

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report: July 20, 2021
(Date of earliest event reported)



EARTHSTONE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-35049

(Commission File Number)

84-0592823

(IRS Employer Identification No.)

**1400 Woodloch Forest Drive, Suite 300
The Woodlands, Texas 77380**

(Address of principal executive offices) (Zip Code)

(281) 298-4246

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

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

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	ESTE	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. ☐

Introductory Note

On July 20, 2021, Earthstone Energy, Inc. (“Earthstone” or the “Company”), Earthstone Energy Holdings, LLC, a subsidiary of the Company (“EEH” or the “Buyer”), Tracker Resource Development III, LLC (“Tracker”), and TRD III Royalty Holdings (TX), LP (“RoyaltyCo”) and collectively with Tracker, the “Seller”) consummated the transactions contemplated in the Purchase and Sale Agreement dated March 31, 2021 by and among Earthstone, EEH and Seller (the “Tracker Agreement”) that was previously reported on Form 8-K filed on April 5, 2021. At the closing of the Tracker Agreement, among other things, EEH acquired (the “Tracker Acquisition”) interests in oil and gas leases and related property of Tracker located in Irion County, Texas (the “Tracker Assets”) for aggregate consideration consisting of the following (the “Tracker Purchase Price”): (i) \$22.5 million in cash, net of preliminary and customary purchase price adjustments and remains subject to final post-closing settlement between the Buyer and the Seller, and (ii) 4.7 million shares (the “Tracker Shares”) of Class A common stock, \$0.001 par value per share of Earthstone (the “Class A Common Stock”). Also, on July 20, 2021, Earthstone, EEH, SEG-TRD LLC (“SEG-I”), and SEG-TRD II LLC (“SEG-II”) and collectively with SEG-I, “Sequel”), consummated the transactions contemplated in the Purchase and Sale Agreement dated March 31, 2021 by and among Earthstone, EEH and Sequel (the “Sequel Agreement” and collectively with the Tracker Agreement, the “Purchase Agreements”) that was previously reported on Form 8-K filed on April 5, 2021. At the closing of the Sequel Agreement, among other things, EEH acquired (the “Sequel Acquisition” and with the Tracker Acquisition, the “Transaction”) certain well-bore interests and related equipment held by Sequel that were part of a joint development agreement between Tracker and Sequel involving portions of the acreage covered by the Tracker Agreement (the “Sequel Assets” and collectively with the Tracker Assets, the “Assets”) for aggregate consideration consisting of the following: (i) \$45.3 million in cash, net of preliminary and customary purchase price adjustments and remains subject to final post-closing settlement between the Buyer and Sequel, and (ii) 1.5 million shares of Class A Common Stock (the “Sequel Shares” and collectively with the Tracker Shares, the “Transaction Shares”).

Item 1.01 Entry into a Material Definitive Agreement.

Registration Rights Agreements

On July 20, 2021, in connection with the closing of the Tracker Agreement, Earthstone and the members of Tracker entered into a registration rights agreement (the “Tracker Registration Rights Agreement”) relating to the Tracker Shares. The Tracker Registration Rights Agreement provides that, within sixty days after the closing date of the Tracker Acquisition, Earthstone will prepare and file a registration statement to permit the public resale of the Tracker Shares. Earthstone shall cause the registration statement to be continuously effective from and after the date it is first declared or becomes effective until the earlier of (i) all such shares of Class A Common Stock have been disposed of in the manner set forth in the registration statement or under Rule 144 of the Securities Act of 1933, as amended (the “Securities Act”), until the distribution of the Class A Common Stock does not require registration under the Securities Act, or until there are no longer any such registrable shares of Class A Common Stock issued in connection with the Tracker Acquisition outstanding or (ii) four years after the closing of the Tracker Acquisition.

On July 20, 2021, in connection with the closing of the Sequel Agreement, Earthstone and Sequel entered into a registration rights agreement (the “Sequel Registration Rights Agreement”) relating to the Sequel Shares. The Sequel Registration Rights Agreement provides that, within thirty days after the closing date of the Sequel Acquisition, Earthstone will prepare and file a registration statement to permit the public resale of the Sequel Shares. Earthstone shall cause the registration statement to be continuously effective from and after the date it is first declared or becomes effective until the earlier of (i) all such shares of Class A Common Stock have been disposed of in the manner set forth in the registration statement or under Rule 144 of the Securities Act, until the distribution of the Class A Common Stock does not require registration under the Securities Act, or until there are no longer any such registrable shares of Class A Common Stock issued in connection with the Sequel Acquisition outstanding or (ii) four years after the closing of the Sequel Acquisition.

The foregoing descriptions of the Tracker Registration Rights Agreement and the Sequel Registration Rights Agreement are qualified in their entirety by the terms of the Tracker Registration Rights Agreement and the Sequel Registration Rights Agreement, copies of which are attached to this Current Report on Form 8-K as Exhibit 10.1 and Exhibit 10.2, respectively, and are incorporated herein by reference.

Lock-Up Agreement

In connection with the closing of the Tracker Agreement, on July 20, 2021, Earthstone and EnCap Energy Capital Fund VIII, L.P. (“EnCap Fund VIII”), a member of Tracker, entered into a lock-up agreement (the “EnCap Lock-up Agreement”) providing that EnCap Fund VIII will not transfer any of the shares of Class A Common Stock that it received at the closing of the Tracker Acquisition for a period of 120 days after the closing of the Tracker Acquisition. Also, on July 20, 2021, in

connection with the closing of the Tracker Agreement, Earthstone and ZIP Ventures I, L.L.C. (“ZIP”), a member of Tracker, entered in a lock-up agreement (the “ZIP Lock-up Agreement”) providing that ZIP will not transfer any of the shares of Class A Common Stock that it received at the closing of the Tracker Acquisition for a period of 120 days after the closing of the Tracker Acquisition.

The foregoing descriptions of the EnCap Lock-up Agreement and the ZIP Lock-up Agreement are qualified in their entirety by the terms of the EnCap Lock-up Agreement and the ZIP Lock-up Agreement attached to this Current Report on Form 8-K as Exhibit 10.3 and Exhibit 10.4, respectively, and are incorporated herein by reference.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On July 20, 2021, pursuant to the closing of the Purchase Agreements, among other things, EEH completed the Transaction for the cash consideration of \$67.8 million, net of preliminary and customary purchase price adjustments and remains subject to final post-closing settlement among the parties, and 6.2 million shares of Class A Common Stock, as described above. As of the date of the Tracker Purchase Agreement, EnCap Investments L.P. and its affiliates (“EnCap”) beneficially owned approximately 49.1% of the outstanding voting power of Earthstone. Two of our directors are employed by EnCap. Prior to the closing of the Tracker Acquisition, EnCap owned 49% of the membership interests of Tracker and will receive its proportionate share of the Tracker Purchase Price. The Purchase Agreements and the Transaction were evaluated and approved by the audit committee (the “Audit Committee”) of the board of directors of Earthstone (the “Board”). The Audit Committee, which is composed entirely of independent and disinterested members of the Board, retained an independent financial advisor and legal counsel to assist it in evaluating the Transaction. In approving the Transaction contemplated by the Purchase Agreements, the Audit Committee based its decisions in part on an opinion from its independent financial advisor that the transaction consideration to be paid by the Company in connection with the Transaction was fair, from a financial point of view, to the Company. The independent financial advisor’s analysis was based on, among other things, customary valuation principles of comparable companies, comparable transactions and discounted future cash flows.

Item 3.02 Unregistered Sales of Equity Securities.

The description of the Transaction and the Transaction Shares in Item 2.01 above is incorporated in this Item 3.02 by reference.

The shares of Class A Common Stock issued pursuant to the Purchase Agreements were issued in reliance upon an exemption from the registration requirements of the Securities Act under Section 4(a)(2) as a transaction not involving a public offering and limited to a small number of “accredited investors,” as such term is defined in Regulation D promulgated under the Securities Act, who acquired the shares for investment and not with a view to distribution.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Election of Class III Directors

As described in Item 5.07 of this Current Report on Form 8-K, on July 20, 2021, at the Company’s 2021 annual meeting of stockholders (the “Meeting”), the Company’s stockholders approved the Company’s proposal for the election of three individuals to serve as Class III directors of the Company for three-year terms expiring in 2024.

Appointment of Class III Directors

As described in Item 5.07 of this Current Report on Form 8-K, on July 20, 2021, at the Meeting, the Company’s stockholders approved and adopted an amendment (the “Charter Amendment”) to the Third Amended and Restated Certificate of Incorporation of Earthstone Energy, Inc. to increase the authorized size of the Board from nine members to eleven members. In connection with the Charter Amendment, the Board increased the size of the Board to ten members, increased the number of Class III directors to four directors and appointed Robert J. Anderson, President and Chief Executive Officer of Earthstone as a Class III director. A copy of the Charter Amendment is included as Exhibit 3.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Plan Amendment

As described in Item 5.07 of this Current Report on Form 8-K, on July 20, 2021, at the Meeting, the Company’s stockholders approved and adopted an amendment (the “Plan Amendment”) to the Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan, as amended (the “Plan”), including increasing the shares of Class A Common Stock that may be

issued under the Plan by 2.6 million shares. A copy of the Plan Amendment is included as Exhibit 10.5 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

At the Meeting, the Company’s stockholders approved the Charter Amendment to increase the authorized size of the Board of Directors from nine members to eleven members. A copy of the Charter Amendment as filed with the Secretary of State of the State of Delaware is included as Exhibit 3.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 5.07 Submission of Matters to a Vote of Security Holders.

The Meeting was held on July 20, 2021 at which the Company’s stockholders voted on the proposals identified below.

At the close of business on May 24, 2021, the record date for the Meeting, 44,138,004 shares of the Class A Common Stock and 34,397,877 shares of the Company’s Class B common stock, \$0.001 par value per share (the “Class B Common Stock” and collectively with the Class A Common Stock, the “Common Stock”), were issued and outstanding. Stockholders owning a total of 74,111,460 shares of Class A Common Stock and Class B Common Stock voted at the Meeting, representing approximately 94% of the shares of the Common Stock outstanding as of the record date for the Meeting.

Proposal 1 - Election of Class III Directors

Each of the nominees for Class III director was duly elected by the Company’s stockholders, with votes as follows:

Nominee	For	Withheld	Broker Non-Votes
Jay F. Joliat	71,005,308	616,559	2,489,593
Phillip D. Kramer	62,034,188	9,587,679	2,489,593
Robert L. Zorich	70,648,249	973,618	2,489,593

The Company’s continuing directors after the Meeting include David S. Habachy, Frank A. Lodzinski, Ray Singleton, Wynne M. Snoots, Jr., Brad A. Thielemann and Zachary G. Urban. In addition, Mr. Anderson was appointed to the Board after the Meeting as indicated above under Item 5.02 of this Current Report on Form 8-K.

Proposal 2 - Approval and Adoption of the Amendment to the Third Amended and Restated Certificate of Incorporation of Earthstone Energy, Inc.

The stockholders approved and adopted the Charter Amendment, as set forth below:

For	Against	Abstentions
73,776,493	320,459	14,508

Proposal 3 - Approval and Adoption of the Amendment to the Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan

The stockholders approved and adopted the Plan Amendment, as set forth below:

For	Against	Abstentions	Broker Non-Votes
69,665,368	1,934,617	21,881	2,489,593

Proposal 4 - Ratification of the Selection of Moss Adams LLP as the Company's Independent Registered Public Accounting Firm for 2020

The stockholders ratified of the selection of Moss Adams LLP as the Company’s independent registered public accounting firm for 2021, as set forth below:

For	Against	Abstentions
74,059,778	5,075	46,607

Proposal 5 - Approval of the Issuance of the 6,200,000 shares of Class A Common Stock pursuant to the rules of the New York Stock Exchange

The voting results for all shares of Common Stock with respect to the issuance of the Transaction Shares were as follows:

For	Against	Abstentions	Broker Non-Votes
71,424,596	194,962	2,309	2,489,593

The voting results for all shares of Common Stock not held by EnCap and Earthstone’s executive officers, with respect to the issuance of the Transaction Shares were as follows:

For	Against	Abstentions	Broker Non-Votes
30,233,115	194,962	2,309	2,489,593

Item 7.01 Regulation FD Disclosure.

On July 20, 2021, the Company issued a press release announcing the consummation of the transactions contemplated in the Purchase Agreements. A copy of the press release is furnished as Exhibit 99.1 hereto.

On July 20, 2021, the Company posted to its website a company presentation (the “Presentation Materials”) that management intends to use from time to time. The Company may use the Presentation Materials, possibly with modifications, in presentations to current and potential investors, lenders, creditors, vendors, customers and others with an interest in the Company and its business.

The information contained in the Presentation Materials is summary information that should be considered in the context of the Company’s filings with the SEC and other public announcements that the Company may make by press release or otherwise from time to time. The Presentation Materials speak as of the date of this Current Report on Form 8-K. While the Company may elect to update the Presentation Materials in the future or reflect events and circumstances occurring or existing after the date of this Current Report on Form 8-K, the Company specifically disclaims any obligation to do so. The Presentation Materials are furnished herewith as Exhibit 99.2 to this Current Report on Form 8-K and are incorporated herein by reference.

The information in this Current Report on Form 8-K furnished pursuant to Item 7.01, including Exhibit 99.1 and Exhibit 99.2, shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability under that section, and they shall not be deemed incorporated by reference in any filing under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing. By filing this Current Report on Form 8-K and furnishing this information pursuant to Item 7.01, the Company makes no admission as to the materiality of any information in this Current Report on Form 8-K furnished pursuant to Item 7.01, including Exhibit 99.1 and Exhibit 99.2, that is required to be disclosed solely by Regulation FD.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Audited consolidated and combined financial statements of Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP for the years ended December 31, 2020 and 2019 are attached hereto as Exhibit 99.3 and incorporated herein by reference.

Unaudited interim consolidated and combined financial statements of Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP as of and for the three months ended March 31, 2021 are attached hereto as Exhibit 99.4 and incorporated herein by reference.

Audited statements of revenues and direct operating expenses of the properties of SEG-TRD LLC and SEG-TRD II LLC for the years ended December 31, 2020 and 2019 and the unaudited statements of revenues and direct operating expenses of the properties of SEG-TRD LLC and SEG-TRD II LLC as of and for the three months ended March 31, 2021 are attached hereto as Exhibit 99.5 and incorporated herein by reference.

(b) Pro forma financial information.

Unaudited pro forma condensed combined balance sheet of the Earthstone Energy, Inc. as of March 31, 2021 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020 and the three months ended March 31, 2021 are attached hereto as Exhibit 99.7 and incorporated herein by reference. These unaudited pro forma financial statements give effect to the Transaction on the basis, and subject to the assumptions, set forth in accordance with Article 11 of Regulation S-X.

(d) Exhibits.

