets			
Commodity derivative instruments, current	$ 2,857,991	$ (2,292,165)	$ 565,826
Commodity derivative instruments, non-current	840,750	(755,678)	85,072
Derivative assets	$ 3,698,741	$ (3,047,843)	$ 650,898
Liabilities			
Commodity derivative instruments, current	$ 9,372,233	$ (2,292,165)	$ 7,080,068
Derivative liabilities	$ 9,372,233	$ (2,292,165)	$ 7,080,086

I. Derivative Activities – continued

The components of derivative gains (losses) in the statements of income are as follows:

	Three Months Ended March 31,	
	2023	2022
Unrealized commodity derivative instruments	$ 3,093,708	$ (20,328,752)
Unrealized contingent consideration	—	2,875,000
Unrealized gain (loss) on derivatives	$ 3,093,708	$ (17,453,752)
Commodity derivative instruments settled	$ 327,991	$ (8,943,285)
Contingent derivative instruments settled	—	(2,875,000)
Realized derivative gain (loss)	$ 327,991	$ (11,818,285)

J. Commitments and Contingencies

Litigation

In the normal course of business, the Company may at times be subject to claims and legal actions. The Company is not currently involved in any legal proceedings that management believes are likely to have a material adverse effect on the Company's financial statements.

Environmental Remediation

Various federal, state, and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect the Company's operations and the costs of its oil and natural gas exploration, development, and production operations. As of March 31, 2023 and December 31, 2022, the Company has no claims and is not aware of any claims made related to environmental remediation. The Company recorded no contingent environmental remediation expense as within the statements of income for the three months ended March 31, 2023 and year ended December 31, 2022.

K. Related Party Transactions

The Company shares costs with other affiliated entities. The following summarizes the Company's related party balances as of March 31, 2023 and December 31, 2022.

Forge Energy Operating, LLC serves as the Operator for Company's oil and natural gas assets and incurs capital expenditures, operating expenses and general and administrative expenses. All oil and natural gas revenues and expenditures are processed by the Operator and allocated to the Company based on interest ownership percentages.

As of March 31, 2023 and December 31, 2022, the amounts payable and receivable to/from the related parties, net are as follows:

December 31, 2022 – Related Party	**Payable**	**Receivable**	**Net**
Forge Energy Operating, LLC	$ (57,776,098)	$ —	$ (57,776,098)
Forge Energy II Interests, LLC	—	7,412,796	7,412,796
Forge Energy II Delaware Midstream, LLC	—	1,000,000	1,000,000
Forge Energy II, LLC	—	2,386,163	2,386,163
Total Accounts Payable – Related Parties	$ (57,776,098)	$ 10,798,959	$ (46,977,139)

December 31, 2022 – Related Party	**Payable**	**Receivable**	**Net**
Forge Energy Operating, LLC	$ (52,269,042)	$ —	$ (52,269,042)
Forge Energy II Interests, LLC	—	7,412,796	7,412,796
Forge Energy II Delaware Midstream, LLC	—	1,000,000	1,000,000
Forge Energy II, LLC	—	2,386,163	2,386,163
Total Accounts Payable – Related Parties	$ (52,269,042)	$ 10,798,959	$ (41,470,083)

L. Subsequent Events

On April 6, 2023, the Company assigned the contingent consideration from the performance incentive agreement related to the Forge Energy II Midstream, LLC divestiture to Forge Energy II, LLC, a related party.

Effective April 20, 2023, the Company's Borrowing Base was reduced from $160,000,000 to $140,000,000.

L. Subsequent Events – continued

On May 11, 2023, the Company entered into a Purchase and Sale Agreement with two companies to divest certain assets including all oil and natural gas properties for a purchase price of $540,000,000 subject to customary purchase price adjustments. As it relates to the sale of the assets, the Company liquidated all derivative positions effective June 23, 2023. The Company closed on the sale on June 30, 2023.

