Risk Factors Comparison 2024-04-01 to 2023-03-30 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The following is a summary of the principal factors that make an investment in our common stock speculative or risky. ● Failure to complete, and delays in completing, the Merger (as defined below) which could materially and adversely affect our results of operations and our stock price. ● We will continue to incur substantial transaction- related costs in connection with the Merger. ● If the Merger does not close for any reason, it may increase the potential that we elect to " go dark ". ● We and our directors and officers are, and may continue to be, subject to lawsuits relating to the Merger. ● If the merger does not close, we may be unable to either redeem or pay cash dividends on the outstanding shares of our Redeemable Preferred Stock, resulting in increases in the liquidation preference of the Redeemable Preferred Stock and the right of the holders of Redeemable Preferred Stock to receive a greater number of shares of our common stock in the event such holders elect to exercise their conversion rights. Consequently, the financial and voting interests in our Company of the holders of our common stock may be diluted. ● We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition. ● The opinion of the financial advisor delivered to our Board prior to the signing of the Merger Agreement (as defined below) did not reflect changes in circumstances since the date of such opinion. ● Oil and natural gas prices are volatile, and low prices could have a material adverse impact on our business. ● We may have difficulty financing our planned capital expenditures which could adversely affect our growth. ● Failure to comply with the covenants in our Amended Term Loan Agreement may limit our ability to borrow, result in an event of default and cause amounts outstanding under our Amended Term Loan Agreement to become immediately due and payable. ● Unless we replace our reserves, our reserves and production will decline, which would adversely affect our financial condition, results of operations and cash flows. ● Historically, we have had substantial indebtedness and we may incur substantially more debt in the future. Higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business. ● Estimates of proved oil and natural gas reserves involve assumptions and any material inaccuracies in these assumptions will materially affect the quantities and the value of our reserves. ● We are subject to various contractual limitations that affect the discretion of our management in operating our business. ● Federal legislation and rulemaking could have an adverse impact on our ability to use derivative instruments to reduce the effects of commodity prices, interest rates and other risks associated with our business. ● We cannot be certain that the insurance coverage maintained by us will be adequate to cover all losses that may be sustained in connection with all oil and natural gas activities. ● Our ability to use net operating loss carryforwards and realized built in losses to offset future taxable income for United States federal income tax purposes is subject to limitation. ● We may be required to take non- cash asset write- downs. ● Hedging transactions may limit our potential gains and increase our potential losses. ● We are substantially dependent upon our drilling success on our Delaware Basin properties. ● Our exploration and development drilling efforts and the operation of our wells may not be profitable or achieve our targeted rates of return. ● Increasing attention to environmental, social and corporate governance (" ESG ") matters may impact our business. ● We could experience periods of higher costs for various reasons, including due to higher commodity prices, increased drilling activity in the Delaware Basin and trade disputes or inflation that affect the costs of steel and other raw materials that we and our vendors rely upon, which could adversely affect our ability to execute our exploration and development plans on a timely basis and within budget. ● We may not be able to drill wells on a substantial portion of our acreage. ● Certain of our undeveloped leasehold acreage could expire if we are unable to meet continuous development clauses or similar provisions in our leases requiring development of our undeveloped acreage and / or maintaining production on units containing the acreage. ● Our oil and natural gas activities are subject to various risks that are beyond our control. ● Our ability to sell our production and / or receive market prices for our production may be adversely affected by transportation capacity constraints and interruptions. ● Our strategy involves drilling in shale formations, using horizontal drilling and modern completion techniques. The results of our drilling program using these techniques may be subject to more uncertainties than conventional drilling programs. These uncertainties could result in an inability to meet our expectations for reserves and production. ● Title to the properties in which we have an interest may be impaired by title defects. ● We depend substantially on the continued presence of key personnel for critical management decisions and industry contacts. ● There may be circumstances in which the interests of our significant stockholders could be in conflict with the interests of our other stockholders. ● Future sales of our common stock in the public market or the issuance of securities senior to our common stock, or the perception that these sales may occur, could adversely affect the trading price of our common stock and our ability to raise funds in stock offerings. ● We may choose to delist our securities from NYSE American and deregister our common stock under the Exchange Act, which could negatively affect the liquidity and trading prices of our common stock and would result in less disclosure about the Company. ● We are subject to complex federal, state, local and other laws and regulations that frequently are amended to impose more stringent requirements that could adversely affect the cost, manner or feasibility of doing business. ● Federal, state and local legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays. ● Regulation related to global warming and climate change could have an adverse effect on our operations and demand for oil and natural gas. ● Our operations substantially depend on the availability of water. Restrictions on our ability to obtain, dispose of or recycle water may

impact our ability to execute our drilling and development plans in a timely or cost- effective manner. ● Events beyond our control, including a global or domestic health crisis, may result in unexpected adverse operating and financial results. ● A financial downturn could negatively affect our business, results of operations, financial condition and liquidity. ● We depend on computer, telecommunications and information technology systems to conduct our business, and failures, disruptions, cyber- attacks or other breaches in data security could significantly disrupt our business operations, create liability and increase our costs. 22Risks Related to the Proposed MergerFailure to complete, and delays in completing, the Merger with could materially and adversely affect our results of operations and our stock price. On December 14, 2023, we entered into the Merger Agreement with Fury Resources, Inc. (" Parent ") and San Jacinto Merger Sub, Inc (" Merger Sub "), a direct wholly- owned subsidiary of Parent, pursuant to which Parent will acquire all of the outstanding shares of common stock of the Company. The consummation of the Merger is subject to a number of conditions, including certain financing conditions, that must be satisfied by Parent and Merger Sub, as well as other conditions, a number of which are not within our control. Failure to satisfy the conditions to the Merger could prevent, delay or otherwise materially and adversely affect the completion of the Merger. We can provide no assurance that all closing conditions will be satisfied or as to the terms, conditions and timing or of the completion of the Merger. We also cannot assure you that we will be able to successfully consummate the Merger as currently contemplated under the Merger Agreement or at all. Risks related to the failure of the Merger to be consummated include, but are not limited to, the following: • under some circumstances, we may be required to pay a termination fee of $ 3. 5 million; • we will remain liable for significant transaction costs, including legal, accounting, financial advisory, and other costs relating to the Merger regardless of whether the Merger is consummated; • we may experience negative reactions from financial markets or the trading price of our common stock may decline to the extent that the current market price for our common stock reflects a market assumption that the Merger will be completed; • the attention of our management and employees may have been diverted by the Merger; • we and our directors and officers could be subject to litigation relating to the Merger, including relating to any failure to complete the Merger; • the potential loss of key personnel during the pendency of the Merger as employees may experience uncertainty about their future roles with us following completion of the Merger; • the potential loss of, and negative reactions from business partners or those with whom we are seeking to establish business relationships, due to uncertainties about the Merger, and; • under the Merger Agreement, we are subject to certain restrictions prior to completing the Merger, which restrictions could adversely affect our ability to conduct our business as we otherwise would have done if we were not subject to these restrictions. The occurrence of any of these events individually or in combination could materially and adversely affect our business, results of operations, financial condition, and stock price. If the Merger is not consummated and one or more of these events occur, such as payment of a termination fee or other significant transaction costs in connection with the Merger, our cash balances and other outstanding indebtedness at that time could be materially and adversely impacted and our options for sources of financing or refinancing could be more limited than if we had not pursued the Merger. If the Merger is not completed, there can be no assurance that these risks will not materialize and will not materially and adversely affect our stock price, business, financial condition, results of operations or cash flows. We will continue to incur substantial transaction- related costs in connection with the Merger. We have incurred significant legal, advisory and financial services fees in connection with Merger. We have incurred, and expect to continue to incur, additional costs in connection with the satisfaction of the various conditions to closing of the Merger, including seeking approval from our stockholders and from applicable regulatory authorities. Any delays in the consummation of the Merger could increase these costs significantly. If the Merger does not close for any reason, it may increase the potential that we elect to " go dark ". As noted elsewhere herein, we have recently considered the advisability of taking steps to delist our securities with the NYSE American and discontinue our obligations to make periodic filings with the SEC by deregistering our 23securities with the SEC (i. e., " going dark ") so as to reduce ongoing costs and expenses, while simultaneously pursuing strategic transactions that might render such action unnecessary. We have incurred substantial additional expenses in connection with the Merger and may find it advisable to follow through on a plan to go dark should the Merger Agreement be terminated or the Merger not close for any reason. We and our directors and officers are, and may continue to be, subject to lawsuits relating to the Merger. Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order enjoining, prohibiting or otherwise making illegal the consummation of the Merger shall have been issued by any governmental authority, including a court. These or any similar securities class action lawsuits and derivative lawsuits, regardless of their merits, may result in substantial costs and divert management time and resources. An adverse judgment in such cases could have a negative impact on our liquidity and financial condition or could prevent the Merger from being completed. If the Merger does not close, we may be unable to either redeem or pay cash dividends on the outstanding shares of our Redeemable Preferred Stock, resulting in increases in the liquidation preference of the Redeemable Preferred Stock and the right of the holders of the Redeemable Preferred Stock to receive a greater number of shares of our common stock in the event such holders elect to exercise their conversion rights. Consequently, the financial and voting interests in our Company of the holders of our common stock may be diluted. As noted elsewhere herein, the Company has issued shares of Redeemable Preferred Stock with an initial aggregate liquidation value of $ 98. 0 million. Dividends are payable on the Redeemable Preferred Stock at a rate of 14. 5 % per annum; however, in the event the Company does not declare and pay dividends in cash when due, the dividend rate increases to 16. 0 % per annum and is added to the liquidation value of the Redeemable Preferred Stock. The Company has heretofore not paid dividends on the Redeemable Preferred Stock in cash and is not expected to in the future. Accordingly, the liquidation value of the Redeemable Preferred Stock is increasing and would be expected to increase in

the future. In addition to other rights, the holders of the Redeemable Preferred Stock are also entitled generally to convert their shares of Redeemable Preferred Stock into shares of our common stock by dividing a " conversion price " specified in the terms of the Redeemable Preferred Stock into the then current liquidation preference of the Redeemable Preferred Stock, such that increases in the liquidation preference may ordinarily result in an increase in the number of shares of common stock received by such holder upon conversion. Accordingly, if the Merger does not close and the Company is unable to redeem the Redeemable Preferred Stock or is unable to pay, or elects not to pay, dividends on the Redeemable Preferred Stock in cash, the liquidation preference of the Redeemable Preferred Stock will continue to increase, thereby diluting the financial interests of the holders of our common stock in our Company and diluting the voting interests of the holders of our common stock to the extent holders of the Redeemable Preferred Stock elect to convert such shares into shares of our common stock. We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition. Uncertainty about the pendency of the Merger and the effect of the Merger on our employees, customers, suppliers and other third parties who deal with us may have a material adverse effect on our business, results of operations and financial condition. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause other business partners who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, which could have a material adverse effect on our business, results of operations, financial condition and market price of our common stock. The opinion of the financial advisor delivered to our Board prior to the signing of the Merger Agreement did not reflect changes in circumstances since the date of such opinion. The opinion of Houlihan Lokey, the financial advisor to the Company in connection with the Merger, was delivered to the our Board on December 14, 2023, and was dated December 14, 2023. Changes in our operations and prospects, general market and economic conditions and other factors that were beyond our control may have significantly altered 24the Company' s value or the price of shares of our common stock by the time the Merger is completed. The opinion does not speak as of the time the Merger will be completed or as of any date other than the date of such opinion. Financial and Liquidity Risk Factors Oil, NGL and natural gas prices are volatile, and low prices could have a material adverse impact on our business. Our revenues, profitability, future growth and the carrying value of our properties depend substantially on prevailing oil, NGL and natural gas prices. Prices also affect the amount of cash flow we have available for capital expenditures and our ability to borrow and raise additional capital. Lower prices may also reduce the amount of oil and natural gas that we can economically produce and have an adverse effect on the value of our properties. Oil, NGL and natural gas prices are volatile. Among the factors that affect volatility are: ● domestic and foreign supplies of oil, NGLs and natural gas; ● the ability of members of the Organization of Petroleum Exporting Countries and other oil exporting countries, including Russia, to agree upon and maintain production quotas; ● social unrest and political instability, particularly in major oil and natural gas producing regions outside the United States, such as the Middle East, and armed conflict or terrorist attacks; ● the level of consumer demand for oil and natural gas, including demand growth in developing countries, such as China and India; ● labor unrest in oil and natural gas producing regions; ● weather conditions, including hurricanes and other natural occurrences that affect the supply and / or demand for oil and natural gas; ● the price and availability of alternative fuels and energy sources; ● the price and availability of foreign imports and domestic exports; and ● worldwide and regional economic and political conditions impacting the global supply and demand for oil and natural gas, which may be driven by many factors, including sanctions, import and export restrictions, climate change initiatives and environmental protection affects, health epidemics (such as the global COVID- 19 coronavirus outbreak) and numerous other factors. These external factors and the volatile nature of the energy markets make it difficult to estimate future prices of oil and natural gas. We may have difficulty financing our planned capital expenditures which could adversely affect our growth. Our business requires substantial capital expenditures primarily to fund our drilling program. We may also continue to selectively increase our acreage position, which would require capital in addition to the capital necessary to drill on our existing acreage. It is possible that we will acquire acreage in other areas that we believe are prospective for oil and natural gas production and expend capital to develop such acreage. We expect to use proceeds from the sales of redeemable convertible preferred stock, if necessary, and which may be difficult or limited to access, to fund capital expenditures that are in excess of our operating cash flow and cash on hand. Additionally, certain segments of the investor community have negative sentiment towards investing in our industry, with some investors and investment advisors adopting policies negatively impacting investment in the oil and gas sector based on social and environmental considerations. Commercial and investment banks have also come under pressure to stop financing oil and gas production and related infrastructure projects. Such developments, including environmental activism and initiatives aimed at limiting climate change and reducing air pollution, could potentially result in a reduction of available capital funding for development projects, thus impacting future financial results. If we are unable to raise sufficient capital to fund our capital expenditures, we may be required to curtail our drilling, development, land acquisitions and other activities, which could result in a decrease in our production of oil and 25natural gas, forfeiture of leasehold interests if we are unable or unwilling to renew them, and the sale of some of our assets on an unfavorable basis, each of which could have a material adverse effect on our results and future operations. Failure to comply with the covenants in our Amended Term Loan Agreement may limit our ability to borrow, result in an event of default and cause amounts outstanding under our Amended Term Loan Agreement to become immediately due and payable. On November 24, 2021, the Company and its wholly owned subsidiary, Halcón Holdings, LLC (Borrower) entered into an Amended and Restated Senior Secured Credit Agreement (Term Loan Agreement) with