The following exhibits are included with this Current Report on Form 8-K:

Exhibit No.	Description
2.1*	Purchase and Sale Agreement dated March 31, 2021, by and among Tracker Resource Development III, LLC, and TRD III Royalty Holdings (TX), LP, as Seller, and Earthstone Energy, Inc. and Earthstone Energy Holdings, LLC, as Buyer (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Registrant with the SEC on April 5, 2021).
2.2*	Purchase and Sale Agreement dated March 31, 2021, by and among SEG-TRD LLC and SEG-TRD II LLC, as Seller, and Earthstone Energy, Inc. and Earthstone Energy Holdings, LLC, as Buyer (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by the Registrant with the SEC on April 5, 2021).
3.1	Certificate of Amendment to the Third Amended and Restated Certificate of Incorporation of Earthstone Energy, Inc. dated July 20, 2021.
10.1	Registration Rights Agreement dated July 20, 2021, by and among Earthstone Energy, Inc., Tracker Resource Development III, LLC, EnCap Energy Capital Fund VIII, L.P., ZIP Ventures I, L.L.C. and Tracker III Holdings, LLC.
10.2	Registration Rights Agreement dated July 20, 2021, by and among Earthstone Energy, Inc., SEG-TRD LLC, and SEG-TRD II LLC.
10.3	Lock-up Agreement dated July 20, 2021, between Earthstone Energy, Inc. and EnCap Energy Capital Fund VIII, L.P.
10.4	Lock-up Agreement dated July 20, 2021, between Earthstone Energy, Inc. and ZIP Ventures I, L.L.C.
10.5	Amendment No. 2 to the Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan dated July 20, 2021.
23.1	Consent of Grant Thornton LLP
23.2	Consents of Plante & Moran, PLLC
99.1	Press Release dated July 20, 2021.
99.2	Presentation Materials dated July 20, 2021.
99.3	Audited consolidated and combined financial statements of Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP for the years ended December 31, 2020 and 2019.
99.4	Unaudited interim consolidated and combined financial statements of Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP as of and for the three months ended March 31, 2021.
99.5	Audited statements of revenues and direct operating expenses of the properties of SEG-TRD I LLC and SEG-TRD II LLC for the years ended December 31, 2020 and 2019 and the unaudited statements of revenues and direct operating expenses of the properties of SEG-TRD I LLC and SEG-TRD II LLC as of and for the three months ended March 31, 2021.
99.6	Audited consolidated financial statements of Independence Resources Holdings, LLC for the years ended December 31, 2020 and 2019.
99.7	Unaudited pro forma condensed combined balance sheet of the Earthstone Energy, Inc. as of March 31, 2021 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020 and the three months ended March 31, 2021.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Certain schedules, annexes or exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K, but will be furnished supplementally to the SEC upon request.

SIGNATURE

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.

EARTHSTONE ENERGY, INC.

Date: July 23, 2021

By: /s/ Tony Oviedo
Tony Oviedo
Executive Vice President - Accounting and Administration

CERTIFICATE OF AMENDMENT TO THE
THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF
EARTHSTONE ENERGY, INC.

Earthstone Energy, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

1. That the Board of Directors of the Corporation has duly adopted resolutions pursuant to Section 242 of the General Corporation Law of the State of Delaware setting forth a proposed amendment to the existing Third Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), and declaring said amendment to be advisable. This amendment amends the Certificate of Incorporation as follows:

The first paragraph of Section 5.1 of the Certificate of Incorporation be amended and restated in its entirety to read as follows:

"5.1 Authority, Number and Election of Directors. The affairs of the Company shall be conducted by the Board of Directors. The number of directors of the Company shall be fixed from time to time in the manner provided in the bylaws of the Company and may be increased or decreased from time to time in the manner provided in the bylaws; provided, however, that, except as otherwise provided in this Article 5, the number of directors shall not be less than three (3) or more than eleven (11). Election of directors need not be by written ballot except and to the extent provided in the bylaws. Commencing with the election of directors at the 2017 Annual Meeting of Stockholders, the directors shall be divided into three classes designated as Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the number of directors constituting the entire Board of Directors. Initial class assignments shall be determined by the Board of Directors. At each annual meeting of stockholders, successors to the directors whose terms expired at that annual meeting shall be elected for a three-year term except that, initially, the director elected to Class I will be subject to election for a three-year term at the Annual Meeting of Stockholders in 2019; the director elected to Class II will be subject to election for a three-year term at the Annual Meeting of Stockholders in 2017; and the director elected to Class III will be subject to election for a three-year term at the Annual Meeting of Stockholders in 2018. If the number of directors changes, any increase or decrease shall be apportioned among the classes such that the number of directors in each class shall remain as nearly equal as possible, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and qualified, subject, however, to such director's prior death, resignation, retirement, disqualification or removal from office."

2. That the requisite stockholders of the Corporation have duly approved said proposed amendment in accordance with the Certificate of Incorporation and Section 242 of the General Corporation Law of the State of Delaware.

* * *

IN WITNESS WHEREOF, the undersigned authorized officer of the Corporation has executed this Certificate of Amendment to the Third Amended and Restated Certificate of Incorporation as of July 20, 2021.

EARTHSTONE ENERGY, INC.

By: /s/ Robert J. Anderson

Name: Robert J. Anderson

Title: President and Chief Executive Officer

[Signature Page to Certificate of Amendment]

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this “Agreement”) is made and entered into as of July 20, 2021, by and among Earthstone Energy, Inc., a Delaware corporation (“Parent”), Tracker Resource Development III, LLC, a Delaware limited liability company (“Tracker”), EnCap Energy Capital Fund VIII, L.P., a Texas limited partnership (“EnCap”), ZIP Ventures I, L.L.C., a Delaware limited liability company (“Zip”), Tracker III Holdings, LLC, a Delaware limited liability company (“Tracker Holdings”) and together with EnCap and Zip, the “Tracker Stockholders”), and the Persons who become party to this Agreement from time to time upon the execution of a Joinder (as defined herein) in accordance with Section 2.10 of this Agreement.

RECITALS

WHEREAS, Parent, Earthstone Energy Holdings, LLC, a Delaware limited liability company (“EEH”), TRD III Royalty Holdings (TX), LP, a Texas limited partnership, and Tracker entered into a Purchase and Sale Agreement, dated as of March 31, 2021 (as amended, the “Purchase Agreement”), under which, among other things, EEH will acquire certain assets from Tracker;

WHEREAS, in connection with the transactions contemplated by the Purchase Agreement, Parent will issue shares of Class A Common Stock of Parent, par value \$0.001 per share (“Class A Common Stock”), to Tracker or the Tracker Stockholders, at the direction of Tracker; and

WHEREAS, in connection with the transactions contemplated by the Purchase Agreement, Parent has agreed to grant to the Holders (as defined herein) certain rights with respect to the registration of the Registrable Securities (as defined herein) on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties hereby agree as follows:

ARTICLE I.
DEFINITIONS

Section 1.01 Definitions. Capitalized terms used herein without definition shall have the meanings given to them in the Purchase Agreement, except that the terms set forth below are used herein as so defined:

“Agreement” has the meaning specified therefor in the introductory paragraph.

“Bold” has the meaning specified therefor in Section 2.02(e) of this Agreement.

“Bold Unitholders” has the meaning specified therefor in Section 2.02(e) of this Agreement.

“Business Day” means a day (other than a Saturday or Sunday) on which commercial banks in Texas are generally open for business.

“Class A Common Stock” has the meaning specified therefor in the recitals of this Agreement.

“Class A Common Stock Price” means, as of any date of determination, the volume weighted average closing price of Class A Common Stock (as reported by the New York Stock Exchange) for the ten trading days immediately preceding such date of determination.

“Class B Common Stock” means the Class B Common Stock of Parent, par value \$0.001 per share.

“Common Stock” means the Class A Common Stock and the Class B Common Stock.

“Effectiveness Deadline” has the meaning specified therefor in Section 2.01(a) of this Agreement.

“Effectiveness Period” has the meaning specified therefor in Section 2.01(b) of this Agreement.

“EnCap” has the meaning specified therefor in the introductory paragraph.

“Equity Securities” means (i) with respect to any Person that is a corporation, any and all shares, interests or equivalents in capital stock of such corporation (whether voting or nonvoting and whether common or preferred), (ii) with respect to any Person that is not a corporation, individual or governmental entity, any and all partnership, membership, limited liability company or other equity interests of such Person that confer on the holder thereof the right to receive a share of the profits and losses of, or the distribution of assets of the issuing Person, and (iii) any and all warrants, rights (including conversion and exchange rights) and options to purchase any security described in the clause (i) or (ii) above. Unless otherwise indicated, the term “Equity Securities” refers to Equity Securities of Parent.

“EEH” has the meaning specified therefor in the recitals of this Agreement.

“EEH A&R LLC Agreement” means that certain First Amended and Restated Limited Liability Company Agreement of EEH (as it may be amended, restated, amended and restated, supplemented or otherwise modified from time to time).

“EEH Units” means units representing limited liability company interests in EEH.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and any successor statute thereto and the rules and regulations of the SEC promulgated thereunder.

“Holder” means a holder of any Registrable Securities.

“Included Registrable Securities” has the meaning specified therefor in Section 2.02(a) of this Agreement.

“Independence” means Independence Resources Holdings, LLC, a Delaware limited liability company.

“Independence Stockholders” has the meaning specified therefor in Section 2.02(c) of this Agreement.

“Investor Holder” means a Holder that is not a natural person.

“Joinder” has the meaning specified therefor in Section 2.10 of this Agreement.

“Launch Date” has the meaning specified therefor in Section 2.02(h) of this Agreement.

“Losses” has the meaning specified therefor in Section 2.08(a) of this Agreement.

“Managing Underwriter(s)” means, with respect to any Underwritten Offering or Overnight Underwritten Offering, the book running lead manager or managers of such Underwritten Offering or Overnight Underwritten Offering.

“Maximum Number of Securities” has the meaning specified in Section 2.02(c).

“Member Distribution” has the meaning specified therefor in Section 2.01(b) of this Agreement.

“Offering Holders” has the meaning specified therefor in Section 2.03(a) of this Agreement.

“Opt-Out Notice” shall have the meaning provided in Section 2.02(a) of this Agreement.

“Overnight Underwritten Offering” has the meaning specified therefor in Section 2.02(b) of this Agreement.

“Parent” has the meaning specified therefor in the introductory paragraph.

“Parity Holders” has the meaning specified therein in Section 2.02(c) of this Agreement.

“Person” shall mean an individual or any corporation, partnership, limited liability company, trust, unincorporated organization, association, joint venture or any other organization or entity, whether or not a legal entity.

“Piggyback Notice” has the meaning specified therein in Section 2.02(a) of this Agreement.

“Piggyback Offering” has the meaning specified therein in Section 2.02(a) of this Agreement.

“Purchase Agreement” has the meaning specified therein in the recitals of this Agreement.

“Registrable Securities” means (i) any Class A Common Stock received by Tracker or the Tracker Stockholders in connection with the transactions contemplated by the Purchase Agreement and (ii) any common Equity Securities of Parent or of any Subsidiary of Parent issued or issuable with respect to the securities referred to in clause (i) above by way of dividend, distribution, split or combination of securities, or any recapitalization, merger, consolidation or other reorganization. For purposes of this Agreement, a Person shall be deemed to be a Holder, and the Registrable Securities shall be deemed to be in existence, whenever such Person has the right to acquire, directly or indirectly, such Registrable Securities (upon conversion or exercise in connection with a transfer of securities or otherwise, but disregarding any restrictions or limitations upon the exercise of such right), whether or not such acquisition has actually been effected, and such Person shall be entitled to exercise the rights of a holder of Registrable Securities hereunder; *provided, however*, a holder of Registrable Securities may only request that Registrable Securities in the form of Equity Securities of Parent that are registered or to be registered as a class under Section 12 of the Exchange Act be registered pursuant to this Agreement.

“Registration Expenses” has the meaning specified therein in Section 2.07(a) of this Agreement.

“Rule 144” shall mean Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” shall mean the Securities Act of 1933, as amended, and any successor statute thereto and the rules and regulations of the SEC promulgated thereunder.

“SEG I” means SEG-TRD LLC, a Delaware limited liability company.

“SEG II” means SEG-TRD II LLC, a Delaware limited liability company.

“Selling Expenses” has the meaning specified therein in Section 2.07(a) of this Agreement.

“Selling Holder” means a Holder who is selling Registrable Securities pursuant to a registration statement.

“Selling Holder Indemnified Person” has the meaning specified therein in Section 2.08(a) of this Agreement.

“Selling Holder Underwriter Registration Statement” has the meaning specified therein in Section 2.04(n) of this Agreement.

“Sequel” means collectively SEG I and SEG II.

“Sequel Stockholders” has the meaning specified therein in Section 2.02(e) of this Agreement.

“Shelf Registration Statement” has the meaning specified therein in Section 2.01(a) of this Agreement.

“Subsidiary” means, with respect to Parent, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of Equity Securities of such Person

entitled (without regard to the occurrence of any contingency) to vote in the election of directors is at the time owned or controlled, directly or indirectly, by Parent, or (ii) if a limited liability company, partnership, association or other business entity, either (x) a majority of the Equity Securities of such Person entitled (without regard to the occurrence of any contingency) to vote in the election of managers, general partners or other oversight board vested with the authority to direct management of such Person is at the time owned or controlled, directly or indirectly, by Parent or (y) Parent or one of its Subsidiaries is the sole manager or general partner of such Person.

“Termination Date” has the meaning specified therefor in Section 3.16.

“Tracker” has the meaning specified therefor in the introductory paragraph.

“Tracker Holdings” has the meaning specified therefor in the introductory paragraph.

“Tracker Stockholders” has the meaning specified therefor in the introductory paragraph.

“Underwritten Offering” means an offering (including an offering pursuant to a Shelf Registration Statement) in which shares of Class A Common Stock are sold to an underwriter on a firm commitment basis for reoffering to the public or an offering that is a “bought deal” with one or more investment banks.

“Underwritten Offering Filing” has the meaning specified therefor in Section 2.02(a) of this Agreement.

“Zip” has the meaning specified therefor in the introductory paragraph.

Section 1.02 Registrable Securities. Any Registrable Security will cease to be a Registrable Security when (a) a registration statement covering such Registrable Security is effective and such Registrable Security has been sold or disposed of pursuant to such effective registration statement; (b) such Registrable Security has been sold pursuant to, and in compliance with, any section of Rule 144 (or any successor rule or regulation to Rule 144 then in force) under the Securities Act; (c) such securities shall have been otherwise transferred, new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by Parent, and subsequent public distribution of such securities shall not require registration under the Securities Act, or (d) such Registrable Security is held by Parent or one of its Subsidiaries.

ARTICLE II. REGISTRATION RIGHTS

Section 2.01 Shelf Registration.

(a) Shelf Registration. Parent shall (i) prepare and file by no later than the date that is 60 days after the date hereof a registration statement under the Securities Act to permit the public resale of the Registrable Securities from time to time, including as permitted by Rule 415 under the Securities Act (or any similar provision then in force) with respect to all of the Registrable Securities (the “Shelf Registration Statement”) and (ii) cause the Shelf Registration Statement to become effective as soon as reasonably practicable thereafter but in no event later than 120 days after the date hereof (the “Effectiveness Deadline”).