On June 30, 2023, the Company paid off the principal, interest and associated fees related to the Line-of-Credit.

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through July 12, 2023, the date the financial statements were available for issuance.

Forge Energy II Delaware, LLC

Estimated

Future Reserves and Income

Attributable to Certain

Leasehold Interests

SEC Parameters

As of

December 31, 2022

/s/ Timothy W. Smith
Timothy W. Smith, P.E.
TBPELS License No. 70195
Managing Senior Vice President

/s/ Cecilia Patricia Flores
Cecilia Patricia Flores
Senior Petroleum Engineer

[SEAL]

RYDER SCOTT COMPANY, L.P.
TBPELS Firm Registration No. F-1580

FORGE ENERGY II DELAWARE, LLC.

TABLE OF CONTENTS

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPELS REGISTERED ENGINEERING FIRM F-1580 FAX (713) 651-0849
1100 LOUISIANA SUITE 4600 HOUSTON, TEXAS 77002-5294 TELEPHONE (713) 651-9191

May 17, 2023

Forge Energy II Delaware, LLC
15727 Anthem Parkway Suite 501
San Antonio, TX 78249

Ladies and Gentlemen:

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared an estimate of the proved reserves, future production, and income attributable to certain leasehold interests of Forge Energy II Delaware, LLC (FE) as of December 31, 2022. The subject properties are located in the state of Texas. The reserves and income data were estimated based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). Our third party study, completed on January 24, 2023 and presented herein, was prepared in accordance with the disclosure requirements set forth in the SEC regulations.

The properties evaluated by Ryder Scott represent 100 percent of the total net proved liquid hydrocarbon reserves and 100 percent of the total net proved gas reserves as December 31, 2022. At FE's request this report is a new report that excludes all overriding royalty interests that were included in our report of January 25, 2023 and also includes abandonment costs that were not included in the previous report. Please note, no new data was used and no additional evaluation work was done from the previous report. The January 25, 2023 report was based on the SPE-PRMS definitions that utilized SEC pricing and cost parameters and the reserves were consistent with the SEC definitions, therefore, the only addition needed to generate this SEC report was the inclusion of abandonment costs as indicated above.

The estimated reserves and future net income amounts presented in this report, as of December 31, 2022 are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the “as of date” of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, as required by the SEC regulations. Actual future prices may vary considerably from the prices that were used in this report. The reserves volumes and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized as follows.

SUITE 2800, 350 7TH AVENUE, S.W. CALGARY, ALBERTA T2P 3N9 TEL (403) 262-2799
633 17TH STREET, SUITE 1700 DENVER, COLORADO 80202 TEL (303) 339-8110

SEC PARAMETERS
Estimated Net Reserves and Income Data
Certain Leasehold Interests of
Forge Energy II Delaware, LLC
As of December 31, 2022

	Proved			
	Developed			Total
	Producing	Non-Producing	Undeveloped	Proved
Net Reserves				
Oil/Condensate – Mbbl	18,500	0	29,362	47,862
Plant Products – Mbbl	6,065	0	7,444	13,509
Gas – MMcf	38,900	0	43,186	82,086
Income Data ($M)				
Future Gross Revenue	$2,013,290	$0	$3,028,874	$5,042,164
Deductions	678,529	295	1,327,682	2,006,506
Future Net Income (FNI)	$1,334,761	$(295)	$1,701,192	$3,035,658
Discounted FNI @ 10%	$754,644	$(219)	$ 640,684	$1,395,109

The future gross revenue is after the deduction of production taxes. The deductions incorporate the normal direct costs of operating the wells, ad valorem taxes, recompletion costs, development costs, and abandonment costs. Certain gas, oil and condensate transportation costs are included as “Other” deductions in the cash flow projections included herein. The future net income is before the deduction of state and federal income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Liquid hydrocarbon reserves account for approximately 92 percent and gas reserves account for the remaining 8 percent of total future gross revenue from proved reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

	Discounted Future Net Income ($M) As of December 31, 2022
Discount Rate Percent	Total Proved
6	$1,795,790
8	$1,571,650
12	$1,252,804
15	$1,084,892

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

The proved reserves included herein conform to the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10(a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "PETROLEUM RESERVES DEFINITIONS" is included as an attachment to this report.