Macquarie Bank Limited, as administrative agent, and certain other financial institutions party thereto, as lenders. On November 14, 2022, the Company entered into a further Amended Credit Agreement (the " Amended Term Loan Agreement ") with its lenders which modified certain provisions of its original Term Loan Agreement. Our Amended Term Loan Agreement limits our borrowings. As of December 31, 2023, we had approximately $ 200. 0 million of indebtedness outstanding and approximately $ 0. 3 million of letters of credit outstanding under the Amended Term Loan Agreement. As of December 31, 2023, we have no additional borrowing capacity under the Amended Term Loan. Additionally, our Amended Term Loan Agreement contains certain covenants (namely our Current Ratio covenant) as well as a mandatory repayment schedule requiring us to make scheduled amortization payments in the aggregate amount of $ 50. 0 million in 2024 and $ 35. 0 million in the aggregate from the fiscal quarter ending March 31, 2025 through the fiscal quarter ending September 30, 2025. In November 2022, anticipated non- compliance with our Current Ratio covenant required us to amend our Term Loan Agreement which reduced our Current Ratio requirement through March 31, 2023. Additionally, in order to provide sufficient liquidity in 2023 to address upcoming debt maturities and covenant compliance while funding our operating and capital programs, we obtained approximately $ 95. 6 million of additional equity funding from certain of our existing equity shareholders during 2023. For a further discussion of these actions, refer to Item 7, Management' s Discussion and Analysis, " Capital Resources and Liquidity " and Item 9B. Other Information. Our Amended Term Loan Agreement contains the following financial covenants (as defined), including the maintenance of the following ratios: ● Asset Coverage Ratio of not less than 1. 80 to 1. 00 as of December 31, 2023 and the last day of each fiscal quarter thereafter; ● Total Net Leverage Ratio of not greater than 2. 50 to 1. 00 as of December 31, 2023 and each fiscal quarter thereafter, and ● Current Ratio of not less than 1. 00 to 1. 00, determined as of the last day of any fiscal quarter period, as of December 31, 2023 and for each fiscal quarter thereafter. As of December 31, 2023, the Company was in compliance with its financial covenants under the Amended Term Loan Agreement. As described above and in other historical periods, we have periodically sought amendments to the covenants under our revolving credit agreements, including the financial covenants, where we have anticipated difficulty in maintaining compliance. In the event we have difficulty in the future meeting the covenants under our Amended Term Loan Agreement, we would be required to seek additional relief, and there is no assurance that it would be granted. Failure to comply with the covenants in our Amended Term Loan Agreement may limit our ability to borrow, result in an event of default and cause amounts outstanding under our Amended Term Loan Agreement to become immediately due and payable. Unless we replace our reserves, our reserves and production will decline, which would adversely affect our financial condition, results of operations and cash flows. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Decline rates are typically greatest early in the productive life ~~of~~ **26of** a well. Estimates of the decline rate of an oil or natural gas well are inherently imprecise, and are less precise with respect to new or emerging oil and natural gas formations with limited production histories than for more developed formations with established production histories. Our production levels and the reserves that we currently expect to recover from our wells will change if production from our existing wells declines in a different manner than we have estimated and can change under other circumstances. Our future oil and natural gas reserves and production and, therefore, our cash flows and results of operations are highly dependent upon our success in efficiently developing and exploiting our current properties and economically finding or acquiring additional recoverable reserves. We may not be able to develop, find or acquire additional reserves to replace our current and future production at acceptable costs. If we are unable to replace our current and future production, our cash flows and the value of our reserves may decrease, adversely affecting our business, financial condition, results of operations and cash flows. **We** ~~Historically, we~~ have ~~had~~ substantial indebtedness and we may incur substantially more debt in the future. Higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business. We have approximately $ ~~235~~ **200. 0** million principal amount of debt, including current portions, as of December 31, ~~2022~~ **2023** . As a result of our indebtedness, we will need to use a portion of our cash flow to pay interest, and outstanding principal **during** ~~beginning in the fiscal quarter ending March 31, 2023~~ **2024** , which will reduce the amount of cash flow we will have available to finance our operations and other business activities and could limit our flexibility in planning for or reacting to changes or adverse developments in our business or economic downturns impacting the industry in which we operate. Indebtedness under our Amended Term Loan Agreement is at a variable interest rate, and so a rise in interest rates will generate greater interest expense to the extent we do not have hedging arrangements that are effective in offsetting interest rate fluctuations. A rise in interest rates could impact on our borrowing costs and could have an adverse effect on our cash flows. In conjunction with the amendment of our Term Loan Agreement in November 2022, we (i) converted our benchmark interest rate from **a London Interbank Offered Rate ("** LIBOR **")** to a Secured Overnight Financing Rate (**"** SOFR **"**) plus 0. 15 % and (ii) increased the applicable margin on borrowings by 0. 50 %. Borrowings under the Amended Term Loan Agreement will now bear interest at a rate per annum equal to the SOFR plus 7. 65 %. We may incur substantially more debt in the future. Our ability to meet our debt obligations and other expenses will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which we are unable to control. If our cash flow is not sufficient to service our debt, we may be required to refinance debt, sell assets or sell additional shares of common or preferred stock on terms that we may not find attractive if it may be done at all. Further, our failure to comply with the financial and other restrictive covenants relating to our indebtedness could result in a default under that indebtedness, which could adversely affect our business, financial condition and results of operations. Estimates of proved oil and natural gas reserves involve assumptions and any material inaccuracies in these assumptions will materially affect the quantities and the value of our reserves. This Annual Report on Form 10- K contains estimates of our proved oil and natural gas reserves. The process of estimating oil and natural gas reserves in accordance with SEC requirements is complex, involving significant estimates and assumptions in the evaluation of available geological, geophysical, engineering and economic data. Accordingly, these estimates

are inherently imprecise. Actual future production, oil and natural gas prices, revenues, taxes, capital expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from those estimated. Any significant variance could materially affect the estimated quantities and the value of our reserves. ~~23In~~ **In** addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control. The estimates of our reserves as of December 31, ~~2022~~ **2023** are based upon various assumptions about future production levels, prices and costs that may not prove to be correct over time. In particular, in accordance with SEC requirements, estimates of oil and gas reserves, future net revenue from proved reserves and the present value of our oil and gas properties are based on the assumption that future oil and gas prices remain the same as the 12- month first- day- of- the- month average oil and gas prices for the year ended December 31, ~~2022~~ **2023** . Average prices for oil and natural gas for the 12- month period were as follows: WTI crude oil spot price of $ ~~94~~ **78** . ~~14~~ **21** per Bbl, adjusted by lease or field for quality, transportation fees, and market differentials and a Henry Hub natural gas spot price of $ ~~6~~ **2** . ~~36~~ **64** per MMBtu, adjusted by ~~lease~~ **27lease** or field for energy content, transportation fees, and market differentials. Any significant variance in the actual future prices from these assumptions could materially affect the estimated quantity and value of our reserves set forth in this report. In addition, at December 31, ~~2022~~ **2023** , approximately ~~50~~ **41** % of our estimated proved reserves were classified as proved undeveloped. Recovery of proved undeveloped reserves requires significant capital expenditures and successful drilling operations. Estimated proved reserves as of December 31, ~~2022~~ **2023** assume that we will make future capital expenditures of approximately $ ~~633~~ **387** . ~~3~~ **2** million in the aggregate primarily from ~~2023~~ **2024** through 2027, which are necessary to develop and realize the value of proved reserves on our properties. The estimates of these oil and natural gas reserves and the costs associated with development of these reserves have been prepared in accordance with SEC regulations; however, actual capital expenditures will likely vary from estimated capital expenditures, development may not occur as scheduled and actual results may not be as estimated. We are subject to various contractual limitations that affect the discretion of our management in operating our business. Our Amended Term Loan Agreement contains various provisions that may limit our management' s discretion in certain respects. In particular, the Amended Term Loan Agreement limits our and our subsidiaries' ability to, among other things: ● pay dividends on, redeem or repurchase shares of our common stock and any other capital stock we may issue; ● make loans to others; ● make investments; ● incur additional indebtedness; ● create certain liens; ● sell assets; ● enter into agreements that restrict dividends or other payments from our restricted subsidiaries to us; ● consolidate, merge or transfer all or substantially all of our assets and