(b) The Shelf Registration Statement filed pursuant to Section 2.01(a) shall be on Form S-3 of the SEC if Parent is eligible to use Form S-3 or Form S-1 of the SEC if Parent is not eligible to use Form S-3; *provided, however*, that if a prospectus supplement will be used in connection with the marketing of an Underwritten Offering or Overnight Underwritten Offering from the Shelf Registration Statement and the Managing Underwriter(s) at any time shall notify the Holders in writing that, in the reasonable judgment of such Managing Underwriter(s), inclusion of detailed information to be used in such prospectus supplement is of material importance to the success of the Underwritten Offering or Overnight Underwritten Offering of such Registrable Securities, Parent shall use its reasonable best efforts to include such information in such a prospectus supplement. Subject to Section 2.01(c), Parent will cause the Shelf Registration Statement pursuant to this Section 2.01(b) to be continuously effective (including the filing of additional Shelf Registration Statements, if necessary) under the Securities Act from and after the date it is first declared or becomes effective until the earlier of (i) all Registrable Securities covered by the Shelf Registration Statement have been distributed in the manner set forth and as contemplated in the Shelf Registration Statement or there are no longer any Registrable Securities outstanding and (ii) the Termination Date (the “Effectiveness Period”). The Shelf Registration

Statement when declared effective (including the documents incorporated therein by reference) shall comply as to form with all applicable requirements of the Securities Act and the Exchange Act and shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. As soon as practicable following the date of effectiveness of such Shelf Registration Statement, but in any event within three Business Days of such date, Parent will notify the Selling Holders of the effectiveness of such Shelf Registration Statement.

Notwithstanding anything contained herein to the contrary, Parent hereby agrees that (i) the Shelf Registration Statement filed pursuant to this [Section 2.01\(h\)](#) shall contain all language (including on the prospectus cover sheet, the principal stockholders' table and the plan of distribution) as may be reasonably requested by any Investor Holder to allow for a distribution to, and resale by, the direct and indirect members, stockholders or partners of such Investor Holder (each, a "[Member Distribution](#)") and (ii) Parent shall, at the reasonable request of such Investor Holder if seeking to effect a Member Distribution, file any prospectus supplement or post-effective amendments and otherwise take any action reasonably necessary to include such language, if such language was not included in the initial Registration Statement, or revise such language if deemed reasonably necessary by such Investor Holder to effect any such Member Distribution.

(c) [Delay Rights](#). Notwithstanding anything to the contrary contained herein, Parent may, upon written notice to (x) all Holders, delay the filing of the Shelf Registration Statement or (y) any Selling Holder whose Registrable Securities are included in the Shelf Registration Statement, suspend such Selling Holder's use of any prospectus which is a part of the Shelf Registration Statement (in which event the Selling Holder shall discontinue sales of the Registrable Securities pursuant to the Shelf Registration Statement but such Selling Holder may settle any contracted sales of Registrable Securities) if Parent (i) is pursuing an acquisition, merger, reorganization, disposition or other similar transaction and the Board of Directors of Parent determines in good faith that its ability to pursue or consummate such a transaction would be materially adversely affected by any required disclosure of such transaction in the Shelf Registration Statement or (ii) has experienced some other material non-public event the disclosure of which at such time, in the good faith judgment of the Board of Directors of Parent would materially adversely affect Parent; *provided, however*, in no event shall (A) such filing of the Shelf Registration Statement be delayed under [clauses \(i\) or \(ii\)](#) of this [Section 2.01\(c\)](#) for a period that exceeds 90 days or (B) such Selling Holders be suspended under [clauses \(i\) or \(ii\)](#) of this [Section 2.01\(c\)](#) from selling Registrable Securities pursuant to the Shelf Registration Statement for a period that exceeds an aggregate of 30 days in any 90-day period or 90 days in any 365-day period. Upon disclosure of such information or the termination of the condition described above, Parent shall provide prompt notice to the Selling Holders whose Registrable Securities are included in the Shelf Registration Statement, and shall promptly terminate any suspension of sales it has put into effect and shall take such other actions to permit registered sales of Registrable Securities as contemplated in this Agreement. Parent will only exercise its suspension rights under this [Section 2.01\(c\)](#) if it exercises similar suspension rights with respect to any Parity Holders. If Parent exercises its suspension rights under this [Section 2.01\(c\)](#), then during such suspension period Parent shall not engage in any transaction involving the offer, issuance, sale or purchase of Equity Securities (whether for the benefit of Parent or a third Person), except transactions involving (I) the issuance or purchase of Equity Securities as contemplated by the Parent's employee benefit plans or employee or director arrangements, (II) the issuance of Equity Securities to a seller as consideration for, or to a third party in order to finance or partially finance, the transaction specified under [clause \(i\)](#) of this [Section 2.01\(c\)](#) that was the basis for which the suspension rights under this [Section 2.01\(c\)](#) were exercised or (III) the issuance of Equity Securities to a member of EEH in connection with the redemption of Class B Common Stock and EEH Units pursuant to the EEH A&R LLC Agreement.

Section 2.02 [Piggyback Rights](#).

(a) [Participation](#). Except as provided in [Section 2.02\(h\)](#), if at any time during the Effectiveness Period, Parent proposes to file (i) a shelf registration statement other than the Shelf Registration Statement (in which event Parent covenants and agrees to include thereon a description of the transaction under which the Holders acquired the Registrable Securities), (ii) a prospectus supplement to an effective shelf registration statement, other than the Shelf Registration Statement contemplated by [Section 2.01\(a\)](#) of this Agreement, and Holders could be included without the filing of a post-effective amendment thereto (other than a post-effective amendment that is immediately effective), or (iii) a registration statement, other than a shelf registration statement, in the case of each of [clause \(i\)](#), [\(ii\)](#) or [\(iii\)](#), for the sale of Class A Common Stock in an Underwritten Offering or Overnight Underwritten Offering for its own account and/or the account of another Person, then as soon as practicable but not less than ten Business Days (or one Business Day in the case of an Overnight Underwritten Offering) prior to the filing of (A) any preliminary prospectus supplement relating to such Underwritten Offering pursuant to Rule 424(b) under the Securities Act, (B)

the prospectus supplement relating to such Underwritten Offering pursuant to Rule 424(b) under the Securities Act (if no preliminary prospectus supplement is used) or (C) such registration statement (other than a Shelf Registration Statement), as the case may be (an “Underwritten Offering Filing”), then Parent shall give notice (including, but not limited to, notification by electronic mail) of such proposed Underwritten Offering (a “Piggyback Offering”) to the Holders and such notice shall offer the Holders the opportunity to include in such Underwritten Offering such number of shares of Class A Common Stock (the “Included Registrable Securities”) as each such Holder may request in writing; *provided, however*, that if Parent has been advised by the Managing Underwriter(s) that the inclusion of Registrable Securities for sale for the benefit of the Selling Holders will have a material adverse effect on the price, timing or distribution of the Class A Common Stock in the Underwritten Offering, then the amount of Registrable Securities to be offered for the accounts of Selling Holders shall be determined based on the provisions of Section 2.02(c) of this Agreement. The notice required to be provided in this Section 2.02(a) to each Holder (the “Piggyback Notice”) shall be provided on a Business Day pursuant to Section 3.01 hereof. Each Holder shall then have five Business Days (or one Business Day in the case of an Overnight Underwritten Offering) after the date on which the Holders received the Piggyback Notice to request inclusion of Registrable Securities in the Underwritten Offering. If no request for inclusion from a Holder is received within such period, such Holder shall have no further right to participate in such Underwritten Offering. If, at any time after giving written notice of its intention to undertake an Underwritten Offering and prior to the closing of such Underwritten Offering, the Board of Directors of Parent shall determine for any reason not to undertake or to delay such Underwritten Offering, Parent may, at its election, give written notice of such determination to the Selling Holders and (x) in the case of a determination not to undertake such Underwritten Offering, shall be relieved of its obligation to sell any Included Registrable Securities in connection with such terminated Underwritten Offering, and (y) in the case of a determination to delay such Underwritten Offering, shall be permitted to delay offering any Included Registrable Securities for the same period as the delay in the Underwritten Offering. Any Selling Holder shall have the right to withdraw such Selling Holder’s request for inclusion of such Selling Holder’s Registrable Securities in such offering by giving written notice to Parent of such withdrawal up to and including the time of pricing of such offering. Notwithstanding the foregoing, any Holder may deliver written notice (an “Opt-Out Notice”) to Parent requesting that such Holder not receive notice from Parent of any proposed Underwritten Offering; *provided, however*, that such Holder may later revoke any such Opt-Out Notice in writing. Following receipt of an Opt-Out Notice from a Holder, Parent shall not deliver any notice to such Holder pursuant to this Section 2.02(a), unless such Opt-Out Notice is revoked by such Holder.

Notwithstanding anything contained herein to the contrary, Parent hereby agrees that (i) any shelf registration statement which includes Registrable Securities pursuant to this Section 2.02(a) shall contain all language (including on the prospectus cover sheet, the principal stockholders’ table and the plan of distribution) as may be reasonably requested by such Holder to allow for a Member Distribution and (ii) Parent shall, at the reasonable request of the Holder seeking to effect a Member Distribution, file any prospectus supplement or post-effective amendments and otherwise take any action reasonably necessary to include such language, if such language was not included in the initial registration statement, or revise such language if deemed reasonably necessary by such Holder to effect such Member Distribution.

(b) Overnight Underwritten Offering Piggyback Rights. If, at any time during any Effectiveness Period, Parent proposes to file an Underwritten Offering Filing and such Underwritten Offering is expected to be launched (the “Launch Date”) after the close of trading on one trading day and priced before the open of trading on the next succeeding trading day (such execution format, an “Overnight Underwritten Offering”), then no later than one Business Day after Parent engages one or more Managing Underwriter(s) for the proposed Overnight Underwritten Offering, Parent shall notify (including, but not limited to, notice by electronic mail) the Holders of the pendency of the Overnight Underwritten Offering and such notice shall offer the Holders the opportunity to include in such Overnight Underwritten Offering such number of Registrable Securities as each such Holder may request in writing within two Business Days after such Holder receives such notice. Notwithstanding the foregoing, if Parent has been advised by the Managing Underwriter(s) that the inclusion of Registrable Securities in the Overnight Underwritten Offering for the accounts of the Selling Holders is likely to have a material adverse effect on the price, timing or distribution of the Class A Common Stock being offered in such Overnight Underwritten Offering, then the amount of Registrable Securities to be included in the Overnight Underwritten Offering for the accounts of Selling Holders shall be determined based on the provisions of Section 2.02(c) of this Agreement. If, at any time after giving written notice of its intention to execute an Overnight Underwritten Offering and prior to the closing of such Overnight Underwritten Offering, Parent determines for any reason not to undertake or to delay such Overnight Underwritten Offering, Parent shall give written notice of such determination to the Selling Holders and, (i) in the case of a determination not to undertake such Overnight Underwritten Offering, shall be relieved of its obligation to sell any Registrable Securities held by the Selling Holders in connection with such abandoned or

delayed Overnight Underwritten Offering, and (ii) in the case of a determination to delay such Overnight Underwritten Offering, shall be permitted to delay offering any Registrable Securities held by the Selling Holders for the same period as the delay of the Overnight Underwritten Offering. Any Selling Holder shall have the right to withdraw such Selling Holder's request for inclusion of such Selling Holder's Registrable Securities in such Overnight Underwritten Offering by giving written notice to Parent of such withdrawal at least one Business Day prior to the expected Launch Date. Notwithstanding the foregoing, any Holder may deliver an Opt-Out Notice to Parent requesting that such Holder not receive notice from Parent of any proposed Overnight Underwritten Offering and, following receipt of such an Opt-Out Notice from a Holder, Parent shall not deliver any notice to such Holder pursuant to this [Section 2.02\(b\)](#), unless such Opt-Out Notice is revoked by such Holder.

(c) *Priority of Rights.* In connection with an Underwritten Offering and Overnight Underwritten Offering contemplated by [Section 2.02\(a\)](#) and [Section 2.02\(b\)](#), respectively, if the Managing Underwriter(s) of any such Underwritten Offering or Overnight Underwritten Offering, as the case may be, advises Parent that the total amount of Class A Common Stock that the Selling Holders and any other Persons intend to include in such Underwritten Offering or Overnight Underwritten Offering exceeds the number that can be sold in such Underwritten Offering or Overnight Underwritten Offering without being likely to have a material adverse effect on the price, timing or distribution of the Class A Common Stock offered in such Underwritten Offering or Overnight Underwritten Offering, as the case may be, or the market for the Class A Common Stock, then the Class A Common Stock to be included in such Underwritten Offering or Overnight Underwritten Offering shall include the number of shares of Class A Common Stock that such Managing Underwriter(s) advise Parent can be sold without having such adverse effect (such maximum number of shares of Class A Common Stock, the "[Maximum Number of Securities](#)"), with such number to be allocated (i) first, to Parent, (ii) second, pro rata among all Selling Holders and holders of any other securities of Parent having rights of registration on parity with the Registrable Securities ("[Parity Holders](#)") who have requested participation in such Underwritten Offering or Overnight Underwritten Offering. The pro rata allocations for each such Selling Holder or Parity Holder shall be (A) based on the percentage derived by dividing (1) the number of shares of Class A Common Stock (or other securities) that such Selling Holder or such Parity Holder has requested be included in such Underwritten Offering or Overnight Underwritten Offering by (2) the aggregate number of shares of Class A Common Stock (or other securities) that all Selling Holders and all Parity Holders have requested be included in such Underwritten Offering or Overnight Underwritten Offering or (B) as otherwise agreed by such Selling Holder or Parity Holder, as applicable.

(d) Notwithstanding anything in this [Section 2.02](#) to the contrary, no Holder shall have any right to include any Class A Common Stock in any offering by Parent of Class A Common Stock executed pursuant to any "at the market" program that Parent may have in effect from time to time on or after the date of this Agreement.

(e) The Parent, Tracker and the Tracker Stockholders hereby agree that the rights of (i) Bold Energy Holdings, LLC ("[Bold](#)") and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated May 9, 2017, by and among the Parent, Bold and the Persons identified on Schedule I attached thereto (the "[Bold Unitholders](#)"); (ii) Independence and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated January 7, 2021, by and among Parent, Independence and the Persons identified on Schedule I attached thereto (the "[Independence Stockholders](#)"); and (iii) Sequel and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated July 20, 2021, by and among Parent, Sequel and the Persons identified on Schedule I attached thereto (the "[Sequel Stockholders](#)") shall rank *pari passu* with the rights of Tracker and the Tracker Stockholders to register shares of Class A Common Stock under this Agreement. For purposes of clarity and the avoidance of doubt, the Parent, Tracker and the Tracker Stockholders expressly agree that Bold, the Bold Unitholders, Independence, the Independence Stockholders, Sequel and the Sequel Stockholders shall be Parity Holders for purposes of this [Section 2.02](#).