The various reserves status categories are defined in the attachment entitled "PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES" in this report. There are no developed proved non-producing reserves included herein; however, there are abandonment costs included for the shut-in status category in this report.

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The proved gas volumes presented herein do not include volumes of gas consumed in operations as reserves.

Reserves are "estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations." All reserves estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends primarily on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal categories, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-categorized as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At FE's request, this report addresses only the proved reserves attributable to the properties evaluated herein.

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." The proved reserves included herein were estimated using deterministic methods. The SEC has defined reasonable certainty for proved reserves, when based on deterministic methods, as a "high degree of confidence that the quantities will be recovered."

Proved reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change. For proved reserves, the SEC states that "as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to the estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease." Moreover, estimates of proved reserves may be revised as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. Therefore, the proved reserves included in this report are estimates only and should not be construed as being exact quantities, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.

FE's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include, but may not be limited to, matters relating to land tenure and leasing **,** the legal rights to produce hydrocarbons, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of proved reserves actually recovered and amounts of proved income actually received to differ significantly from the estimated quantities.

The estimates of proved reserves presented herein were based upon a detailed study of the properties in which FE owns an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

Estimates of Reserves

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the Securities and Exchange Commission's Regulations Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods:
(1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used individually or in combination by the reserves evaluator in the process of estimating the quantities of reserves. Reserves evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated, and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserves quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserves category assigned by the evaluator. Therefore, it is the categorization of reserves quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. For proved reserves, uncertainty is defined by the SEC as reasonable certainty wherein the "quantities actually recovered are much more likely to be achieved than not." The SEC states that "probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered." The SEC states that "possible reserves are those additional reserves that are less certain to be recovered than probable reserves and the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves." All quantities of reserves within the same reserves category must meet the SEC definitions as noted above.

Estimates of reserves quantities and their associated reserves categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserves categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The reserves for the properties included herein were estimated by performance and analogy methods. In general, the reserves attributable to producing wells and/or reservoirs were estimated by performance methods which utilized extrapolations of historical production and pressure data available through October 2022 in those cases where such data were considered to be definitive. The data used in these analyses were furnished to Ryder Scott by FE or obtained from public data sources and were considered sufficient for the purpose thereof. In certain cases, producing reserves were estimated by analogy. This method was used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the estimates was considered to be inappropriate.

The reserves for the properties included herein attributable to the undeveloped status category were estimated by the analogy method. The analysis utilized pertinent well data and other data furnished to Ryder Scott by FE or which we have obtained from public data sources that were available through October 2022. The data utilized from the analogue well data incorporated into our performance analysis were considered sufficient for the purpose thereof.

To estimate economically producible proved oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may increase or decrease from those under existing economic conditions, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

FE has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future proved production and income, we have relied upon data furnished by FE with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, ad valorem and production taxes, recompletion and development costs, development plans, abandonment costs after salvage, product prices based on the SEC regulations and adjustments or differentials to product prices Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data furnished by FE. We consider the factual data used in this report appropriate and sufficient for the purpose of preparing the estimates of reserves and future net revenues herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The proved reserves included herein were determined in conformance with the United States Securities and Exchange Commission (SEC) Modernization of Oil and Gas Reporting; Final Rule, including all references to Regulation S-X and Regulation S-K, referred to herein collectively as the “SEC Regulations.” In our opinion, the proved reserves presented in this report comply with the definitions, guidelines and disclosure requirements as required by the SEC regulations.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were based on analog well performance and type well profiles where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied until depletion of the reserves.