those of our restricted subsidiaries taken as a whole; ● engage in transactions with affiliates; ● increase our exposure to commodity price fluctuations; ● create unrestricted subsidiaries; and ● enter into sale and leaseback transactions. Compliance with these and other limitations may limit our ability to operate and finance our business and engage in certain transactions in the manner we might otherwise. In addition, if we fail to comply with the limitations under our Amended Term Loan Agreement, our creditors, to the extent the agreement so provides, may accelerate the related indebtedness as well as any other indebtedness to which a cross- acceleration or cross- default provision applies. In addition, lenders may be able to terminate any commitments they had made to make further funds available to us. ~~24Federal~~ -- **Federal** legislation and rulemaking could have an adverse impact on our ability to use derivative instruments to reduce the effects of commodity prices, interest rates and other risks associated with our business. The Dodd- Frank Wall Street Reform and Consumer Protection Act, or the Dodd- Frank Act establishes, among other provisions, federal oversight and regulation of the over- the- counter derivatives market and entities that participate in that market. The Dodd- Frank Act also establishes margin requirements and certain transaction clearing and trade execution requirements. The Dodd- Frank Act may require us to comply with margin requirements in our derivative activities, although the application of those provisions to us is uncertain at this time. The counterparties to our derivative instruments may also spin off some of their derivatives activities to separate entities, which may not be as creditworthy as the current counterparties. The Dodd- Frank Act and any new regulations could significantly increase the cost of some commodity derivative contracts (including through requirements to post collateral, which could adversely affect our available liquidity), ~~materially~~ **28materially** alter the terms of some commodity derivative contracts, limit our ability to trade some derivatives to hedge risks, reduce the availability of some derivatives to protect against risks we encounter, and reduce our ability to monetize or restructure our existing commodity derivative contracts. If we reduce our use of derivatives as a consequence, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. We cannot be certain that the insurance coverage maintained by us will be adequate to cover all losses that may be sustained in connection with all oil and natural gas activities. We maintain general and excess liability policies, which we consider to be reasonable and consistent with industry standards. These policies generally cover: ● personal injury; ● bodily injury; ● third party property damage; ● medical expenses; ● legal defense costs; ● pollution in some cases; ● well blowouts in some cases; and ● workers compensation. As is common in the oil and natural gas industry, we will not insure fully against all risks associated with our business either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a material effect on our financial position, results of operations and cash flows. Our ability to use net operating loss carryforwards and realized built in losses to offset future taxable income for U. S. federal income tax purposes is subject to limitation. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an " ownership change " is subject to limitations on its ability to utilize its pre- change net operating losses (NOLs), and realized built in losses (RBILS), to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders (generally 5 % stockholders, applying certain look- through rules) increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). We experienced ownership changes in December 2018 and October 2019 and we may experience additional ownership changes in the future. Limitations imposed on our ability to use NOLs and RBILS to offset future taxable income may cause U. S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not ~~25in~~ **in** effect and could cause such NOLs and

RBILS to expire unused, in each case reducing or eliminating the benefit of such NOLs and RBILS. Similar rules and limitations may apply for state income tax purposes **. As of December 31, 2023, no additional ownership change has occurred** . We may be required to take non- cash asset write- downs. We may be required under full cost accounting rules to write- down the carrying value of oil and natural gas properties if oil and natural gas prices decline or if there are substantial downward adjustments to our estimated proved reserves, increases in our estimates of development costs or deterioration in our exploration results. We utilize the full cost method of accounting for oil and natural gas exploration and development activities. Under full cost accounting, we are required by SEC regulations to perform a ceiling test each quarter. The ceiling test is an impairment test and generally establishes a maximum, or " ceiling, " of the book value of oil and natural gas properties that is equal to the expected after tax present value (discounted at 10 %) of the future net cash flows from proved reserves, including the effect of cash flow hedges when hedge accounting is applied, calculated using the unweighted arithmetic average of the ~~first~~ **29first** day of each month for the 12- month period ending at the balance sheet date. If the net book value of oil and natural gas properties (reduced by any related net deferred income tax liability and asset retirement obligation) exceeds the ceiling limitation, SEC regulations require us to impair or " write- down " the book value of our oil and natural gas properties. Costs associated with unevaluated properties, which were approximately $ ~~62~~ **58** . ~~6~~ **9** million at December 31, ~~2022~~ **2023** , are not initially subject to the ceiling test limitation. Rather, we assess all items classified as unevaluated property on a quarterly basis for possible impairment or reduction in value based upon our intentions with respect to drilling on such properties, the remaining lease term, geological and geophysical evaluations, drilling results, the assignment of proved reserves, and the economic viability of development if proved reserves are assigned. These factors are significantly influenced by our expectations regarding future commodity prices, development costs, and access to capital at acceptable cost. During any period in which these factors indicate impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to depletion and the ceiling test limitation. Accordingly, a significant change in these factors, many of which are beyond our control, may shift a significant amount of cost from unevaluated properties into the full cost pool that is subject to depletion and the ceiling test limitation. Hedging transactions may limit our potential gains and increase our potential losses. In order to manage our exposure to price risks in the marketing of our oil, natural gas, and natural gas liquids production and comply with the requirements of our Amended Term Loan Agreement, we have entered into oil and natural gas hedging arrangements with respect to a portion of our anticipated production and we may enter into additional hedging transactions in the future. While intended to reduce the effects of volatile commodity prices, such transactions may limit our potential gains and increase our potential losses if commodity prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of loss in certain circumstances, including instances in which: ● our production is less than expected; ● there is a widening of price differentials between delivery points for our production; or ● the counterparties to our hedging agreements fail to perform under the contracts. Operational Risk FactorsWe are substantially dependent upon our drilling success on our Delaware Basin properties. We are a pure- play, single- basin operator in the Delaware Basin in West Texas. As a consequence of this geographical concentration, we may have greater exposure to the impact of regional supply and demand factors, delays or interruptions in production from governmental regulation, processing or transportation capacity constraints, market limitations, water shortages, or other conditions adversely impacting our ability to produce or market our production. Such events could have a material adverse effect on our business, financial condition, results of operations, and cash flows. ~~26Our~~ -- **Our** exploration and development drilling efforts and the operation of our wells may not be profitable or achieve our targeted rates of return. Exploration, development, drilling and production activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. We invest in property, including undeveloped leasehold acreage, which we believe will result in projects that will add value over time. However, we cannot guarantee that our leasehold acreage will be profitably developed, that new wells drilled by us will be productive or that we will recover all or any portion of our investment in such leasehold acreage or wells. Drilling for oil and natural gas may involve unprofitable efforts, not only from dry wells but also from wells that are productive but do not produce sufficient net reserves to return a profit after deducting operating and other costs. In addition, wells that are profitable may not achieve our targeted rate of return. Our ability to achieve our target results is dependent upon current and future market prices for our oil and natural gas, costs associated with producing oil and natural gas and our ability to add reserves at an ~~acceptable~~ **30acceptable** cost. The costs of drilling and completing a well are often uncertain, and are affected by many factors, including: ● unexpected drilling conditions; ● pressure or irregularities in formations; ● equipment failures or accidents and shortages or delays in the availability of drilling and completion equipment and services; ● adverse weather conditions; and ● compliance with governmental requirements. If we are unable to accurately predict and control the costs of drilling and completing a well, we may be forced to limit, delay or cancel drilling operations. Increasing attention to ~~environmental, social and corporate governance (~~ ESG ~~)~~ matters may impact our business. Companies conducting oil and natural gas activities, like many firms in other industries, are facing increased scrutiny from stakeholders related to their ESG policies and practices. Stakeholder expectations and standards around ESG are evolving and companies that do not adapt or comply with those expectations and standards, regardless of whether there is a legal requirement to do so, may be adversely impacted. Increased attention to ESG matters may impact our business by increasing costs, reducing demand for oil and natural gas, reducing profits, increasing regulations and litigation, or impeding our access to capital and may negatively impact our stock price. In addition, organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their ESG approaches. Currently, there are no universal standards for scores or ratings; however, the importance of sustainability evaluations is becoming more broadly accepted and utilized by investors and stockholders. Unfavorable ratings or assessment of our ESG practices may lead to negative investor sentiment toward us, which could have a negative impact on our stock price and our access to capital. We could experience periods of higher costs for various reasons, including due to higher commodity prices, increased drilling activity in the Delaware Basin and