Section 2.03 [Underwritten Offering.](#)

(a) In the event that one or more Selling Holders holding at least \$10 million (subject to adjustment pursuant to [Section 3.04](#)) of Registrable Securities (the "[Offering Holders](#)") notify Parent in writing of their election to dispose of Registrable Securities under the Shelf Registration Statement pursuant to an Underwritten Offering or Overnight Underwritten Offering, (i) Parent shall give notice (including, but not limited to, notification by electronic mail, with such notice given no later than one Business Day after the engagement by Parent of the Managing Underwriter(s) in the case of a proposed Overnight Underwritten Offering) of such proposed Underwritten Offering or Overnight Underwritten Offering to the other Holders on a Business Day

and such notice shall offer such Holders the opportunity to include in such Underwritten Offering or Overnight Underwritten Offering such number of Registrable Securities as each such Holder may request in writing (within five Business Days in the case of an Underwritten Offering that is not an Overnight Underwritten Offering and within two Business Days after the Holder receives such notice in the case of an Overnight Underwritten Offering) and (ii) Parent will retain Underwriters (which Underwriters shall be reasonably acceptable to the Offering Holders holding a majority of the Registrable Securities to be disposed of pursuant to such Underwritten Offering or Overnight Underwritten Offering) subject to such sale through an Underwritten Offering or Overnight Underwritten Offering, including entering into an underwriting agreement in customary form with the Managing Underwriter(s), which underwriting agreement shall include, among other provisions, indemnities to the effect and to the extent provided in [Section 2.08](#), and will take all reasonable actions as are requested by the Managing Underwriter(s) in order to expedite or facilitate the registration and disposition of the Registrable Securities; *provided, however*, that Parent shall not be required to effect more than one Underwritten Offering or Overnight Underwritten Offering pursuant to this [Section 2.03](#) in any 365-day period. Parent management shall participate in a roadshow or similar marketing effort on behalf of any such Holder or Holders if gross proceeds from such Underwritten Offering or Overnight Underwritten Offering are reasonably expected to exceed \$20 million. No Selling Holder may participate in such Underwritten Offering or Overnight Underwritten Offering unless such Selling Holder agrees to sell its Registrable Securities on the basis provided in such underwriting agreement and completes and executes all questionnaires, powers of attorney, indemnities and other documents reasonably and customarily required under the terms of such underwriting agreement. No Selling Holder shall be required to make any representations or warranties to or agreements with Parent or the underwriters other than representations, warranties or agreements regarding such Selling Holder and its ownership of the securities being registered on its behalf and its intended method of distribution and any other representations required by law. If any Selling Holder disapproves of the terms of an Underwritten Offering or Overnight Underwritten Offering contemplated by this [Section 2.03\(a\)](#), such Selling Holder may elect to withdraw therefrom by notice to Parent and the Managing Underwriter(s); *provided, however*, that such notice of withdrawal must be made at a time up to and including the time of pricing of such offering in order to be effective. No such withdrawal or abandonment shall affect Parent's obligation to pay Registration Expenses.

(b) In connection with an Underwritten Offering and Overnight Underwritten Offering contemplated by [Section 2.03\(a\)](#), respectively, if the Managing Underwriter(s) of any such Underwritten Offering or Overnight Underwritten Offering, as the case may be, advises the Selling Holders that the total amount of Registrable Securities that the Selling Holders intend to include in such Underwritten Offering or Overnight Underwritten Offering exceeds the Maximum Number of Securities, then the Registrable Securities to be included in such Underwritten Offering or Overnight Underwritten Offering shall include the Maximum Number of Securities, with such number to be allocated pro rata among all Selling Holders and all Parity Holders who have requested participation in such Underwritten Offering or Overnight Underwritten Offering. The pro rata allocations for each such Selling Holder or Parity Holder shall be (A) based on the percentage derived by dividing (1) the number of shares of Class A Common Stock (or other securities) that such Selling Holder or such Parity Holder has requested be included in such Underwritten Offering or Overnight Underwritten Offering by (2) the aggregate number of shares of Class A Common Stock (or other securities) that all Selling Holders and all Parity Holders have requested be included in such Underwritten Offering or Overnight Underwritten Offering or (B) as otherwise agreed by such Selling Holder or Parity Holder, as applicable.

Section 2.04 [Registration Procedures](#). In connection with its obligations under this [Article II](#), Parent or the applicable Selling Holder, as the case may be, will, as expeditiously as possible:

(a) prepare and file with the SEC such amendments and supplements to the Shelf Registration Statement and the prospectus used in connection therewith as may be necessary to cause the Shelf Registration Statement to be effective and to keep the Shelf Registration Statement effective for the Effectiveness Period and as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Shelf Registration Statement;

(b) furnish to each Selling Holder (i) as far in advance as reasonably practicable before filing the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any supplement or amendment thereto, upon request, copies of reasonably complete drafts of all such documents proposed to be filed (including furnishing or making available exhibits and each document incorporated by reference therein to the extent then required by the rules and regulations of the SEC), and provide each such Selling Holder the opportunity to object to any information pertaining to such Selling Holder and its plan of distribution that is contained therein and make the corrections reasonably requested by such Selling Holder with respect to such information prior to filing the Shelf Registration Statement or such other registration statement or supplement or amendment

thereto, and (ii) such number of copies of the Shelf Registration Statement or such other registration statement and the prospectus included therein and any supplements and amendments thereto as such Persons may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities covered by the Shelf Registration Statement or such other registration statement;

(c) if applicable, use its reasonable best efforts to register or qualify the Registrable Securities covered by the Shelf Registration Statement or any other registration statement contemplated by this Agreement under the securities or blue sky laws of such jurisdictions as the Selling Holders or, in the case of an Underwritten Offering or Overnight Underwritten Offering, the Managing Underwriter(s) shall reasonably request, *provided* that Parent will not be required to qualify generally to transact business in any jurisdiction where it is not then required to so qualify or to take any action which would subject it to general service of process in any such jurisdiction where it is not then so subject;

(d) promptly notify each Selling Holder and each underwriter of Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of (i) the filing of the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any prospectus or prospectus supplement to be used in connection therewith, or any amendment or supplement thereto, and, with respect to such Shelf Registration Statement or any other registration statement contemplated by this Agreement, when the same has become effective; and (ii) any written comments from the SEC with respect to any filing referred to in clause (i) and any written request by the SEC for amendments or supplements to the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any prospectus or prospectus supplement thereto;

(e) immediately notify each Selling Holder and each underwriter of Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of (i) the happening of any event as a result of which the prospectus or prospectus supplement contained in the Shelf Registration Statement or any other registration statement contemplated by this Agreement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, in the light of the circumstances then existing; (ii) the issuance or threat of issuance by the SEC of any stop order suspending the effectiveness of the Shelf Registration Statement or any other registration statement contemplated by this Agreement, or the initiation of any proceedings for that purpose; or (iii) the receipt by Parent of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the applicable securities or blue sky laws of any jurisdiction. Following the provision of such notice, Parent agrees to as promptly as practicable amend or supplement the prospectus or prospectus supplement or take other appropriate action so that the prospectus or prospectus supplement does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, in the light of the circumstances then existing, and to take such other action as is necessary to remove a stop order, suspension, threat thereof or proceedings related thereto;

(f) furnish to each Selling Holder copies of any and all transmittal letters or other correspondence with the SEC or any other governmental agency or self-regulatory body or other body having jurisdiction (including any domestic or foreign securities exchange) relating to such offering of Registrable Securities;

(g) in the case of an Underwritten Offering or Overnight Underwritten Offering, furnish upon request and addressed to the underwriters and to the Selling Holders, (i) an opinion of counsel for Parent, dated the effective date of the applicable registration statement or the date of any amendment or supplement thereto, and a letter of like kind dated the date of the closing under the underwriting agreement, and (ii) a "comfort letter," dated the effective date of the applicable registration statement or the date of any amendment or supplement thereto and a letter of like kind dated the date of the closing under the underwriting agreement, in each case, signed by the independent public accountants (and, if applicable, independent reserve engineers) who have certified Parent's financial statements included or incorporated by reference into the applicable registration statement, and each of the opinion and the "comfort letter" shall be in customary form and cover substantially the same matters with respect to such registration statement (and the prospectus and any prospectus supplement included therein) as are customarily covered in opinions of issuer's counsel and in accountants' (and, if applicable, independent reserve engineers') letters delivered to the underwriters in Underwritten Offerings or Overnight Underwritten Offerings of securities, and such other matters as such underwriters or Selling Holders may reasonably request;

(h) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least 12 months, but not more than 18 months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder;

(i) make available to the appropriate representatives of the Managing Underwriter(s) and Selling Holders access to such information and Parent personnel as is reasonable and customary to enable such parties to establish a due diligence defense under the Securities Act; *provided* that Parent need not disclose any information to any such representative unless and until such representative has entered into a customary confidentiality agreement with Parent;

(j) cause all Registrable Securities registered pursuant to this Agreement to be listed on each securities exchange or nationally recognized quotation system on which similar securities issued by Parent are then listed or quoted;

(k) use its reasonable best efforts to cause the Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of Parent to enable the Selling Holders to consummate the disposition of such Registrable Securities;

(l) provide a transfer agent and registrar for all Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(m) enter into customary agreements and take such other actions as are reasonably requested by the Selling Holders or the underwriters, if any, in order to expedite or facilitate the disposition of such Registrable Securities;

(n) if reasonably required by Parent's transfer agent, Parent shall promptly deliver any customary authorizations, certificates and directions required by the transfer agent (and use commercially reasonable efforts to promptly deliver any other such authorizations, certificates and directions reasonably required by the transfer agent) which authorize and direct the transfer agent to transfer such Registrable Securities without legend, in accordance with applicable law, upon sale by the Holder of such Registrable Securities under the Registration Statement;

(o) if any Selling Holder could reasonably be deemed to be an "underwriter," as defined in Section 2(a)(11) of the Securities Act, in connection with the registration statement in respect of any registration of Registrable Securities of such Selling Holder pursuant to this Agreement, and any amendment or supplement thereof (any such registration statement or amendment or supplement, a "Selling Holder Underwriter Registration Statement"), then, until the Effectiveness Period ends, (i) cooperate with such Selling Holder in allowing such Selling Holder to conduct customary "underwriter's due diligence" with respect to Parent and satisfy its obligations in respect thereof; (ii) until the Effectiveness Period ends, at any Selling Holder request, furnish to such Selling Holder, on the date of the effectiveness of any Selling Holder Underwriter Registration Statement and thereafter no more often than on a quarterly basis, (A) a letter, dated such date, from Parent's independent certified public accountants (and, if applicable, independent reserve engineers) in form and substance as is customarily given by independent certified public accountants (and, if applicable, independent reserve engineers) to underwriters in an underwritten public offering, addressed to such Selling Holder, (B) an opinion, dated as of such date, of counsel representing Parent for purposes of such Selling Holder Underwriter Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, including a standard "10b-5" opinion for such offering, addressed to such Selling Holder and (C) a standard officer's certificate from the Chief Executive Officer and Chief Financial Officer of Parent addressed to such Selling Holder; and (iii) permit legal counsel of such Selling Holder to review and comment upon any Selling Holder Underwriter Registration Statement at least five Business Days prior to its filing with the SEC and all amendments and supplements to any such Selling Holder Underwriter Registration Statement within a reasonable number of days prior to their filing with the SEC and not file any Selling Holder Underwriter Registration Statement or amendment or supplement thereto in a form to which such Selling Holder's legal counsel reasonably objects;

(p) each Selling Holder, upon receipt of notice from Parent of the happening of any event of the kind described in subsection (d) of this Section 2.04, shall forthwith discontinue disposition of the Registrable Securities until such Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by subsection (d) of this Section 2.04 or until it is

advised in writing by Parent that the use of the prospectus may be resumed, and has received copies of any additional or supplemental filings incorporated by reference in the prospectus, and, if so directed by Parent, such Selling Holder will, or will request the Managing Underwriter(s), if any, to deliver to Parent (at Parent's expense) all copies in their possession or control, other than permanent file copies then in such Selling Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice; and

(q) if requested by a Selling Holder, (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as such Selling Holder reasonably requests to be included therein relating to the sale and distribution of Registrable Securities, including information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement.

Notwithstanding anything to the contrary in this Section 2.04, Parent will not name a Holder as an underwriter (as defined in Section 2(a)(11) of the Securities Act) in any Registration Statement or Selling Holder Underwriter Registration Statement, as applicable, without such Holder's consent. If the Parent determines, upon advice of counsel, that Parent is required to name any Holder as an underwriter (as defined in Section 2(a)(11) of the Securities Act), and such Holder does not consent thereto, then such Holder's Registrable Securities shall not be included on the applicable Registration Statement and Parent shall have no further obligations hereunder with respect to Registrable Securities held by such Holder with respect to such Registration Statement or Selling Holder Registration Statement unless such Holder has not had an opportunity to conduct customary underwriter's due diligence as set forth in Section 2.04(e) with respect to Parent at the time such Holder's consent is sought.

Section 2.05 Cooperation by Holders. Parent shall have no obligation to include in the Shelf Registration Statement Class A Common Stock of a Holder who has failed to timely furnish such information which, in the opinion of counsel to Parent, is reasonably required to be furnished or confirmed in order for the registration statement or prospectus supplement thereto, as applicable, to comply with the Securities Act.

Section 2.06 Restrictions on Public Sale by Holders of Registrable Securities. Each Holder of Registrable Securities who is included in the Shelf Registration Statement agrees not to effect any public sale or distribution of the Registrable Securities for a period of up to 60 days following completion of an Underwritten Offering or Overnight Underwritten Offering of Equity Securities by Parent, *provided* that (i) Parent gives written notice to such Holder of the date of the commencement and termination of such period with respect to any such Underwritten Offering or Overnight Underwritten Offering and (ii) the duration of the foregoing restrictions shall be no longer than the duration of the shortest restriction generally imposed by the underwriters of such public sale or distribution on Parent or on the officers or directors or any other affiliate of Parent or unitholder of EEH on whom a restriction is imposed; *provided further*, that this Section 2.06 shall not apply to a Holder that holds less than 3% of the outstanding Common Stock.

Section 2.07 Expenses.

(a) Certain Definitions. "Registration Expenses" means all expenses incident to Parent's performance under or compliance with this Agreement to effect the registration of Registrable Securities on the Shelf Registration Statement, an Underwritten Offering or Overnight Underwritten Offering covered under this Agreement, and/or the disposition of such securities, including, without limitation, all registration, filing, securities exchange listing and NYSE fees, all registration, filing, qualification and other fees and expenses of complying with securities or blue sky laws, fees of the Financial Industry Regulatory Authority, fees of transfer agents and registrars, all word processing, duplicating and printing expenses, and the fees and disbursements of counsel and independent public accountants for Parent, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance; *provided, however*, that "Registration Expenses" shall not include any Selling Expenses. "Selling Expenses" means all (i) transfer taxes allocable to the sale of the Registrable Securities; (ii) fees and expenses of counsel engaged by the Holders; and (iii) commissions and discounts of brokers, dealers and underwriters.

(b) Expenses. Parent will pay all Registration Expenses as determined in good faith, including, in the case of an Underwritten Offering or Overnight Underwritten Offering, whether or not any sale is made pursuant to the Shelf Registration Statement. Each Selling Holder shall pay its pro rata share of all Selling Expenses in connection with any sale of Registrable Securities hereunder.