If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by FE. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Hydrocarbon Prices

The hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the “as of date” of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

FE furnished us with the above mentioned average benchmark prices in effect on December 31, 2022. These initial SEC hydrocarbon prices were determined using the 12-month average first-day-of- the-month benchmark prices appropriate to the geographic area where the hydrocarbons are sold. These benchmark prices are prior to the adjustments for differentials as described herein. The table below summarizes the “benchmark prices” and “price reference” used for the geographic area included in the report. In certain geographic areas, the price reference and benchmark prices may be defined by contractual arrangements.

The product prices that were actually used to determine the future gross revenue for each property reflect adjustments to the benchmark prices for gravity, quality, local conditions, and/or distance from market, referred to herein as “differentials.” The differentials used in the preparation of this report were furnished to us by FE. The differentials furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by FE to determine these differentials.

In addition, the table below summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the “average realized prices.” The average realized prices shown in the table below were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with SEC disclosure requirements for each of the geographic areas included in the report.

Geographic Area	Product	Price Reference	Average Benchmark Prices	Average Realized Prices
North America				
United States	Oil/Condensate	WTI Cushing	$93.67/bbl	$92.14/bbl
	Plant Products	WTI Cushing	$93.67/bbl	$37.32/bbl
	Gas	Henry Hub	$6.358/MMBTU	$4.86/Mcf

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our individual property evaluations

Costs

Operating costs for the leases and wells in this report were furnished by FE and are based on the operating expense reports of FE and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. For operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. The operating costs for non-operated properties include the COPAS overhead costs that are allocated directly to the leases and wells under terms of operating agreements. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by FE. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by FE and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were material. The estimates of the net abandonment costs furnished by FE were accepted without independent verification.

The proved developed and undeveloped reserves in this report have been incorporated herein in accordance with FE's plans to develop these reserves as of December 31, 2022. The implementation of FE's development plans as presented to us and incorporated herein is subject to the approval process adopted by FE's management. As the result of our inquiries during the course of preparing this report, FE has informed us that the development activities included herein have been subjected to and received the internal approvals required by FE's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to FE. Additionally, FE has informed us that they are not aware of any legal, regulatory, or political obstacles that would significantly alter their plans. While these plans could change from those under existing economic conditions as of December 31, 2022, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation. Please note as of the date of this report, FE has advised the assets included in this report are currently in the process of divestiture. Therefore, for the Proved Undeveloped Reserves included, the acquiring party will also need to commit to the development plan of which these reserves are based.

Current costs used by FE were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have approximately eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists receive professional accreditation in the form of a registered or certified professional engineer’s license or a registered or certified professional geoscientist’s license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization. Regulating agencies require that, in order to maintain active status, a certain amount of continuing education hours be completed annually, including an hour of ethics training. Ryder Scott fully supports this technical and ethics training with our internal requirement mentioned above.

We are independent petroleum engineers with respect to FE. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this study, presented herein, are based on technical analyses conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations.

We have provided FE with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in presentations made by FE and the original signed report letter, the original signed report letter shall control and supersede the digital version.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPELS Firm Registration No. F-1580

[SEAL]

/s/ Timothy W. Smith
Timothy W. Smith, P.E.
TBPELS License No. 70195
Managing Senior Vice President

/s/ Cecilia Patricia Flores
Cecilia Patricia Flores
Senior Petroleum Engineer

TWS-CPF (LPC)/pl

Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Timothy Wayne Smith was the primary technical person responsible for overseeing the estimate of the reserves, future production and income.

Mr. Smith, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2008, is a Managing Senior Vice President responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Smith served in a number of engineering positions with Wintershall Energy and Cities Service Oil Company. For more information regarding Mr. Smith's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Employees.