trade disputes or inflation that affect the costs of steel and other raw materials that we and our vendors rely upon, which could adversely affect our ability to execute our exploration and development plans on a timely basis and within budget. Our industry is cyclical. When oil, natural gas and natural gas liquids prices increase, shortages of drilling rigs, equipment, supplies, water or qualified personnel may result. During these periods, the costs and delivery times of rigs, equipment and supplies are substantially greater. In addition, the demand for, and wage rates of, qualified drilling rig crews rise as the number of active rigs in service increases. Increasing levels of exploration and production, particularly in the Delaware Basin, likewise may increase demand for oilfield services and equipment, and the costs of these services and equipment may increase, while the quality of these services and equipment may suffer. Cost increases may also result from a variety of factors beyond our control, such as increases in the cost of electricity, steel and other materials that we and our vendors rely upon and increases in the cost of services to process, treat and transport our production. Any escalation or expansion of tariffs could result in higher costs and affect a greater range of materials we rely upon in ~~27our~~ -- **our** business. The unavailability or high cost of drilling rigs, pressure pumping equipment, tubulars and other supplies, and of qualified personnel can materially and adversely affect our operations and profitability. In order to secure drilling rigs and pressure pumping equipment and related services, we may enter into contracts that extend over several months or years. If demand for drilling rigs and pressure pumping equipment subside during the period covered by these contracts, the price we are required to pay may be significantly more than the market rate for similar services. We may not be able to drill wells on a substantial portion of our acreage. We may not be able to drill on a substantial portion of our acreage for various reasons. We may not generate enough cash flow from operations or be able to raise sufficient capital to do so. Commodities pricing may also make drilling some acreage uneconomic. Our actual drilling activities and future drilling budget will depend on drilling results, oil and natural gas prices, the availability and cost of capital, drilling and production costs, availability of drilling services and ~~equipment~~ **31equipment** , lease expirations, gathering system and pipeline transportation constraints, regulatory approvals and other factors. In addition, any drilling activities we conduct may not be successful or result in additional proved reserves, which could have a material adverse effect on our future business, financial condition and results of operations. Certain of our undeveloped leasehold acreage could expire if we are unable to meet continuous development clauses or similar provisions in our leases requiring development of our undeveloped acreage and / or maintaining production on units containing the acreage. As of December 31, ~~2022~~ **2023** , we owned leasehold interests in approximately 40, ~~400~~ **000** net acres in the Delaware Basin in West Texas of which approximately 9, ~~700~~ **000** net acres are undeveloped. Generally, our oil and natural gas leases remain in force as long as production in paying quantities is maintained. Currently, our leases on undeveloped oil and natural gas properties are either categorized as " held by production " or perpetuated by continuous development clauses contained in our leases or tolling agreements. We continually review our leases on acreage subject to these clauses or agreements when planning for our future drilling programs. If our leases on acreage subject to these provisions are not maintained by production in paying quantities or continuous development, our leases could expire and we would lose our right to develop the related properties. Our drilling plans are subject to change based upon various factors, many of which are beyond our control, including drilling results, oil and natural gas prices, the availability and cost of capital, drilling and production costs, availability of drilling services and equipment, gathering system and pipeline transportation constraints, and regulatory approvals. Further, while not material, some of our acreage is located in sections where we do not hold the majority of the acreage and therefore it is likely that we will not be named operator of these sections. As a non- operating leaseholder we have less control over the timing of drilling and are therefore subject to additional risk of expirations. Our oil and natural gas activities are subject to various risks that are beyond our control. Our operations are subject to many risks and hazards incident to exploring and drilling for, producing, transporting, marketing and selling oil and natural gas. Although we take precautionary measures, many of these risks and hazards are beyond our control and unavoidable under the circumstances. Many of these risks or hazards could materially and adversely affect our revenues and expenses, the ability of certain of our wells to produce oil and natural gas in commercial quantities, the rate of production and the economics of the development of, and our investment in, the prospects in which we have or will acquire an interest. Such risks and hazards include: ● human error, accidents and other events beyond our control that may cause personal injuries or death to persons and destruction or damage to equipment and facilities; ● blowouts, fires, adverse weather events, pollution and equipment failures that may result in damage to or destruction of wells, producing formations, production facilities and equipment; ● accidental ~~leaks~~ **releases** of natural gas, including gas with high levels of hydrogen sulfide (H_2S), and other hydrocarbons or toxic or hazardous materials in the environment as a result of human error or the malfunction of equipment or facilities, which can result in personal injury and loss of life, pollution, damage to equipment and suspension of operations; ● well- on- well interference that may reduce recoveries; ~~28~~ ● unavailability of materials and equipment; ● engineering and construction delays; ● unanticipated transportation costs and delays; ● unfavorable weather conditions; ● hazards resulting from unusual or unexpected geological or environmental conditions; ● changes in laws and regulations, including laws and regulations applicable to oil and natural gas activities or markets for the oil and natural gas produced; ● fluctuations in supply and demand for oil and natural gas causing variations of the prices we receive for our oil and natural gas production; and ● the availability of alternative fuels and the price at which they become available. ~~Some~~ **32Some** of these risks may be exacerbated by other risks that we face. For instance, certain of our wells produce high levels of H_2S, a highly toxic, naturally- occurring gas frequently associated with oil and natural gas production. Safely handling H_2S gas requires highly skilled operations and field personnel as well as specialized infrastructure, treating facilities, disposal facilities, and / or third party sour gas takeaway. If we are unable to attract and retain qualified and highly skilled personnel our ability to effectively manage this and other risks may be adversely impacted. Additionally, if we are unable to successfully operate our specialized treating facilities or secure adequate sour gas takeaway capacity from third parties when and if necessary, our ability to effectively manage the H_2S levels we see in our natural gas production may be adversely impacted. As a result, our production, revenues, operating costs and liabilities and expenses may be materially and adversely affected and may differ materially from those anticipated by us **and availability of**