Section 2.08 Indemnification

(a) By Parent. In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, Parent will indemnify and hold harmless each Selling Holder thereunder, its affiliates that own Registrable Securities and their respective directors and officers and each underwriter pursuant to the applicable underwriting agreement with such underwriter and each Person, if any, who controls such Selling Holder or underwriter within the meaning of the Securities Act and the Exchange Act and its directors and officers (collectively, the “Selling Holder Indemnified Persons”), against any losses, claims, damages, expenses or liabilities (including reasonable attorneys’ fees and expenses) (collectively, “Losses”), joint or several, to which such Selling Holder or underwriter or controlling Person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in (which, for the avoidance of doubt, includes documents incorporated by reference in) the Shelf Registration Statement or any other registration statement contemplated by this Agreement, any preliminary prospectus, free writing prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading or arise out of or are based upon a Selling Holder being deemed to be an “underwriter,” as defined in Section 2(a)(11) of the Securities Act, in connection with the registration statement in respect of any registration of Parent’s securities, and will reimburse each such Selling Holder Indemnified Person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Loss or actions or proceedings; *provided, however*, that Parent will not be liable in any such case if and to the extent that any such Loss arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in strict conformity with information furnished by such Selling Holder Indemnified Person in writing specifically for use in the Shelf Registration Statement or such other registration statement or any prospectus contained therein or any amendment or supplement thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Selling Holder or any such director, officer or controlling Person, and shall survive the transfer of such securities by such Selling Holder.

(b) By Each Selling Holder. Each Selling Holder agrees severally and not jointly to indemnify and hold harmless Parent, its directors and officers, and each Person, if any, who controls Parent within the meaning of the Securities Act or of the Exchange Act against any Losses to the same extent as the foregoing indemnity from Parent to the Selling Holders, but only with respect to information regarding such Selling Holder furnished in writing by or on behalf of such Selling Holder expressly for inclusion in the Shelf Registration Statement or any prospectus contained therein or any amendment or supplement thereof relating to the Registrable Securities; *provided, however*, that the liability of each Selling Holder shall not be greater in amount than the dollar amount of the proceeds received by such Selling Holder (net of Selling Expenses) from the sale of the Registrable Securities giving rise to such indemnification.

(c) Notice. Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but such indemnified party’s failure to so notify the indemnifying party shall not relieve the indemnifying party from any liability which it may have to any indemnified party other than under this Section 2.08. The indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such indemnified party and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 2.08 for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; *provided, however*, that, (i) if the indemnifying party has failed to assume the defense and employ counsel reasonably acceptable to the indemnified party or (ii) if the defendants in any such action include both the indemnified party and the indemnifying party and counsel to the indemnified party shall have concluded that there may be reasonable defenses available to the indemnified party that are different from or

additional to those available to the indemnifying party, or if the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, then the indemnified party shall have the right to select a separate counsel and to assume such legal defense and otherwise to participate in the defense of such action, with the reasonable expenses and fees of one such separate counsel (firm) and other reasonable expenses related to such participation to be reimbursed by the indemnifying party as incurred. Notwithstanding any other provision of this Agreement, no indemnified party shall settle any action brought against it with respect to which it is entitled to indemnification hereunder without the consent of the indemnifying party, unless the settlement thereof imposes no liability or obligation on, and includes a complete and unconditional release from all liability of, the indemnifying party.

(d) Contribution. If the indemnification provided for in this [Section 2.08](#) is held by a court or government agency of competent jurisdiction to be unavailable to Parent or any Selling Holder or is insufficient to hold it harmless in respect of any Losses, then each such indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such Losses as between Parent, on the one hand, and such Selling Holder, on the other hand, in such proportion as is appropriate to reflect the relative fault of Parent, on the one hand, and of such Selling Holder, on the other, in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations; *provided, however*, that in no event shall such Selling Holder be required to contribute an aggregate amount in excess of the dollar amount of proceeds (net of Selling Expenses) received by such Selling Holder from the sale of Registrable Securities giving rise to such indemnification. The relative fault of Parent, on the one hand, and each Selling Holder, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact has been made by, or relates to, information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this paragraph were to be determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this paragraph. The amount paid by an indemnified party as a result of the Losses referred to in the first sentence of this paragraph shall be deemed to include any legal and other expenses reasonably incurred by such indemnified party in connection with investigating or defending any Loss which is the subject of this paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who is not guilty of such fraudulent misrepresentation.

(e) Other Indemnification. The provisions of this [Section 2.08](#) shall be in addition to any other rights to indemnification or contribution which an indemnified party may have pursuant to law, equity, contract or otherwise.

Section 2.09 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the SEC that may permit the sale of the Registrable Securities to the public without registration, Parent agrees to use its reasonable best efforts to:

(a) make and keep public information regarding Parent available, as those terms are understood and defined in Rule 144 (or any successor rule or regulation to Rule 144 then in force) of the Securities Act, at all times from and after the date of this Agreement;

(b) file with the SEC in a timely manner all reports and other documents required of Parent under the Securities Act and the Exchange Act at all times from and after the date of this Agreement;

(c) so long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request a copy of the most recent annual or quarterly report of Parent, and such other reports and documents so filed as such Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing such Holder to sell any such securities without registration; and

(d) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable the Holders to sell Registrable Securities without registration under the Securities Act within the limitations of the exemption provided by Rule 144 (or any successor rule or regulation to Rule 144 then in force) under the Securities Act.

Section 2.10 Transfer or Assignment of Registration Rights. The rights to cause Parent to include Registrable Securities in a Shelf Registration Statement may be transferred or assigned by any Holder to one or more transferee(s) or assignee(s) of such Registrable Securities; *provided that* (a) Parent is given written notice prior to any said transfer or assignment, stating the name and address of each such transferee and identifying the securities with respect to which such registration rights are being transferred or assigned, (b) each such transferee or assignee assumes in writing responsibility for its portion of the obligations of such Holder under this Agreement by executing a Joinder in the form attached hereto as Exhibit A (the "Joinder"), and (c) unless any such transferee or assignee is (i) a Tracker Stockholder or (ii) an affiliate of such Holder or any other Tracker Stockholder and after such transfer or assignment, continues to be an affiliate of such Holder or any other Tracker Stockholder, the amount of Registrable Securities transferred or assigned to such transferee or assignee shall represent at least \$10 million of Registrable Securities (determined by multiplying the number of Registrable Securities owned by the Class A Common Stock Price); *provided further* that nothing in this Section 2.10 shall limit an Investor Holder's rights set forth in Section 2.01(b) in connection with a Member Distribution.

Section 2.11 Information by Holder. Any Holder or Holders of Registrable Securities included in any registration statement shall promptly furnish to Parent such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as Parent may reasonably request and as shall be required in connection with any registration, qualification or compliance referred to herein.

Section 2.12 Limitation on Subsequent Registration Rights. From and after the date of this Agreement, Parent shall not, without the prior written consent of the Holders, enter into any agreement with any current or future holder of any securities of Parent that would allow such current or future holder to require Parent to include securities in any Piggyback Offering by Parent for its own account on a basis that is superior in any material respect to the Piggyback Offering rights granted to the Holders pursuant to Section 2.02 of this Agreement.

ARTICLE III. MISCELLANEOUS

Section 3.01 Communications. All notices and other communications provided for hereunder shall be in writing and shall be given by hand delivery, electronic mail, registered or certified mail, return receipt requested, regular mail, facsimile or air courier guaranteeing overnight delivery to the following addresses:

if to Parent to:

Earthstone Energy, Inc.
1400 Woodloch Forest Drive, Suite 300
The Woodlands, Texas 77380
Attention: Robert J. Anderson, President and Chief Executive Officer
Facsimile: (832) 823-0478
e-mail: robert@earthstoneenergy.com

with a copy to:

Jones & Keller, P.C.
1675 Broadway, 26th Floor
Denver, Colorado 80202
Attention: Reid A. Godbolt
Adam J. Fogoros
Facsimile: (303) 573-8133
e-mail: rgodbolt@joneskeller.com
adamf@joneskeller.com

if to Tracker to:

Tracker Resource Development III, LLC

1001 17th Street, Suite 1000
Denver, Colorado 80202
Attention: Jeffrey R. Vaughan
e-mail: jeffv@tracker-resources.com

with copies (which shall not constitute notice) to:

Davis Graham & Stubbs LLP
1550 17th Street, Suite 500
Denver, Colorado 80202
Attention: Sam Niebrugge
e-mail: sam.niebrugge@dgsllaw.com

or, if to (x) a Tracker Stockholder, to the address for such Tracker Stockholder provided to Parent in accordance with this Section 3.01, and (y) a transferee of a Holder, to the transferee at the addresses provided pursuant to Section 2.10 above. All notices and communications shall be deemed to have been duly given: (i) at the time delivered by hand, if personally delivered; (ii) when notice is sent to the sender that the recipient has read the message, if sent by electronic mail; (iii) upon actual receipt if sent by registered or certified mail, return receipt requested, or regular mail, if mailed; (iv) upon actual receipt if received during recipient's normal business hours, or at the beginning of the recipient's next Business Day if not received during recipient's normal business hours, if sent by facsimile and confirmed by appropriate answer-back; and (v) upon actual receipt when delivered to an air courier guaranteeing overnight deliver.

Section 3.02 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties, including subsequent Holders of Registrable Securities to the extent permitted herein.

Section 3.03 Assignment of Rights. All or any portion of the rights and obligations of the Holders under this Agreement may be transferred or assigned by the Holders only in accordance with Section 2.10 of this Agreement. Parent may not transfer or assign any portion of its rights and obligations under this Agreement without the prior written consent of the Holders of at least a majority of the outstanding Registrable Securities.

Section 3.04 Recapitalization, Exchanges, etc. Affecting the Class A Common Stock. The provisions of this Agreement shall apply to the full extent set forth herein with respect to any and all shares of capital stock of Parent or any successor or assign of Parent (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in exchange for or in substitution of, the Registrable Securities, and shall be appropriately adjusted for combinations, recapitalizations and the like occurring after the date of this Agreement.

Section 3.05 Change of Control. Parent shall not merge, consolidate or combine with any other Person unless the agreement providing for such merger, consolidation or combination expressly provides for the continuation of the registration rights specified in this Agreement with respect to the Registrable Securities or other Equity Securities issued pursuant to such merger, consolidation or combination.

Section 3.06 Specific Performance. Damages in the event of breach of this Agreement by a party hereto may be difficult, if not impossible, to ascertain, and it is therefore agreed that each such Person, in addition to and without limiting any other remedy or right it may have, will have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach, and enforcing specifically the terms and provisions hereof, and each of the parties hereto hereby waives any and all defenses it may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief. The existence of this right will not preclude any such Person from pursuing any other rights and remedies at law or in equity which such Person may have.

Section 3.07 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed

and delivered by facsimile signature or other electronic means and in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 3.08 Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

Section 3.09 Governing Law. This Agreement is governed by and construed and enforced in accordance with the Laws of the State of Delaware, without giving effect to any conflicts of law principles that would result in the application of any Law other than the Law of the State of Delaware.

Section 3.10 Jurisdiction. Each of the parties irrevocably agrees that any legal action or proceeding with respect to this Agreement and the rights and obligations arising hereunder shall be brought and determined exclusively in the Court of Chancery of the State of Delaware or, if such Court does not have subject matter jurisdiction, to the Superior Court of the State of Delaware or, if jurisdiction is vested exclusively in the Federal courts of the United States, the Federal courts of the United States sitting in the State of Delaware, and any appellate court from any such state or Federal court, and hereby irrevocably and unconditionally agree that all claims with respect to any such claim shall be heard and determined in such Delaware court or in such Federal court, as applicable. The parties agree that a final judgment in any such claim is conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by law.

Section 3.11 WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH PARTY HEREBY IRREVOCABLY WAIVES AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING IN WHOLE OR IN PART UNDER, RELATED TO, BASED ON, OR IN CONNECTION WITH, THIS AGREEMENT OR THE SUBJECT MATTER HEREOF, WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER SOUNDING IN TORT OR CONTRACT OR OTHERWISE. ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 3.11 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

Section 3.12 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting or impairing the validity or enforceability of such provision in any other jurisdiction.

Section 3.13 Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the rights granted by Parent set forth herein. This Agreement and the Purchase Agreement supersede all prior agreements and understandings between the parties with respect to such subject matter.

Section 3.14 Amendment. This Agreement may be amended only by means of a written amendment signed by Parent and the Holders of a majority of the then outstanding Registrable Securities; *provided, however*, that no such amendment shall materially and adversely affect the rights of any Holder hereunder without the consent of such Holder.

Section 3.15 No Presumption. In the event any claim is made by a party relating to any conflict, omission, or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular party or its counsel.

Section 3.16 Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Agreement after the fourth anniversary of the date hereof (the "Termination Date").

Section 3.17 Obligations Limited to Parties to Agreement. Each of the Parties hereto covenants, agrees and acknowledges that no Person other than the Holders (and their transferees or assignees) and Parent shall have any obligation hereunder and that, notwithstanding that one or more of the Holders may be a corporation, partnership or limited liability

company, no recourse under this Agreement shall be had against any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any Holder or any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any of the foregoing, whether by the enforcement of any assessment or by any legal or equitable proceeding, or by virtue of any applicable law, it being expressly agreed and acknowledged that no personal liability whatsoever shall attach to, be imposed on or otherwise be incurred by any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any Holder or any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any of the foregoing, as such, for any obligations of a Holder under this Agreement or for any claim based on, in respect of or by reason of such obligation or its creation.

Section 3.18 Independent Nature of Each Holder’s Obligations. The obligations of each Holder under this Agreement are several and not joint with the obligations of any other Holder, and no Holder shall be responsible in any way for the performance of the obligations of any other Holder under this Agreement. Nothing contained herein, and no action taken by any Holder pursuant thereto, shall be deemed to constitute the Holders as a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Holders are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement. Each Holder shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

Section 3.19 Further Assurances. Parent and each of the Holders shall cooperate with each other and shall take such further action and shall execute and deliver such further documents as may be reasonably requested by any other party in order to carry out the provisions and purposes of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto execute this Agreement, effective as of the date first above written.

EARTHSTONE ENERGY, INC.

By: /s/ Robert J. Anderson
Name: Robert J. Anderson
Title: President and Chief Executive Officer

TRACKER RESOURCE DEVELOPMENT III, LLC

By: /s/ Jeffrey R. Vaughan
Name: Jeffrey R. Vaughan
Title: President and Chief Executive Officer

ENCAP ENERGY CAPITAL FUND VIII, L.P.

By: /s/ D. Martin Phillips
Name: D. Martin Phillips
Title: Senior Managing Director

ZIP VENTURES I, L.L.C.

By: /s/ Bryan R. Begley
Name: Brian R. Begley
Title: Managing Director

ZIP VENTURES I, L.L.C.

By: /s/ Daniel Penrod
Name: Daniel Penrod
Title: Managing Director

TRACKER III HOLDINGS, LLC

By: /s/ Jeffrey R. Vaughan
Name: Jeffrey R. Vaughan
Title: President and Chief Executive Officer

EXHIBIT A
FORM OF JOINDER AGREEMENT
[DATE]

The undersigned hereby absolutely, unconditionally and irrevocably agrees to be bound by the terms and provisions of that certain Registration Rights Agreement, dated as of July 20, 2021, by and among Earthstone Energy, Inc., a Delaware corporation, Tracker Resource Development III, LLC, a Delaware limited liability company, EnCap Energy Capital Fund VIII, L.P., a Texas limited partnership, ZIP Ventures I, L.L.C., a Delaware limited liability company, Tracker III Holdings, LLC, a Delaware limited liability company, and the Persons who become party thereto from time to time (the "Registration Rights Agreement"), and to join in the Registration Rights Agreement as a Tracker Stockholder with the same force and effect as if the undersigned were originally a party thereto.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed this Joinder Agreement as of [DATE].