Mr. Smith earned a Bachelor of Science degree in Petroleum Engineering from West Virginia University in 1977 and a Masters of Business (MBA) from the University of Phoenix in 1991 and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Smith fulfills. Mr. Smith has received extensive training relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Smith has also served as a training instructor for clients regarding Dynamic Analysis and Unconventional Resources. Mr. Smith attended an additional 22 hours of formalized in-house training in the 2022 time period including a course on SPEE Monograph 4 relating to Production Forecasting for Unconventional Reservoirs. Based on his educational background, professional training and over 30 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Smith has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of June 2019.

PETROLEUM RESERVES DEFINITIONS

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

PREAMBLE

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the “Modernization of Oil and Gas Reporting; Final Rule” in the Federal Register of National Archives and Records Administration (NARA). The “Modernization of Oil and Gas Reporting; Final Rule” includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The “Modernization of Oil and Gas Reporting; Final Rule”, including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the “SEC regulations”. The SEC regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions (direct passages excerpted in part or wholly from the aforementioned SEC document are denoted in italics herein).

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the SEC. The SEC regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the SEC unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale.

Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

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

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

PROVED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

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

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

(A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

PROVED RESERVES (SEC DEFINITIONS) CONTINUED

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

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

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

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

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

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

PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

and

2018 PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE)
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)
SOCIETY OF EXPLORATION GEOPHYSICISTS (SEG)
SOCIETY OF PETROPHYSICISTS AND WELL LOG ANALYSTS (SPWLA)
EUROPEAN ASSOCIATION OF GEOSCIENTISTS & ENGINEERS (EAGE)

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4- 10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

DEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Developed Producing (SPE-PRMS Definitions)

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

Developed Producing Reserves
Developed Producing Reserves are expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing
Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.

Shut-In
Shut-in Reserves are expected to be recovered from:
(1) completion intervals that are open at the time of the estimate but which have not yet started producing;
(2) wells which were shut-in for market conditions or pipeline connections; or
(3) wells not capable of production for mechanical reasons.

Behind-Pipe
Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

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

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

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

FORGE ENERGY II Delaware, LLC

Estimated

Future Reserves and Income

Attributable to Certain

Leasehold Interests of

Forge Energy II Delaware, LLC

SEC Pricing

As of

December 31, 2021

/s/ Timothy W. Smith, P.E.	/s/ Cecilia Patricia Flores
Timothy W. Smith, P.E. TBPELS License No. 70195 Senior Vice President	Cecilia Patricia Flores Senior Petroleum Engineer

[SEAL]

RYDER SCOTT COMPANY, L.P.
TBPELS Firm Registration No. F-1580

FORGE ENERGY II DELAWARE, LLC.

TABLE OF CONTENTS

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPELS REGISTERED ENGINEERING FIRM F-1580 FAX (713) 651-0849
1100 LOUISIANA SUITE 4600 HOUSTON, TEXAS 77002-5294 TELEPHONE (713) 651-9191

May 17, 2023

Forge Energy II Delaware, LLC
15727 Anthem Parkway Suite 501
San Antonio, TX 78249

Ladies and Gentlemen:

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared an estimate of the proved reserves, future production and income attributable to certain leasehold interests of Forge Energy II Delaware, LLC (FE) as of December 31, 2021. The subject properties are located in the state of Texas. The reserves volumes included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), Society of Petroleum Evaluation Engineers (SPEE), Society of Exploration Geophysicists (SEG), Society of Petrophysicists and Well Log Analysts (SPWLA), and European Association of Geoscientists & Engineers (EAGE) 2018 Petroleum Resources Management System (SPE-PRMS), which were revised in June 2018. The reserves volumes were estimated based on unescalated price and cost parameters (SPE-PRMS constant case), provided by FE. The income data for the reserves volumes were estimated using SEC pricing and constant cost parameters as noted herein and held constant throughout the life of the properties (SPE-PRMS constant case).The results of our third party study, completed on January 13, 2022, are presented herein.