certain facilities may impact our processing costs . Our ability to sell our production and / or receive market prices for our production may be adversely affected by transportation capacity constraints and interruptions. If the amount of natural gas, condensate or oil being produced by us and others exceeds the capacity of the various transportation pipelines and gathering systems available in our operating areas, it may be necessary for new transportation pipelines and gathering systems to be built. Or, in the case of oil and condensate, it will be necessary for us to rely more heavily on trucks or trains to transport our production, which is more expensive and less efficient than transportation via pipeline. The construction of new pipelines and gathering systems is capital intensive and construction may be postponed, interrupted or cancelled in response to changing economic conditions, the availability and cost of capital, public opposition, regulatory restrictions and judicial challenges. In addition, capital constraints could limit our ability to build gathering systems to transport our production to transportation pipelines. In such event, costs to transport our production may increase materially or we might have to shut- in our wells awaiting a pipeline connection or capacity and / or sell our production at much lower prices than market or than we currently expect, which would adversely affect our results of operations. A portion of our production may also be interrupted, or shut- in, from time to time for numerous other reasons, including as a result of weather conditions (which may worsen due to climate changes), accidents, loss of pipeline or gathering system access, field labor issues or strikes, or we might voluntarily curtail production in response to market conditions. If a substantial amount of our production is interrupted at the same time, it could adversely affect our cash flow. Our strategy involves drilling in shale formations, using horizontal drilling and modern completion techniques. The results of our drilling program using these techniques may be subject to more uncertainties than conventional drilling programs. These uncertainties could result in an inability to meet our expectations for reserves and production. The drilling of long horizontal laterals and the use of modern completion techniques with multi- stage fracture stimulation in shale formations involves certain risks and complexities that do not exist in conventional wells. Such risks include, but are not limited to, landing the horizontal wellbore in the desired drilling zone, maintaining the desired drilling zone while drilling horizontally through the wellbore formation, running casing through the full span of the wellbore, and being able to run tools and other necessary equipment consistently throughout the horizontal wellbore. Additionally, horizontal drilling and completion techniques may result in faster production decline rates relative to ~~29conventional~~ -- **conventional** drilling methods. The ultimate success of our drilling and completion strategies and techniques will be better evaluated over time as more wells are drilled and production profiles are better established. If our drilling results are less than anticipated, our investment in these areas may not be as attractive as we anticipate and could result in material write- downs of unevaluated properties and future declines in the value of our undeveloped acreage. Title to the properties in which we have an interest may be impaired by title defects. We generally obtain title opinions on significant properties that we drill or acquire. However, there is no assurance that we will not suffer a monetary loss from title defects or title failure. Additionally, undeveloped acreage has greater ~~risk~~ **33risk** of title defects than developed acreage. Generally, under the terms of the operating agreements affecting our properties, any monetary loss is to be borne by all parties to any such agreement in proportion to their interests in such property. If there are any title defects or defects in assignment of leasehold rights in properties in which we hold an interest, we will suffer a financial loss. We depend substantially on the continued presence of key personnel for critical management decisions and industry contacts. Our success depends upon the continued contributions of our executive officers and key employees, particularly with respect to providing the critical management decisions and contacts necessary to manage and maintain growth within a highly competitive industry. Competition for qualified personnel can be intense, particularly in the oil and natural gas industry, and there are a limited number of people with the requisite knowledge and experience. Under these conditions, we could be unable to attract and retain these personnel. The loss of the services of any of our executive officers or other key employees for any reason could have a material adverse effect on our business, operating results, financial condition and cash flows. Investment in Securities Risk FactorsThere may be circumstances in which the interests of our significant stockholders could be in conflict with the interests of our other stockholders. Funds advised by Luminus Management, LLC, Oaktree Capital Management, LP, and LSP Investment Advisors, LLC held approximately 37. 4 %, 24. 2 % and 14. 4 %, respectively, of our common stock as of March ~~27~~ **25** , ~~2023~~ **2024** . Circumstances may arise in which these stockholders may have an interest in pursuing or preventing acquisitions, divestitures, or the issuance of additional equity securities or debt, that, in their judgment, could enhance their investment in us or another company in which they invest. Such transactions might adversely affect us or other holders of our common stock. In addition, our significant concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in companies with significant stockholders. Future sales of our common stock in the public market or the issuance of securities senior to our common stock, or the perception that these sales may occur, could adversely affect the trading price of our common stock and our ability to raise funds in stock offerings. A large percentage of our shares of common stock are held by a relatively small number of investors. Sales by us or our stockholders of a substantial number of shares of our common stock in the public markets, or even the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. We are currently authorized to issue 100. 0 million shares of common stock and 1. 0 million shares of preferred stock, with such designations, rights, preferences, privileges and restrictions as determined by the Board. As of March ~~27~~ **25** , ~~2023~~ **2024** , we had approximately 16. 5 million shares of common stock outstanding and options and restricted stock units to purchase or receive an aggregate of ~~1~~ **0** . ~~1~~ **4** million shares of our common stock. As of March ~~27~~ **25** , ~~2023~~ **2024** , we have also ~~30reserved~~ -- **reserved** an additional ~~0~~ **$ 1** . ~~3~~ **1** million shares for future issuance to our directors, officers and employees under our 2020 Long- Term Incentive Plan. The potential issuance of such additional shares of common stock may create downward pressure on the trading price of our common stock ~~. Additionally, on March 28, 2023, we sold an aggregate of 25, 000 shares of Series A Convertible Preferred Stock (the " preferred stock ") that is convertible into shares of our common stock, as further described in Item 9B. Other Information~~ . We may issue common stock or other equity securities senior to our common stock in the future for a number of reasons, including

to finance acquisitions, to adjust our leverage ratio, and to satisfy our obligations upon the exercise of warrants and options, or for other reasons. We cannot predict the effect, if any, that future sales or issuances of shares of our common stock or other equity securities, or the availability of shares of common stock or such other equity securities for future sale or issuance, will have on the trading price of our common stock. ~~We~~ **34We** may choose to delist our securities from NYSE American and deregister our common stock under the Exchange Act, which could negatively affect the liquidity and trading prices of our common stock and would result in less disclosure about the Company. As further discussed in Item 7. Management' s Discussion and Analysis, " Capital Resources and Liquidity, " we are exploring strategic transactions and looking at opportunities to significantly reduce expenses in the near term to bolster liquidity. Given the cost and resource demands of being a public company, we may decide to " go dark, " or discontinue our obligation to make periodic filings with the SEC, by delisting our securities with NYSE American and deregistering our securities with the SEC. While no decision has been made, should we ultimately make the decision to go dark, there would be a substantial decrease in disclosure by us of our operations and prospects, and a potential decrease in the liquidity in our common stock even though stockholders may still continue to trade our common stock on an over- the- counter (OTC) market. As a result of going dark, investors may find it more difficult to dispose of or obtain accurate quotations as to the market value of our common stock, and the ability of our stockholders to sell our common stock in the secondary market may be materially limited. Regulatory Risk FactorsWe are subject to complex federal, state, local and other laws and regulations that frequently are amended to impose more stringent requirements that could adversely affect the cost, manner or feasibility of doing business. Companies that explore for, develop, produce, sell and transport oil and natural gas in the United States are subject to extensive federal, state and local laws and regulations, including complex tax and environmental, health and safety laws and corresponding regulations, and are required to obtain various permits and approvals from federal, state and local agencies. If these permits are not issued or unfavorable restrictions or conditions are imposed on our activities, we may not be able to conduct our operations as planned. We also may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include: ● water discharge and disposal permits for drilling operations; ● drilling bonds; ● drilling permits; ● reports concerning operations; ● air quality, air emissions, noise levels and related permits; ● spacing of wells; ● rights- of- way and easements; ● unitization and pooling of properties; ● pipeline construction; ● gathering, transportation and marketing of oil and natural gas; ● taxation; and ● waste transport and disposal permits and requirements. ~~31Failure~~ -- **Failure** to comply with applicable laws may result in the suspension or termination of operations and subject us to liabilities, including administrative, civil and criminal penalties. Compliance costs can be significant. Moreover, the laws governing our operations or the enforcement thereof could change in ways that substantially increase our costs of doing business. For example, negative public perception regarding us and / or our industry may lead to increased regulatory scrutiny, which may, in turn, lead to new state and federal safety and environmental laws, regulations, guidelines and enforcement interpretations. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially and adversely affect our business, financial condition and results of operations. Under environmental, health and safety laws and regulations, we also could be held liable for personal injuries, property damage (including site clean-up and restoration costs) and other damages including the assessment of natural resource damages. Such laws may impose strict as well as joint and several liability for environmental contamination, which could subject us to liability for the conduct of others or for our own actions that were in compliance with all applicable laws at the time such actions were taken. Environmental and other governmental laws and regulations also ~~increase~~ **35increase** the costs to plan, design, drill, install, operate and abandon oil and natural gas wells. Moreover, public interest in environmental protection has increased in recent years, and environmental organizations have opposed, with some success, certain drilling and pipeline projects. Part of the regulatory environment in which we operate includes, in some cases, federal requirements for performing or preparing environmental assessments, environmental impact studies and / or plans of development before commencing exploration and production activities. In addition, our activities are subject to regulation relating to conservation practices and protection of correlative rights. Such regulations affect our operations and limit the quantity of oil and natural gas we may produce and sell. Delays in obtaining regulatory approvals or necessary permits, the failure to obtain a permit or the receipt of a permit with excessive conditions or costs could have a material adverse effect on our ability to explore on, develop or produce our properties. Additionally, the oil and natural gas regulatory environment could change in ways that might substantially increase the financial and managerial costs to comply with the requirements of these laws and regulations and, consequently, adversely affect our profitability. By way of example, in 2015 the EPA lowered the primary national ambient air quality standard for ozone from 75 parts per billion to 70 parts per billion and is reconsidering whether an even stricter standard is warranted. Implementation eventually could result in more stringent emissions controls and additional permitting obligations for our operations. Federal, state and local legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays. We engage third parties to provide hydraulic fracturing or other well stimulation services to us in connection with many of the wells for which we are the operator. Federal, state and local governments have been adopting or considering restrictions on or prohibitions of fracturing in areas where we currently conduct operations, or may in the future, plan to conduct operations. Consequently, we could be subject to additional levels of regulation, operational delays or increased operating costs and could have additional regulatory burdens imposed upon us that could make it more difficult to perform hydraulic fracturing and increase our costs of compliance and doing business. From time to time, for example, legislation has been proposed in Congress to require more stringent federal control or outright bans of hydraulic fracturing. Further, the EPA issued a study in 2016 finding that hydraulic fracturing could potentially harm drinking water resources under adverse circumstances such as injection directly into groundwater or into production wells lacking mechanical integrity. Other governmental reviews have also been conducted that focus on environmental aspects of hydraulic fracturing. Such activities eventually could result in additional regulatory control. Certain states, including Texas where we conduct our operations, likewise are considering or have adopted more stringent requirements for various aspects of hydraulic

fracturing operations, such as permitting, disclosure, air emissions, well construction, seismic monitoring, waste disposal and water use. In addition to state laws, local land use restrictions, such as city ordinances, may restrict or prohibit drilling in general or hydraulic fracturing in particular. Such efforts have extended to bans on hydraulic fracturing. The proliferation of regulations may limit our ability to operate. If the use of hydraulic fracturing is limited, prohibited or subjected to further regulation, these requirements could delay or effectively prevent the extraction of oil and natural gas from formations which would not be economically viable without the use of hydraulic fracturing. This could have a material adverse effect on our business, financial condition, results of operations and cash flows. ~~32Regulation~~ -- **Regulation** related to global warming and climate change could have an adverse effect on our operations and demand for oil and natural gas. **Various** ~~Studies~~ **studies** ~~over recent years~~ have indicated that emissions of certain gases may be contributing to warming of the Earth' s atmosphere. In response, governments increasingly have been adopting domestic and international climate change regulations that require reporting and reductions of the emission of such greenhouse gases. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of burning oil, natural gas and refined petroleum products, are considered greenhouse gases. Internationally, the United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement address greenhouse gas emissions, and international negotiations over climate change and greenhouse gases are continuing. Meanwhile, several countries, including those comprising the European Union, have established greenhouse gas regulatory systems. ~~In~~ **36In** the United States, many states, either individually or through multi- state regional initiatives, have been implementing legal measures to reduce emissions of greenhouse gases, primarily through emission inventories, emission targets, product bans, greenhouse gas cap and trade programs or incentives for renewable energy generation, while others have considered adopting such greenhouse gas programs. At the federal level, the Obama Administration addressed climate change through a variety of administrative actions. The EPA thus issued greenhouse gas monitoring and reporting regulations that cover oil and natural gas facilities, among other industries. Beyond measuring and reporting, the EPA issued an " Endangerment Finding " under section 202 (a) of the Clean Air Act, concluding certain greenhouse gas pollution threatens the public health and welfare of current and future generations. The finding served as the first step to issuing regulations that require permits for and reductions in greenhouse gas emissions for certain facilities. In March 2014, moreover, then President Obama released a Strategy to Reduce Methane Emissions that included consideration of both voluntary programs and targeted regulations for the oil and gas sector. Consistent with that strategy, the EPA issued final rules in 2016 for new and modified oil and gas production sources (including hydraulically fractured oil wells, natural gas well sites, natural gas processing plants, natural gas gathering and boosting stations and natural gas transmission sources) to reduce emissions of methane as well as volatile organic compound and toxic pollutants. In addition, the BLM promulgated standards for reducing venting and flaring on public lands (which were eventually vacated). The Trump Administration tried to roll back many of the Obama- era climate change policies and rules. But shortly after his inauguration, President Biden accepted the Paris Agreement on behalf of the United States, declared climate considerations an essential part of the United States' foreign policy, limited new oil and **natural** gas leases on federal lands, and directed federal agencies to incorporate climate change considerations in their ~~operation~~ **operations** . New federal programs relating to climate change appear to be likely through at least 2024. For example, **the** EPA ~~has proposed to update, strengthen and revise the~~ **announced new final regulations in December 2023 that impose more comprehensive restrictions on emissions of methane (a** greenhouse gas **)** and volatile organic ~~compound~~ **compounds from new, existing, and modified facilities in the oil and gas sector (such as wells and storage tank batteries). Among other things, the rule sets new** ~~emission~~ **emissions** standards for ~~the~~ **certain equipment; requires routine monitoring for and repair of leaks at well sites, centralized production facilities, and compressor stations; limits flaring from existing** oil **wells;** and ~~natural gas industries~~ **prohibits flaring from new oil wells. In addition** , ~~while~~ BLM has proposed new rules to reduce venting, flaring and leaks from oil and gas production on public lands. Aside from new controls, the 2022 Inflation Reduction Act creates incentives ~~meant~~ **designed** to ~~promote~~ **increase** use of electric cars and fuels other than oil and natural gas **. That statute imposes a fee on certain excess methane emissions from oil and gas facilities of $ 900 per metric ton of methane for 2024, $ 1, 200 per metric ton for 2025, and $ 1, 500 per metric ton each year thereafter** . In the courts, several decisions have been issued that may increase the risk of claims being filed by governments and private parties against companies that cause or contribute to significant greenhouse gas emissions. Such cases may seek emissions reductions, challenge air emissions or other permits or request damages for alleged climate change impacts to the environment, people, and property. Any new initiatives that may be adopted to reduce emissions of greenhouse gases could require us to incur additional operating costs, such as costs to purchase and operate emissions controls, to obtain emission allowances or to pay emission taxes, and reduce demand for our products. ~~33Our~~ -- **Our** operations substantially depend on the availability of water. Restrictions on our ability to obtain, dispose of or recycle water may impact our ability to execute our drilling and development plans in a timely or cost- effective manner. Water is an essential component of our drilling and hydraulic fracturing processes. If we are unable to obtain water to use in our operations from local sources, we may be unable to economically produce oil, natural gas liquids and natural gas, which could have an adverse effect on our business, financial condition and results of operations. Wastewaters from our operations typically are disposed of via underground injection. Some studies have linked earthquakes in certain areas to underground injection, which is leading to greater public scrutiny and regulation of disposal wells. Any new environmental initiatives or regulations that restrict injection of fluids, including, but not limited to, produced water, drilling fluids and other wastes associated with the exploration, development or production of oil and gas, or that limit the withdrawal, storage or use of surface water or ground water necessary for hydraulic ~~fracturing~~ **37fracturing** of our wells, could increase our operating costs and cause delays, interruptions or cessation of our operations, the extent of which cannot be predicted, and all of which would have an adverse effect on our business, financial condition, results of operations and cash flows. **Macroeconomic** ~~COVID- 19~~ Risk **FactorsOur** ~~FactorsEvents beyond our control, including a global or domestic health crisis, may result in unexpected adverse operating and financial results. In 2020, in response to the novel coronavirus (COVID- 19) pandemic governments around the world, including~~