Name:

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this “Agreement”) is made and entered into as of July 20, 2021, by and among Earthstone Energy, Inc., a Delaware corporation (“Parent”), SEG-TRD LLC, a Delaware limited liability company (“SEG I”), SEG-TRD II LLC, a Delaware limited liability company (“SEG II”) and together with SEG I, “Sequel”), and the Persons identified on Schedule I hereto who become party to this Agreement from time to time upon the execution of a Joinder (as defined herein) in accordance with Section 2.10 of this Agreement (collectively, the “Sequel Stockholders”).

RECITALS

WHEREAS, Parent, Earthstone Energy Holdings, LLC, a Delaware limited liability company (“EEH”), and Sequel entered into a Purchase and Sale Agreement, dated as of March 31, 2021 (the “Purchase Agreement”), under which, among other things, EEH will acquire certain assets from Sequel;

WHEREAS, in connection with the transactions contemplated by the Purchase Agreement, Sequel will receive shares of Class A Common Stock of Parent, par value \$0.001 per share (“Class A Common Stock”); and

WHEREAS, in connection with the transactions contemplated by the Purchase Agreement, Parent has agreed to grant to the Holders (as defined herein) certain rights with respect to the registration of the Registrable Securities (as defined herein) on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties hereby agree as follows:

ARTICLE I.
DEFINITIONS

Section 1.01 Definitions. Capitalized terms used herein without definition shall have the meanings given to them in the Purchase Agreement, except that the terms set forth below are used herein as so defined:

“Agreement” has the meaning specified therefor in the introductory paragraph.

“Bold” has the meaning specified therefor in Section 2.02(e) of this Agreement.

“Bold Unitholders” has the meaning specified therefor in Section 2.02(e) of this Agreement.

“Business Day” means a day (other than a Saturday or Sunday) on which commercial banks in Texas are generally open for business.

“Class A Common Stock” has the meaning specified therefor in the recitals of this Agreement.

“Class A Common Stock Price” means, as of any date of determination, the volume weighted average closing price of Class A Common Stock (as reported by the New York Stock Exchange) for the ten trading days immediately preceding such date of determination.

“Class B Common Stock” means the Class B Common Stock of Parent, par value \$0.001 per share.

“Effectiveness Deadline” has the meaning specified therefor in Section 2.01(a) of this Agreement.

“Effectiveness Period” has the meaning specified therefor in Section 2.01(b) of this Agreement.

“Equity Securities” means (i) with respect to any Person that is a corporation, any and all shares, interests or equivalents in capital stock of such corporation (whether voting or nonvoting and whether common or preferred), (ii) with respect to any Person that is not a corporation, individual or governmental entity, any and all partnership, membership, limited liability company or other equity interests of such Person that confer on the holder thereof the right to receive a share of the profits and losses of, or the distribution of assets of the issuing Person, and (iii) any and all warrants, rights (including conversion and exchange rights) and options to purchase any security described in the clause (i) or (ii) above. Unless otherwise indicated, the term “Equity Securities” refers to Equity Securities of Parent.

“EEH” has the meaning specified therefor in the recitals of this Agreement.

“EEH A&R LLC Agreement” means that certain First Amended and Restated Limited Liability Company Agreement of EEH (as it may be amended, restated, amended and restated, supplemented or otherwise modified from time to time).

“EEH Units” means units representing limited liability company interests in EEH.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and any successor statute thereto and the rules and regulations of the SEC promulgated thereunder.

“Holder” means a holder of any Registrable Securities.

“Included Registrable Securities” has the meaning specified therefor in Section 2.02(a) of this Agreement.

“Independence” means Independence Resources Holdings, LLC, a Delaware limited liability company.

“Independence Stockholder” has the meaning specified therefor in Section 2.02(c) of this Agreement.

“Investor Holder” means a Holder that is not a natural person.

“Joinder” has the meaning specified therefor in Section 2.10 of this Agreement.

“Launch Date” has the meaning specified therefor in Section 2.02(b) of this Agreement.

“Losses” has the meaning specified therefor in Section 2.08(a) of this Agreement.

“Managing Underwriter(s)” means, with respect to any Underwritten Offering or Overnight Underwritten Offering, the book running lead manager or managers of such Underwritten Offering or Overnight Underwritten Offering.

“Maximum Number of Securities” has the meaning specified in Section 2.02(c).

“Member Distribution” has the meaning specified therefor in Section 2.01(b) of this Agreement.

“Offering Holders” has the meaning specified therefor in Section 2.03(a) of this Agreement.

“Opt-Out Notice” shall have the meaning provided in Section 2.02(a) of this Agreement.

“Overnight Underwritten Offering” has the meaning specified therefor in Section 2.02(b) of this Agreement.

“Parent” has the meaning specified therefor in the introductory paragraph.

“Parity Holders” has the meaning specified therefor in Section 2.02(c) of this Agreement.

“Person” shall mean an individual or any corporation, partnership, limited liability company, trust, unincorporated organization, association, joint venture or any other organization or entity, whether or not a legal entity.

“Piggyback Notice” has the meaning specified therefor in Section 2.02(a) of this Agreement.

“Piggyback Offering” has the meaning specified therein in Section 2.02(a) of this Agreement.

“Purchase Agreement” has the meaning specified therein in the recitals of this Agreement.

“Registrable Securities” means (i) any Class A Common Stock received by Sequel in connection with the transactions contemplated by the Purchase Agreement and (ii) any common Equity Securities of Parent or of any Subsidiary of Parent issued or issuable with respect to the securities referred to in clause (i) above by way of dividend, distribution, split or combination of securities, or any recapitalization, merger, consolidation or other reorganization. For purposes of this Agreement, a Person shall be deemed to be a Holder, and the Registrable Securities shall be deemed to be in existence, whenever such Person has the right to acquire, directly or indirectly, such Registrable Securities (upon conversion or exercise in connection with a transfer of securities or otherwise, but disregarding any restrictions or limitations upon the exercise of such right), whether or not such acquisition has actually been effected, and such Person shall be entitled to exercise the rights of a holder of Registrable Securities hereunder; *provided, however*, a holder of Registrable Securities may only request that Registrable Securities in the form of Equity Securities of Parent that are registered or to be registered as a class under Section 12 of the Exchange Act be registered pursuant to this Agreement.

“Registration Expenses” has the meaning specified therein in Section 2.07(a) of this Agreement.

“Rule 144” shall mean Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” shall mean the Securities Act of 1933, as amended, and any successor statute thereto and the rules and regulations of the SEC promulgated thereunder.

“SEG I” has the meaning specified therein in the introductory paragraph.

“SEG II” has the meaning specified therein in the introductory paragraph.

“Selling Expenses” has the meaning specified therein in Section 2.07(a) of this Agreement.

“Selling Holder” means a Holder who is selling Registrable Securities pursuant to a registration statement.

“Selling Holder Indemnified Person” has the meaning specified therein in Section 2.08(a) of this Agreement.

“Selling Holder Underwriter Registration Statement” has the meaning specified therein in Section 2.04(n) of this Agreement.

“Sequel” has the meaning specified therein in the introductory paragraph.

“Sequel Stockholders” has the meaning specified therein in the introductory paragraph.

“Shelf Registration Statement” has the meaning specified therein in Section 2.01(a) of this Agreement.

“Subsidiary” means, with respect to Parent, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of Equity Securities of such Person entitled (without regard to the occurrence of any contingency) to vote in the election of directors is at the time owned or controlled, directly or indirectly, by Parent, or (ii) if a limited liability company, partnership, association or other business entity, either (x) a majority of the Equity Securities of such Person entitled (without regard to the occurrence of any contingency) to vote in the election of managers, general partners or other oversight board vested with the authority to direct management of such Person is at the time owned or controlled, directly or indirectly, by Parent or (y) Parent or one of its Subsidiaries is the sole manager or general partner of such Person.

“Termination Date” has the meaning specified therein in Section 3.18 of this Agreement.

“Tracker” means Tracker Resource Development, LLC, a Delaware limited liability company.

“Tracker Stockholders” has the meaning specified therein in Section 2.02(c) of this Agreement.

“Underwritten Offering” means an offering (including an offering pursuant to a Shelf Registration Statement) in which shares of Class A Common Stock are sold to an underwriter on a firm commitment basis for reoffering to the public or an offering that is a “bought deal” with one or more investment banks.

“Underwritten Offering Filing” has the meaning specified therein in Section 2.02(a) of this Agreement.

Section 1.02 Registrable Securities. Any Registrable Security will cease to be a Registrable Security when (a) a registration statement covering such Registrable Security is effective and such Registrable Security has been sold or disposed of pursuant to such effective registration statement; (b) such Registrable Security has been disposed of pursuant to any section of Rule 144 (or any successor rule or regulation to Rule 144 then in force) under the Securities Act; (c) such securities shall have been otherwise transferred, new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by Parent and subsequent public distribution of such securities shall not require registration under the Securities Act or (d) such Registrable Security is held by Parent or one of its Subsidiaries.

ARTICLE II. REGISTRATION RIGHTS

Section 2.01 Shelf Registration.

(a) Shelf Registration. Parent shall (i) prepare and file, as soon as reasonably practicable after the date hereof but in no event later than the date that is 30 days after the date hereof, a registration statement under the Securities Act to permit the public resale of the Registrable Securities from time to time, including as permitted by Rule 415 under the Securities Act (or any similar provision then in force) with respect to all of the Registrable Securities (the “Shelf Registration Statement”) and (ii) cause the Shelf Registration Statement to become effective as soon as reasonably practicable thereafter but in no event later than 90 days after the date hereof (or the 120th calendar day after the date hereof if such Shelf Registration Statement is subject to a full review by the SEC) (the “Effectiveness Deadline”).

(b) The Shelf Registration Statement filed pursuant to Section 2.01(a) shall be on Form S-3 of the SEC if Parent is eligible to use Form S-3 or Form S-1 of the SEC if Parent is not eligible to use Form S-3; *provided, however*, that if a prospectus supplement will be used in connection with the marketing of an Underwritten Offering or Overnight Underwritten Offering from the Shelf Registration Statement and the Managing Underwriter(s) at any time shall notify the Holders in writing that, in the reasonable judgment of such Managing Underwriter(s), inclusion of detailed information to be used in such prospectus supplement is of material importance to the success of the Underwritten Offering or Overnight Underwritten Offering of such Registrable Securities, Parent shall use its reasonable best efforts to include such information in such a prospectus supplement. Subject to Section 2.01(c), Parent will cause the Shelf Registration Statement pursuant to this Section 2.01(b) to be continuously effective under the Securities Act from and after the date it is first declared or becomes effective until the earlier of (i) all Registrable Securities covered by the Shelf Registration Statement have been distributed in the manner set forth and as contemplated in the Shelf Registration Statement or there are no longer any Registrable Securities outstanding and (ii) the Termination Date (the “Effectiveness Period”). The Shelf Registration Statement when declared effective (including the documents incorporated therein by reference) shall comply as to form with all applicable requirements of the Securities Act and the Exchange Act and shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. As soon as practicable following the date of effectiveness of such Shelf Registration Statement, but in any event within three Business Days of such date, Parent will use its reasonable best efforts to notify the Selling Holders of the effectiveness of such Shelf Registration Statement.

Notwithstanding anything contained herein to the contrary, Parent hereby agrees that (i) the Shelf Registration Statement filed pursuant to this Section 2.01(b) shall contain all language (including on the prospectus cover sheet, the principal stockholders’ table and the plan of distribution) as may be reasonably requested by any Investor Holder to allow for a distribution to, and resale by, the direct and indirect members, stockholders or partners of such Investor Holder (each, a “Member Distribution”) and (ii) Parent shall, at the reasonable request of such Investor Holder if seeking to effect a Member Distribution, file any prospectus

supplement or post-effective amendments and otherwise take any action reasonably necessary to include such language, if such language was not included in the initial Registration Statement, or revise such language if deemed reasonably necessary by such Investor Holder to effect any such Member Distribution.

(c) Delay Rights. Notwithstanding anything to the contrary contained herein, Parent may, upon written notice to (x) all Holders, delay the filing of the Shelf Registration Statement or (y) any Selling Holder whose Registrable Securities are included in the Shelf Registration Statement, suspend such Selling Holder's use of any prospectus which is a part of the Shelf Registration Statement (in which event the Selling Holder shall discontinue sales of the Registrable Securities pursuant to the Shelf Registration Statement but such Selling Holder may settle any contracted sales of Registrable Securities) if Parent (i) is pursuing an acquisition, merger, reorganization, disposition or other similar transaction and the Board of Directors of Parent determines in good faith that its ability to pursue or consummate such a transaction would be materially adversely affected by any required disclosure of such transaction in the Shelf Registration Statement or (ii) has experienced some other material non-public event the disclosure of which at such time, in the good faith judgment of the Board of Directors of Parent would materially adversely affect Parent; *provided, however*, in no event shall (A) such filing of the Shelf Registration Statement be delayed under clauses (i) or (ii) of this Section 2.01(c) for a period that exceeds 90 days or (B) such Selling Holders be suspended under clauses (i) or (ii) of this Section 2.01(c) from selling Registrable Securities pursuant to the Shelf Registration Statement for a period that exceeds an aggregate of 30 days in any 90-day period or 90 days in any 365-day period. Upon disclosure of such information or the termination of the condition described above, Parent shall provide prompt notice to the Selling Holders whose Registrable Securities are included in the Shelf Registration Statement, and shall promptly terminate any suspension of sales it has put into effect and shall take such other actions to permit registered sales of Registrable Securities as contemplated in this Agreement. Parent will only exercise its suspension rights under this Section 2.01(c) if it exercises similar suspension rights with respect to any Parity Holders. If Parent exercises its suspension rights under this Section 2.01(c), then during such suspension period Parent shall not engage in any transaction involving the offer, issuance, sale or purchase of Equity Securities (whether for the benefit of Parent or a third Person), except transactions involving (I) the issuance or purchase of Equity Securities as contemplated by the Parent's employee benefit plans or employee or director arrangements, (II) the issuance of Equity Securities to a seller as consideration for, or to a third party in order to finance or partially finance, the transaction specified under clause (i) of this Section 2.01(c) that was the basis for which the suspension rights under this Section 2.01(c) were exercised or (III) the issuance of Equity Securities to a member of EEH in connection with the redemption of Class B Common Stock and EEH Units pursuant to the EEH A&R LLC Agreement.

Section 2.02 Piggyback Rights.