The properties evaluated by Ryder Scott represent 100 percent of the total net proved liquid hydrocarbon reserves and 100 percent of the total net proved gas reserves of FE as of December 31, 2021. At Forge's request this report is a new report that excludes all overriding royalty interests that were included in our report dated January 17, 2022. Please note, no new data was used and no additional evaluation work or adjustments were done from the previous report beyond excluding the royalty interests.

The estimated reserves presented in this report, as of December 31, 2021 are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the "as of date" of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, as required by the SEC regulations. As a result of both economic and political forces, there is substantial uncertainty regarding the forecasting of future hydrocarbon prices. Consequently, actual future prices may vary considerably from the prices assumed in this report. The recoverable reserves volumes and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report**.** The results of this study are summarized as follows.

SUITE 2800, 350 7TH AVENUE, S.W. CALGARY, ALBERTA T2P 3N9 TEL (403) 262-2799
633 17TH STREET, SUITE 1700 DENVER, COLORADO 80202 TEL (303) 339-8110

UNESCALATED PARAMETERS
SEC Pricing
Estimated Net Reserves and Income Data
Certain Leasehold Interests of
Forge Energy II Delaware, LLC
As of December 31, 2021

	Proved			
	Developed			Total
	Producing	Non-Producing(*)	Undeveloped	Proved
Net Reserves				
Oil/Condensate - Mbbl	14,578	0	24,786	39,364
Plant Products - Mbbl	5,371	0	5,737	11,108
Gas - MMcf	35,745	0	34,676	70,421
Income Data ($M)				
Future Gross Revenue	$1,145,234	$0	$1,799,263	$2,944,497
Deductions	472,830	212	853,299	1,326,341
Future Net Income	$672,404	$(212)	$945,299	$1,618,156
Discounted FNI @ 10%	$393,885	$(194)	$369,446	$763,137

(*) Deductions refer to investments for abandonment costs, for temporarily abandoned wells with specific expense interest

Liquid hydrocarbons are expressed in standard 42 U.S. gallon barrels and shown herein as thousands of barrels (Mbbl). All gas volumes are expressed in millions of cubic feet (MMcf) at the official temperature and pressure bases of the areas in which the gas volumes are located. All gas reserves volumes are reported on an “as sold” basis. In this report, the revenues, deductions, and income data are expressed as thousands of U.S. dollars ($M).

The estimates of the reserves, future production, and income attributable to properties in this report were prepared using the economic software package ARIES™ Petroleum Economics and Reserves Software, a copyrighted program of Halliburton. The program was used at the request of FE. Ryder Scott has found this program to be generally acceptable, but notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is after the deduction of production taxes. The deductions incorporate the normal direct costs of operating the wells, ad valorem taxes, development costs, and certain abandonment costs net of salvage. Certain gas, oil and condensate transportation costs are included as “Other” deductions in the cash flows. The future net income is before the deduction of state and federal income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Liquid hydrocarbon reserves account for approximately 93 percent of the total future gross revenue from proved reserves and gas reserves account for the remaining 7 percent of total future gross revenue from the proved reserves reported herein.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

	Discounted Future Net Income ($M) As of December 31, 2021
Discount Rate Percent	Total Proved
6	$977,563
8	$858,192
12	$685,787
16	$567,763

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

At the request of FE, this report only includes proved reserves, which conform to the definitions of reserves sponsored and approved by the SPE, WPC, AAPG, SPEE, SEG, SPWLA and EAGE as set forth in the 2018 SPE-PRMS and where applicable, based on unescalated price and cost parameters (SPE-PRMS constant case). Refer to the full SPE-PRMS, which can be located at https://www.spe.org/en/industry/reserves/ for the complete definitions and guidelines.

The various reserves development and production status categories as defined in this report, are also fully defined in the SPE-PRMS located in the website mentioned above. There are no developed proved non-producing reserves included herein; however, there are abandonment costs included for the shut-in status category in this report.

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The gas volumes presented herein do not include volumes of gas consumed in operations as reserves.