U. S. federal and state governments, imposed restrictions intended to limit the extent and spread of the virus, including travel restrictions, quarantines and business could closures. The COVID- 19 outbreak and governmental restrictions significantly impacted economic activity and markets and dramatically reduced demand for oil and natural gas, adversely impacting the prices we receive for our production, resulting in us temporarily shutting in producing wells. During 2021, widespread availability of COVID- 19 vaccines in the United States and elsewhere combined with accommodative governmental monetary and fiscal policies and other factors, led to a rebound in demand for oil and natural gas and increases in oil and natural gas prices. However, there remains the potential for demand for oil and natural gas to be adversely impacted by the events beyond our control, including economic downturns, inflation, increases in interest rates, natural disasters, public health crises such as pandemics, political crises, geopolitical events such as the conflict in Ukraine and the Middle East, or other macroeconomic conditions, which have in the past and may in the future result in adverse operating and financial results. The global economy, including credit and financial markets, has experienced extreme volatility and disruptions, including, among other things, severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, supply chain shortages, increases in inflation rates, higher interest rates and uncertainty about economic stability. A widespread public health crisis such as a pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could negatively affect our liquidity. In addition, a recession or market correction resulting from the effects of public health crises could materially affect our business and the value of our common stock. It may have further negative impacts, such as (a) a global or U. S. recession or other economic crisis; (b) credit and capital markets volatility (and access to these markets, including by our suppliers and customers); (c) manufacturing supply disruption due to travel restrictions or other government actions; and (d) disruptions services and supplies. The ultimate impact of a public health crisis is highly uncertain. The Federal Reserve recently raised interest rates multiple times in response to concerns about inflation and it may raise the them COVID- 19 pandemic again. Higher interest rates, coupled with reduced government spending and volatility in financial markets may increase economic uncertainty and affect consumer spending. If the equity and credit markets deteriorate , including as a consequence result of the circulation of political unrest or war, it may make any necessary debt or equity financing more difficult to obtain in infectious " variants " of the disease, vaccine hesitancy, waning vaccine effectiveness or other factors. As a timely manner consequence, we are unable to predict the impact of these factors which may negatively impact our - or business in numerous ways, including, but not limited to, the following: ● reducing our revenues if the outbreak results in a substantial or prolonged decrease in demand for oil and natural gas due to an economic downturn or recession; ● disrupting our operations if our employees or contractors are unable to work due to illness or if our field operations are suspended or temporarily shut- down or restricted due to measures designed to contain the outbreak; ● disrupting the operations of our midstream service providers, on whom we rely favorable terms, more costly for - or more dilutive. Increased inflation rates can the gathering, processing and transportation of our production, due to measures designed to contain the outbreak, and / or the difficult economic environment may lead to capital spending constraints, bankruptcy, the closing of facilities or inability to maintain infrastructure, which may adversely affect us by our ability to market our production, increase increasing our costs, lower the prices we receive, or result in the shut- in of our producing wells or a delay or discontinuation of our development plans; and ● the disruption and instability in the financial markets and the uncertainty in the general business environment may affect our ability to access capital, monetize assets and successfully execute our plans. The COVID- 19 pandemic may also have the effect of heightening many of the other risks set forth below. Any of these factors could have a material adverse effect on our business, operations, financial results and liquidity. In 2020, oil and natural gas prices declined to historically low levels and we reduced our planned capital expenditures, delayed our drilling and completion plans and temporarily shut- in some of our producing wells, among other responses. We are unable to predict the ultimate adverse impact of the COVID- 19 on our business, which will continue to depend on numerous evolving factors and future developments, including labor the length of time that the pandemic continues, its effect 34on the demand for oil and employee benefit costs natural gas and the response of the overall economy and the financial markets after governmental restrictions are eased . A financial downturn could negatively affect our business, results of operations, financial condition and liquidity. Actual or anticipated declines in domestic or foreign economic growth rates, regional or worldwide increases in tariffs or other trade restrictions, turmoil affecting the U. S. or global financial system and markets and a severe economic contraction either regionally or worldwide, resulting from efforts to contain the COVID- 19 coronavirus or other factors, could materially affect our business and financial condition and impact our ability to finance operations by worsening the actual or anticipated future drop in worldwide oil demand, negatively impacting the price we receive for our oil and natural gas production. Negative economic conditions could also adversely affect the collectability of our trade receivables or performance by our vendors and suppliers or cause our commodity hedging arrangements to be ineffective if our counterparties are unable to perform their obligations. All of the foregoing may adversely affect our business, financial condition, results of operations and cash flows. Cybersecurity Risk FactorsWe depend on computer, telecommunications and information technology systems to conduct our business, and failures, disruptions, cyber- attacks or other breaches in data security could significantly disrupt our business operations, create liability and increase our costs. The oil and natural gas industry in general has become increasingly dependent upon technology to conduct day- to- day operations, including certain exploration, development and production activities. We have agreements with third parties for hardware, software, telecommunications and other information technology services necessary to our business and have developed proprietary software systems, management techniques and other information technologies incorporating software licensed from third parties. We use these systems and data to, among other things, estimate 38 quantities of oil, natural gas liquids and natural gas reserves, process and record financial data and communicate with our employees and third parties. Failures in these systems due to hardware or software malfunctions, computer viruses, natural disasters, fire, human error or other causes could significantly affect our ability to conduct our business. In particular, cyber-

~~security attacks on systems are increasing in frequency and sophistication and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. Although we utilize various procedures and controls to monitor and protect against these threats and to mitigate our exposure to them, there can be no assurance that these procedures and controls will be sufficient to prevent security threats from materializing and any interruptions to our arrangements with third parties, to our computing and communications infrastructure or our information systems could significantly disrupt our business operations. Further, the loss or corruption of sensitive information could have a material adverse effect on our reputation, financial position, results of operations or cash flows. In addition, as cyber- attacks continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber- attacks. We generally do not maintain insurance coverage for the costs associated with cyber- security events. ITEM 1B. UNRESOLVED STAFF COMMENTSNone. ITEM 2. PROPERTIESA description of our properties is included in Item 1. Business and is incorporated herein by reference. We believe that we have satisfactory title to the properties owned and used in our business, subject to liens for taxes not yet payable, liens incident to minor encumbrances, liens for credit arrangements and easements and restrictions that do not materially detract from the value of these properties, our interests in these properties, or the use of these 35~~