(a) Participation. Except as provided in Section 2.02(b), if at any time during the Effectiveness Period, Parent proposes to file (i) a shelf registration statement other than the Shelf Registration Statement (in which event Parent covenants and agrees to include thereon a description of the transaction under which the Holders acquired the Registrable Securities), (ii) a prospectus supplement to an effective shelf registration statement, other than the Shelf Registration Statement contemplated by Section 2.01(a) of this Agreement, and Holders could be included without the filing of a post-effective amendment thereto (other than a post-effective amendment that is immediately effective), or (iii) a registration statement, other than a shelf registration statement, in the case of each of clause (i), (ii) or (iii), for the sale of Class A Common Stock in an Underwritten Offering or Overnight Underwritten Offering for its own account and/or the account of another Person, then as soon as practicable but not less than ten Business Days (or one Business Day in the case of an Overnight Underwritten Offering) prior to the filing of (A) any preliminary prospectus supplement relating to such Underwritten Offering pursuant to Rule 424(b) under the Securities Act, (B) the prospectus supplement relating to such Underwritten Offering pursuant to Rule 424(b) under the Securities Act (if no preliminary prospectus supplement is used) or (C) such registration statement (other than a Shelf Registration Statement), as the case may be (an "Underwritten Offering Filing"), then Parent shall give notice (including, but not limited to, notification by electronic mail) of such proposed Underwritten Offering (a "Piggyback Offering") to the Holders and such notice shall offer the Holders the opportunity to include in such Underwritten Offering such number of shares of Class A Common Stock (the "Included Registrable Securities") as each such Holder may request in writing; *provided, however*, that if Parent has been advised by the Managing Underwriter(s) that the inclusion of Registrable Securities for sale for the benefit of the Selling Holders will have a material adverse effect on the price, timing or distribution of the Class A Common Stock in the Underwritten Offering, then the amount of Registrable Securities to be offered for the accounts of Selling Holders shall be determined based on the provisions of Section 2.02(c) of this Agreement. The notice required to be provided in this Section 2.02(a) to each Holder (the "Piggyback Notice") shall be provided on a Business Day pursuant to Section 3.01 hereof. Each Holder shall then have five

Business Days (or one Business Day in the case of an Overnight Underwritten Offering) after the date on which the Holders received the Piggyback Notice to request inclusion of Registrable Securities in the Underwritten Offering. If no request for inclusion from a Holder is received within such period, such Holder shall have no further right to participate in such Underwritten Offering. If, at any time after giving written notice of its intention to undertake an Underwritten Offering and prior to the closing of such Underwritten Offering, the Board of Directors of Parent shall determine for any reason not to undertake or to delay such Underwritten Offering, Parent may, at its election, give written notice of such determination to the Selling Holders and (x) in the case of a determination not to undertake such Underwritten Offering, shall be relieved of its obligation to sell any Included Registrable Securities in connection with such terminated Underwritten Offering, and (y) in the case of a determination to delay such Underwritten Offering, shall be permitted to delay offering any Included Registrable Securities for the same period as the delay in the Underwritten Offering. Any Selling Holder shall have the right to withdraw such Selling Holder's request for inclusion of such Selling Holder's Registrable Securities in such offering by giving written notice to Parent of such withdrawal up to and including the time of pricing of such offering. Notwithstanding the foregoing, any Holder may deliver written notice (an "Opt-Out Notice") to Parent requesting that such Holder not receive notice from Parent of any proposed Underwritten Offering; *provided, however*, that such Holder may later revoke any such Opt-Out Notice in writing. Following receipt of an Opt-Out Notice from a Holder, Parent shall not deliver any notice to such Holder pursuant to this Section 2.02(a), unless such Opt-Out Notice is revoked by such Holder.

Notwithstanding anything contained herein to the contrary, Parent hereby agrees that (i) any shelf registration statement which includes Registrable Securities pursuant to this Section 2.02(a) shall contain all language (including on the prospectus cover sheet, the principal stockholders' table and the plan of distribution) as may be reasonably requested by such Holder to allow for a Member Distribution and (ii) Parent shall, at the reasonable request of the Holder seeking to effect a Member Distribution, file any prospectus supplement or post-effective amendments and otherwise take any action reasonably necessary to include such language, if such language was not included in the initial registration statement, or revise such language if deemed reasonably necessary by such Holder to effect such Member Distribution.

(b) Overnight Underwritten Offering Piggyback Rights. If, at any time during any Effectiveness Period, Parent proposes to file an Underwritten Offering Filing and such Underwritten Offering is expected to be launched (the "Launch Date") after the close of trading on one trading day and priced before the open of trading on the next succeeding trading day (such execution format, an "Overnight Underwritten Offering"), then no later than one Business Day after Parent engages one or more Managing Underwriter(s) for the proposed Overnight Underwritten Offering, Parent shall notify (including, but not limited to, notice by electronic mail) the Holders of the pendency of the Overnight Underwritten Offering and such notice shall offer the Holders the opportunity to include in such Overnight Underwritten Offering such number of Registrable Securities as each such Holder may request in writing within two Business Days after such Holder receives such notice. Notwithstanding the foregoing, if Parent has been advised by the Managing Underwriter(s) that the inclusion of Registrable Securities in the Overnight Underwritten Offering for the accounts of the Selling Holders is likely to have a material adverse effect on the price, timing or distribution of the Class A Common Stock being offered in such Overnight Underwritten Offering, then the amount of Registrable Securities to be included in the Overnight Underwritten Offering for the accounts of Selling Holders shall be determined based on the provisions of Section 2.02(c) of this Agreement. If, at any time after giving written notice of its intention to execute an Overnight Underwritten Offering and prior to the closing of such Overnight Underwritten Offering, Parent determines for any reason not to undertake or to delay such Overnight Underwritten Offering, Parent shall give written notice of such determination to the Selling Holders and, (i) in the case of a determination not to undertake such Overnight Underwritten Offering, shall be relieved of its obligation to sell any Registrable Securities held by the Selling Holders in connection with such abandoned or delayed Overnight Underwritten Offering, and (ii) in the case of a determination to delay such Overnight Underwritten Offering, shall be permitted to delay offering any Registrable Securities held by the Selling Holders for the same period as the delay of the Overnight Underwritten Offering. Any Selling Holder shall have the right to withdraw such Selling Holder's request for inclusion of such Selling Holder's Registrable Securities in such Overnight Underwritten Offering by giving written notice to Parent of such withdrawal at least one Business Day prior to the expected Launch Date. Notwithstanding the foregoing, any Holder may deliver an Opt-Out Notice to Parent requesting that such Holder not receive notice from Parent of any proposed Overnight Underwritten Offering and, following receipt of such an Opt-Out Notice from a Holder, Parent shall not deliver any notice to such Holder pursuant to this Section 2.02(b), unless such Opt-Out Notice is revoked by such Holder.

(c) Priority of Rights. In connection with an Underwritten Offering and Overnight Underwritten Offering contemplated by Section 2.02(a) and Section 2.02(b), respectively, if the Managing Underwriter(s) of any such Underwritten

Offering or Overnight Underwritten Offering, as the case may be, advises Parent that the total amount of Class A Common Stock that the Selling Holders and any other Persons intend to include in such Underwritten Offering or Overnight Underwritten Offering exceeds the number that can be sold in such Underwritten Offering or Overnight Underwritten Offering without being likely to have a material adverse effect on the price, timing or distribution of the Class A Common Stock offered in such Underwritten Offering or Overnight Underwritten Offering, as the case may be, or the market for the Class A Common Stock, then the Class A Common Stock to be included in such Underwritten Offering or Overnight Underwritten Offering shall include the number of shares of Class A Common Stock that such Managing Underwriter(s) advise Parent can be sold without having such adverse effect (such maximum number of shares of Class A Common Stock, the “Maximum Number of Securities”), with such number to be allocated (i) first, to Parent, (ii) second, pro rata among all Selling Holders and holders of any other securities of Parent having rights of registration on parity with the Registrable Securities (“Parity Holders”) who have requested participation in such Underwritten Offering or Overnight Underwritten Offering. The pro rata allocations for each such Selling Holder or Parity Holder shall be (A) based on the percentage derived by dividing (1) the number of shares of Class A Common Stock (or other securities) that such Selling Holder or such Parity Holder has requested be included in such Underwritten Offering or Overnight Underwritten Offering by (2) the aggregate number of shares of Class A Common Stock (or other securities) that all Selling Holders and all Parity Holders have requested be included in such Underwritten Offering or Overnight Underwritten Offering or (B) as otherwise agreed by such Selling Holder or Parity Holder, as applicable.

(d) Notwithstanding anything in this Section 2.02 to the contrary, no Holder shall have any right to include any Class A Common Stock in any offering by Parent of Class A Common Stock executed pursuant to any “at the market” program that Parent may have in effect from time to time on or after the date of this Agreement.

(e) The Parent, Sequel and the Sequel Stockholders hereby agree that the rights of (i) Bold Energy Holdings, LLC (“Bold”) and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated May 9, 2017, by and among the Parent, Bold and the Persons identified on Schedule I attached thereto (the “Bold Unitholders”); (ii) Independence and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated January 7, 2021, by and among Parent, Independence and the Persons identified on Schedule I attached thereto (the “Independence Stockholders”); and (iii) Tracker and its permitted assigns to register shares of Class A Common Stock under that certain Registration Rights Agreement, dated July 20, 2021, by and among Parent, Tracker and the Persons identified on Schedule I attached thereto (the “Tracker Stockholders”) shall rank *pari passu* with the rights of Sequel and the Sequel Stockholders to register shares of Class A Common Stock under this Agreement. For purposes of clarity and the avoidance of doubt, the Parent, Sequel and the Sequel Stockholders expressly agree that Bold, the Bold Unitholders, Independence, the Independence Stockholders, Tracker and the Tracker Stockholders shall be Parity Holders for purposes of this Section 2.02.

Section 2.03 Underwritten Offering.

(a) In the event that one or more Selling Holders holding at least \$10 million (subject to adjustment pursuant to Section 3.04) of Registrable Securities (the “Offering Holders”) notify Parent in writing of their election to dispose of Registrable Securities under the Shelf Registration Statement pursuant to an Underwritten Offering or Overnight Underwritten Offering, (i) Parent shall give notice (including, but not limited to, notification by electronic mail, with such notice given no later than one Business Day after the engagement by Parent of the Managing Underwriter(s) in the case of a proposed Overnight Underwritten Offering) of such proposed Underwritten Offering or Overnight Underwritten Offering to the other Holders on a Business Day and such notice shall offer such Holders the opportunity to include in such Underwritten Offering or Overnight Underwritten Offering such number of Registrable Securities as each such Holder may request in writing (within five Business Days in the case of an Underwritten Offering that is not an Overnight Underwritten Offering and within two Business Days after the Holder receives such notice in the case of an Overnight Underwritten Offering) and (ii) Parent will retain Underwriters (which Underwriters shall be reasonably acceptable to the Offering Holders holding a majority of the Registrable Securities to be disposed of pursuant to such Underwritten Offering or Overnight Underwritten Offering) subject to such sale through an Underwritten Offering or Overnight Underwritten Offering, including entering into an underwriting agreement in customary form with the Managing Underwriter(s), which underwriting agreement shall include, among other provisions, indemnities to the effect and to the extent provided in Section 2.08, and will take all reasonable actions as are requested by the Managing Underwriter(s) in order to expedite or facilitate the registration and disposition of the Registrable Securities; *provided, however*, that Parent shall not be required to effect more than one Underwritten Offering or Overnight Underwritten Offering pursuant to this Section 2.03 in

any 365-day period. Parent management shall participate in a roadshow or similar marketing effort on behalf of any such Holder or Holders if gross proceeds from such Underwritten Offering or Overnight Underwritten Offering are reasonably expected to exceed \$20 million. No Selling Holder may participate in such Underwritten Offering or Overnight Underwritten Offering unless such Selling Holder agrees to sell its Registrable Securities on the basis provided in such underwriting agreement and completes and executes all questionnaires, powers of attorney, indemnities and other documents reasonably and customarily required under the terms of such underwriting agreement. No Selling Holder shall be required to make any representations or warranties to or agreements with Parent or the underwriters other than representations, warranties or agreements regarding such Selling Holder and its ownership of the securities being registered on its behalf and its intended method of distribution and any other representations required by law. If any Selling Holder disapproves of the terms of an Underwritten Offering or Overnight Underwritten Offering contemplated by this [Section 2.03\(a\)](#), such Selling Holder may elect to withdraw therefrom by notice to Parent and the Managing Underwriter(s); *provided, however*, that such notice of withdrawal must be made at a time up to and including the time of pricing of such offering in order to be effective. No such withdrawal or abandonment shall affect Parent's obligation to pay Registration Expenses.

(b) In connection with an Underwritten Offering and Overnight Underwritten Offering contemplated by [Section 2.03\(a\)](#), respectively, if the Managing Underwriter(s) of any such Underwritten Offering or Overnight Underwritten Offering, as the case may be, advises the Selling Holders that the total amount of Registrable Securities that the Selling Holders intend to include in such Underwritten Offering or Overnight Underwritten Offering exceeds the Maximum Number of Securities, then the Registrable Securities to be included in such Underwritten Offering or Overnight Underwritten Offering shall include the Maximum Number of Securities, with such number to be allocated pro rata among all Selling Holders and all Parity Holders who have requested participation in such Underwritten Offering or Overnight Underwritten Offering. The pro rata allocations for each such Selling Holder or Parity Holder shall be (A) based on the percentage derived by dividing (1) the number of shares of Class A Common Stock (or other securities) that such Selling Holder or such Parity Holder has requested be included in such Underwritten Offering or Overnight Underwritten Offering by (2) the aggregate number of shares of Class A Common Stock (or other securities) that all Selling Holders and all Parity Holders have requested be included in such Underwritten Offering or Overnight Underwritten Offering or (B) as otherwise agreed by such Selling Holder or Parity Holder, as applicable.