Reserves Classification

Recoverable petroleum resources may be classified according to the SPE-PRMS into one of three principal resources classifications: prospective resources, contingent resources, or reserves. Only the proved reserves classification is addressed in this report. The distinction between prospective and contingent resources depends on whether or not there exists one or more wells and other data indicating the potential for moveable hydrocarbons (e.g. the discovery status). Discovered petroleum resources may be classified as either contingent resources or as reserves depending on the chance that if a project is implemented it will reach commercial producing status (e.g. chance of commerciality - P_c). The distinction between various "classifications" of resources and reserves relates to their discovery status and increasing chance of commerciality. Commerciality is not solely determined based on the economic status of a project, which refers to the situation where the income from an operation exceeds the expenses involved in, or attributable to, that operation. Conditions addressed in the determination of commerciality also include technological, economic, legal, environmental, social, and governmental factors. While economic factors are generally related to costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms and taxes. At FE's request, this report addresses only the proved reserves attributable to the properties evaluated herein and not the probable and possible reserves and resources (if any).

Reserves Uncertainty

All reserves estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends primarily on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. Estimates will generally be revised only as additional geologic or engineering data becomes available or as economic conditions change.

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." The relative degree of uncertainty may be conveyed by placing reserves into one of two principal categories, either proved or unproved.

Proved oil and gas reserves are "those quantities of petroleum that, 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."

Unproved reserves are less certain to be recovered than proved reserves and may be further sub- categorized as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Probable reserves are "those additional reserves that analysis of geoscience and engineering data indicates are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves." For probable 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" (cumulative 2P volumes). Possible reserves are "those additional reserves that analysis of geoscience and engineering data indicates are less likely to be recoverable than probable reserves." For possible reserves, the "total quantities ultimately recovered from the project have a low probability to exceed the sum of the proved plus probable plus possible reserves" (cumulative 3P volumes).

The reserves included herein were estimated using deterministic methods.

Estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical risks. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. The reserves included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts.

Possible Effects of Regulation

FE's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure and leasing, the legal rights to produce hydrocarbons, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities.

The estimates of reserves presented herein were based upon a detailed study of the properties in which FE owns an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

Methodology Employed for Estimates of Reserves

The estimation of reserves quantities involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities. The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance- based methods, (2) volumetric-based methods and (3) analogy. These methods may be used individually or in combination by the reserves evaluator in the process of estimating the quantities of reserves. Reserves evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated, and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of these data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of recoverable hydrocarbons is identified, the evaluator must determine the uncertainty associated with the incremental quantities of those recoverable hydrocarbons. If the quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity is addressed by the reserves category assigned by the evaluator. Therefore, it is the categorization of incremental recoverable quantities that addresses the inherent uncertainty in the estimated quantities reported

Estimates of reserves quantities and their associated categories or classifications may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of the recoverable quantities and their associated categories or classifications may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The reserves for the properties included herein were estimated by performance and analogy methods. In general, reserves attributable to producing wells and/or reservoirs were estimated by performance methods which utilized extrapolations of historical production and pressure data available through November 2021 in those cases where such data were considered to be definitive. The data used in these analyses were furnished to Ryder Scott by FE or obtained from public data sources and were considered sufficient for the purpose thereof. In certain cases, producing reserves were estimated by analogy. These methods were used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the estimates was considered to be inappropriate.

Reserves attributable to the undeveloped status category included herein were estimated by analogy methods. The analysis utilized pertinent well data and other data furnished to Ryder Scott by FE or which we have obtained from public data sources that were available through November 2021. The data utilized from the analogue well data incorporated into our performance analysis were considered sufficient for the purpose thereof

Assumptions and Data Considered for Estimates of Reserves

To estimate recoverable oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on the cost and price assumptions as noted herein, and forecasts of future production rates. Under the SPE-PRMS Section 1.1.0.6, "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."

FE has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecasts of future production and income, we have relied upon data furnished by FE with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, ad valorem and production taxes, and development costs, development plans, abandonment costs after salvage, product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by FE.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were based on analog well performance and type well profiles where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied until depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by FE. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Hydrocarbon Prices

At the request of FE, the hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the “as of date” of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period.

The above SEC price parameters were provided by Ryder Scott**.** These initial SEC hydrocarbon prices were determined using the 12-month average first-day-of-the-month benchmark prices appropriate to the geographic area where the hydrocarbons are sold. These benchmark prices are prior to the adjustments for differentials as described herein. The table below summarizes the “benchmark prices” and “price reference” used for the geographic areas included in the report.

Product prices which were actually used for each property reflect adjustments for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as “differentials.” The differentials used in the preparation of this report were furnished to us by FE. The differentials furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by FE to determine these differentials.

In addition, the table below summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the “average realized prices.” The average realized prices shown in the table below were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with SEC disclosure requirements for the geographic area included in the report.

Geographic Area	Product	Price Reference	Average Benchmark Prices	Average Realized Prices
North America				
United States	Oil/Condensate	WTI Cushing	$66.56/bbl	$66.66/bbl
	Plant Products	WTI Cushing	$66.56/bbl	$23.30/bbl
	Gas	Henry Hub	$3.598/MMBTU	$3.10/Mcf

Costs

Operating costs for the leases and wells in this report were furnished by FE and are based on the operating expense reports of FE and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. For operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. The operating costs for non-operated properties include the COPAS overhead costs that are allocated directly to the leases and wells under terms of operating agreements. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by FE. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by FE and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were material. The estimates of the net abandonment costs furnished by FE were accepted without independent verification.

Because of the direct relationship between volumes of undeveloped reserves and development plans, we include in the undeveloped reserves category only those volumes assigned to undeveloped locations that we have been assured will definitely be drilled. In accordance with SPE-PRMS guidelines, “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 an economic project is deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives.” FE has assured us of their intent, commitment, and ability to proceed with the development activities included in this report and that they are not aware of any legal, regulatory, or political obstacles that would significantly alter their plans.

Current costs used by FE were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have approximately eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists receive professional accreditation in the form of a registered or certified professional engineer’s license or a registered or certified professional geoscientist’s license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization. Regulating agencies require that, in order to maintain active status, a certain amount of continuing education hours be completed annually, including an hour of ethics training. Ryder Scott fully supports this technical and ethics training with our internal requirement mentioned above.

We are independent petroleum engineers with respect to FE. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this study, presented herein, are based on technical analyses conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

This report was prepared for the exclusive use and sole benefit of Forge Energy II Delaware, LLC and may not be put to other use without our prior written consent for such use. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPELS Firm Registration No. F-1580

[SEAL]

/s/ Timothy W. Smith
Timothy W. Smith, P.E.
TBPELS License No. 70195
Senior Vice President

/s/ Cecilia Patricia Flores
Cecilia Patricia Flores
Senior Petroleum Engineer

TWS-CPF (LPC)/pl

Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Timothy Wayne Smith was the primary technical person responsible for overseeing the estimate of the reserves, future production and income.

Mr. Smith, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2008, is a Senior Vice President responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Smith served in a number of engineering positions with Wintershall Energy and Cities Service Oil Company. For more information regarding Mr. Smith's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Employees.

Mr. Smith earned a Bachelor of Science degree in Petroleum Engineering from West Virginia University in 1977 and a Masters of Business (MBA) from the University of Phoenix in 1991 and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Smith fulfills. Mr. Smith has received extensive training relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Smith has also served as a training instructor for clients regarding Dynamic Analysis and Unconventional Resources. Mr. Smith attended an additional 18 hours of formalized in-house training in the 2021 time period including training for ISO 9001 and 14001. Based on his educational background, professional training and 30 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Smith has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of June 2019.