Section 2.04 [Registration Procedures](#). In connection with its obligations under this [Article II](#), Parent or the applicable Selling Holder, as the case may be, will, as expeditiously as possible:

(a) prepare and file with the SEC such amendments and supplements to the Shelf Registration Statement and the prospectus used in connection therewith as may be necessary to cause the Shelf Registration Statement to be effective and to keep the Shelf Registration Statement effective for the Effectiveness Period and as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Shelf Registration Statement;

(b) furnish to each Selling Holder (i) as far in advance as reasonably practicable before filing the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any supplement or amendment thereto, upon request, copies of reasonably complete drafts of all such documents proposed to be filed (including furnishing or making available exhibits and each document incorporated by reference therein to the extent then required by the rules and regulations of the SEC), and provide each such Selling Holder the opportunity to object to any information pertaining to such Selling Holder and its plan of distribution that is contained therein and make the corrections reasonably requested by such Selling Holder with respect to such information prior to filing the Shelf Registration Statement or such other registration statement or supplement or amendment thereto, and (ii) such number of copies of the Shelf Registration Statement or such other registration statement and the prospectus included therein and any supplements and amendments thereto as such Persons may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities covered by the Shelf Registration Statement or such other registration statement;

(c) if applicable, use its reasonable best efforts to register or qualify the Registrable Securities covered by the Shelf Registration Statement or any other registration statement contemplated by this Agreement under the securities or blue sky laws of such jurisdictions as the Selling Holders or, in the case of an Underwritten Offering or Overnight Underwritten Offering, the Managing Underwriter(s) shall reasonably request, *provided* that Parent will not be required to qualify generally to transact business in any jurisdiction where it is not then required to so qualify or to take any action which would subject it to general service of process in any such jurisdiction where it is not then so subject;

(d) promptly notify each Selling Holder and each underwriter of Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of (i) the filing of the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any prospectus or prospectus supplement to be used in connection therewith, or any amendment or supplement thereto, and, with respect to such Shelf Registration Statement or any other registration statement contemplated by this Agreement, when the same has become effective; and (ii) any written comments from the SEC with respect to any filing referred to in clause (i) and any written request by the SEC for amendments or supplements to the Shelf Registration Statement or any other registration statement contemplated by this Agreement or any prospectus or prospectus supplement thereto;

(e) immediately notify each Selling Holder and each underwriter of Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of (i) the happening of any event as a result of which the prospectus or prospectus supplement contained in the Shelf Registration Statement or any other registration statement contemplated by this Agreement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, in the light of the circumstances then existing; (ii) the issuance or threat of issuance by the SEC of any stop order suspending the effectiveness of the Shelf Registration Statement or any other registration statement contemplated by this Agreement, or the initiation of any proceedings for that purpose; or (iii) the receipt by Parent of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the applicable securities or blue sky laws of any jurisdiction. Following the provision of such notice, Parent agrees to as promptly as practicable amend or supplement the prospectus or prospectus supplement or take other appropriate action so that the prospectus or prospectus supplement does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, in the light of the circumstances then existing, and to take such other action as is necessary to remove a stop order, suspension, threat thereof or proceedings related thereto;

(f) furnish to each Selling Holder copies of any and all transmittal letters or other correspondence with the SEC or any other governmental agency or self-regulatory body or other body having jurisdiction (including any domestic or foreign securities exchange) relating to such offering of Registrable Securities;

(g) in the case of an Underwritten Offering or Overnight Underwritten Offering, furnish upon request and addressed to the underwriters and to the Selling Holders, (i) an opinion of counsel for Parent, dated the effective date of the applicable registration statement or the date of any amendment or supplement thereto, and a letter of like kind dated the date of the closing under the underwriting agreement, and (ii) a "comfort letter," dated the effective date of the applicable registration statement or the date of any amendment or supplement thereto and a letter of like kind dated the date of the closing under the underwriting agreement, in each case, signed by the independent public accountants (and, if applicable, independent reserve engineers) who have certified Parent's financial statements included or incorporated by reference into the applicable registration statement, and each of the opinion and the "comfort letter" shall be in customary form and cover substantially the same matters with respect to such registration statement (and the prospectus and any prospectus supplement included therein) as are customarily covered in opinions of issuer's counsel and in accountants' (and, if applicable, independent reserve engineers') letters delivered to the underwriters in Underwritten Offerings or Overnight Underwritten Offerings of securities, and such other matters as such underwriters or Selling Holders may reasonably request;

(h) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least 12 months, but not more than 18 months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder;

(i) make available to the appropriate representatives of the Managing Underwriter(s) and Selling Holders access to such information and Parent personnel as is reasonable and customary to enable such parties to establish a due diligence defense under the Securities Act; *provided that* Parent need not disclose any information to any such representative unless and until such representative has entered into a customary confidentiality agreement with Parent;

- (j) cause all Registrable Securities registered pursuant to this Agreement to be listed on each securities exchange or nationally recognized quotation system on which similar securities issued by Parent are then listed or quoted;
- (k) use its reasonable best efforts to cause the Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of Parent to enable the Selling Holders to consummate the disposition of such Registrable Securities;
- (l) provide a transfer agent and registrar for all Registrable Securities covered by such registration statement not later than the effective date of such registration statement;
- (m) enter into customary agreements and take such other actions as are reasonably requested by the Selling Holders or the underwriters, if any, in order to expedite or facilitate the disposition of such Registrable Securities;
- (n) if reasonably required by Parent's transfer agent, Parent shall promptly deliver any customary authorizations, certificates and directions required by the transfer agent (and use commercially reasonable efforts to promptly deliver any other such authorizations, certificates and directions reasonably required by the transfer agent) which authorize and direct the transfer agent to transfer such Registrable Securities without legend, in accordance with applicable law, upon sale by the Holder of such Registrable Securities under the Registration Statement;
- (o) if any Selling Holder could reasonably be deemed to be an "underwriter," as defined in Section 2(a)(11) of the Securities Act, in connection with the registration statement in respect of any registration of Registrable Securities of such Selling Holder pursuant to this Agreement, and any amendment or supplement thereof (any such registration statement or amendment or supplement, a "Selling Holder Underwriter Registration Statement"), then, until the Effectiveness Period ends, (i) cooperate with such Selling Holder in allowing such Selling Holder to conduct customary "underwriter's due diligence" with respect to Parent and satisfy its obligations in respect thereof; (ii) until the Effectiveness Period ends, at any Selling Holder request, furnish to such Selling Holder, on the date of the effectiveness of any Selling Holder Underwriter Registration Statement and thereafter no more often than on a quarterly basis, (A) a letter, dated such date, from Parent's independent certified public accountants (and, if applicable, independent reserve engineers) in form and substance as is customarily given by independent certified public accountants (and, if applicable, independent reserve engineers) to underwriters in an underwritten public offering, addressed to such Selling Holder, (B) an opinion, dated as of such date, of counsel representing Parent for purposes of such Selling Holder Underwriter Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, including a standard "10b-5" opinion for such offering, addressed to such Selling Holder and (C) a standard officer's certificate from the Chief Executive Officer and Chief Financial Officer of Parent addressed to such Selling Holder; and (iii) permit legal counsel of such Selling Holder to review and comment upon any Selling Holder Underwriter Registration Statement at least five Business Days prior to its filing with the SEC and all amendments and supplements to any such Selling Holder Underwriter Registration Statement within a reasonable number of days prior to their filing with the SEC and not file any Selling Holder Underwriter Registration Statement or amendment or supplement thereto in a form to which such Selling Holder's legal counsel reasonably objects;
- (p) each Selling Holder, upon receipt of notice from Parent of the happening of any event of the kind described in subsection (d) of this Section 2.04, shall forthwith discontinue disposition of the Registrable Securities until such Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by subsection (d) of this Section 2.04 or until it is advised in writing by Parent that the use of the prospectus may be resumed, and has received copies of any additional or supplemental filings incorporated by reference in the prospectus, and, if so directed by Parent, such Selling Holder will, or will request the Managing Underwriter(s), if any, to deliver to Parent (at Parent's expense) all copies in their possession or control, other than permanent file copies then in such Selling Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice; and
- (q) if requested by a Selling Holder, (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as such Selling Holder reasonably requests to be included therein relating to the sale and distribution of Registrable Securities, including information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after
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being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement.

Notwithstanding anything to the contrary in this Section 2.04, Parent will not name a Holder as an underwriter (as defined in Section 2(a)(11) of the Securities Act) in any Registration Statement or Selling Holder Underwriter Registration Statement, as applicable, without such Holder's consent. If the Parent determines, upon advice of counsel, that Parent is required to name any Holder as an underwriter (as defined in Section 2(a)(11) of the Securities Act), and such Holder does not consent thereto, then such Holder's Registrable Securities shall not be included on the applicable Registration Statement and Parent shall have no further obligations hereunder with respect to Registrable Securities held by such Holder with respect to such Registration Statement or Selling Holder Registration Statement unless such Holder has not had an opportunity to conduct customary underwriter's due diligence as set forth in Section 2.04(o) with respect to Parent at the time such Holder's consent is sought.

Section 2.05 Cooperation by Holders. Parent shall have no obligation to include in the Shelf Registration Statement Class A Common Stock of a Holder who has failed to timely furnish such information which, in the reasonable opinion of counsel to Parent, is reasonably required to be furnished or confirmed in order for the registration statement or prospectus supplement thereto, as applicable, to comply with the Securities Act.

Section 2.06 Restrictions on Public Sale by Holders of Registrable Securities. Each Holder of Registrable Securities who is included in the Shelf Registration Statement agrees not to effect any public sale or distribution of the Registrable Securities for a period of up to 60 days following completion of an Underwritten Offering or Overnight Underwritten Offering of Equity Securities by Parent, *provided* that (i) Parent gives written notice to such Holder of the date of the commencement and termination of such period with respect to any such Underwritten Offering or Overnight Underwritten Offering and (ii) the duration of the foregoing restrictions shall be no longer than the duration of the shortest restriction generally imposed by the underwriters of such public sale or distribution on Parent or on the officers or directors or any other affiliate of Parent or unitholder of EEH on whom a restriction is imposed; *provided further*, that this Section 2.06 shall not apply to a Holder that holds less than \$10 million of Registrable Securities, which value shall be determined by multiplying the number of Registrable Securities owned by the Class A Common Stock Price.

Section 2.07 Expenses.

(a) Certain Definitions. "Registration Expenses" means all expenses incident to Parent's performance under or compliance with this Agreement to effect the registration of Registrable Securities on the Shelf Registration Statement, an Underwritten Offering or Overnight Underwritten Offering covered under this Agreement, and/or the disposition of such securities, including, without limitation, all registration, filing, securities exchange listing and NYSE fees, all registration, filing, qualification and other fees and expenses of complying with securities or blue sky laws, fees of the Financial Industry Regulatory Authority, all word processing, duplicating and printing expenses, and the fees and disbursements of counsel and independent public accountants for Parent, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance; *provided, however*, that "Registration Expenses" shall not include any Selling Expenses. "Selling Expenses" means all (i) transfer taxes allocable to the sale of the Registrable Securities; (ii) fees and expenses of counsel engaged by the Holders; and (iii) commissions and discounts of brokers, dealers and underwriters.

(b) Expenses. Parent will pay all Registration Expenses as determined in good faith, including, in the case of an Underwritten Offering or Overnight Underwritten Offering, whether or not any sale is made pursuant to the Shelf Registration Statement. Each Selling Holder shall pay its pro rata share of all Selling Expenses in connection with any sale of Registrable Securities hereunder.

Section 2.08 Indemnification.

(a) By Parent. In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, Parent will indemnify and hold harmless each Selling Holder thereunder, its affiliates that own Registrable Securities and their respective directors and officers and each underwriter pursuant to the applicable underwriting agreement with such underwriter and each Person, if any, who controls such Selling Holder or underwriter within the meaning of the Securities Act and the Exchange Act and its directors and officers (collectively, the "Selling Holder Indemnified Persons"), against any losses,

claims, damages, expenses or liabilities (including reasonable attorneys', accountants' and experts' fees and expenses) (collectively, "Losses"), joint or several, to which such Selling Holder or underwriter or controlling Person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in (which, for the avoidance of doubt, includes documents incorporated by reference in) the Shelf Registration Statement or any other registration statement contemplated by this Agreement, any preliminary prospectus, free writing prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading or arise out of or are based upon a Selling Holder being deemed to be an "underwriter," as defined in Section 2(a)(11) of the Securities Act, in connection with the registration statement in respect of any registration of Parent's securities, and will reimburse each such Selling Holder Indemnified Person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Loss or actions or proceedings; *provided, however*, that Parent will not be liable in any such case if and to the extent that any such Loss arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in strict conformity with information furnished by such Selling Holder Indemnified Person in writing specifically for use in the Shelf Registration Statement or such other registration statement or any prospectus contained therein or any amendment or supplement thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Selling Holder or any such director, officer or controlling Person, and shall survive the transfer of such securities by such Selling Holder.

(b) By Each Selling Holder. Each Selling Holder agrees severally and not jointly to indemnify and hold harmless Parent, its directors and officers, and each Person, if any, who controls Parent within the meaning of the Securities Act or of the Exchange Act against any Losses to the same extent as the foregoing indemnity from Parent to the Selling Holders, but only with respect to information regarding such Selling Holder furnished in writing by or on behalf of such Selling Holder expressly for inclusion in the Shelf Registration Statement or any prospectus contained therein or any amendment or supplement thereof relating to the Registrable Securities; *provided, however*, that the liability of each Selling Holder shall not be greater in amount than the dollar amount of the proceeds received by such Selling Holder from the sale of the Registrable Securities giving rise to such indemnification.

(c) Notice. Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but such indemnified party's failure to so notify the indemnifying party shall not relieve the indemnifying party from any liability which it may have to any indemnified party other than under this [Section 2.08](#). The indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such indemnified party and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this [Section 2.08](#) for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; *provided, however*, that, (i) if the indemnifying party has failed to assume the defense and employ counsel reasonably acceptable to the indemnified party or (ii) if the defendants in any such action include both the indemnified party and the indemnifying party and counsel to the indemnified party shall have concluded that there may be reasonable defenses available to the indemnified party that are different from or additional to those available to the indemnifying party, or if the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, then the indemnified party shall have the right to select a separate counsel and to assume such legal defense and otherwise to participate in the defense of such action, with the reasonable expenses and fees of one such separate counsel (firm) and other reasonable expenses related to such participation to be reimbursed by the indemnifying party as incurred. Notwithstanding any other provision of this Agreement, no indemnified party shall settle any action brought against it with respect to which it is entitled to indemnification hereunder without the consent of the indemnifying party, unless the settlement thereof imposes no liability or obligation on, and includes a complete and unconditional release from all liability of, the indemnifying party.

(d) Contribution. If the indemnification provided for in this [Section 2.08](#) is held by a court or government agency of competent jurisdiction to be unavailable to Parent or any Selling Holder or is insufficient to hold it harmless in respect of any Losses, then each such indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or

payable by such indemnified party as a result of such Losses as between Parent, on the one hand, and such Selling Holder, on the other hand, in such proportion as is appropriate to reflect the relative fault of Parent, on the one hand, and of such Selling Holder, on the other, in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations; *provided, however*, that in no event shall such Selling Holder be required to contribute an aggregate amount in excess of the dollar amount of proceeds received by such Selling Holder from the sale of Registrable Securities giving rise to such indemnification. The relative fault of Parent, on the one hand, and each Selling Holder, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact has been made by, or relates to, information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this paragraph were to be determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this paragraph. The amount paid by an indemnified party as a result of the Losses referred to in the first sentence of this paragraph shall be deemed to include any legal and other expenses reasonably incurred by such indemnified party in connection with investigating or defending any Loss which is the subject of this paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who is not guilty of such fraudulent misrepresentation.

- (e) Other Indemnification. The provisions of this Section 2.08 shall be in addition to any other rights to indemnification or contribution which an indemnified party may have pursuant to law, equity, contract or otherwise.

Section 2.09 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the SEC that may permit the sale of the Registrable Securities to the public without registration, Parent agrees to use its reasonable best efforts to:

- (a) make and keep public information regarding Parent available, as those terms are understood and defined in Rule 144 (or any successor rule or regulation to Rule 144 then in force) of the Securities Act, at all times from and after the date of this Agreement;
- (b) file with the SEC in a timely manner all reports and other documents required of Parent under the Securities Act and the Exchange Act at all times from and after the date of this Agreement;
- (c) so long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request a copy of the most recent annual or quarterly report of Parent, and such other reports and documents so filed as such Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing such Holder to sell any such securities without registration; and
- (d) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable the Holders to sell Registrable Securities without registration under the Securities Act within the limitations of the exemption provided by Rule 144 (or any successor rule or regulation to Rule 144 then in force) under the Securities Act.

Section 2.10 Transfer or Assignment of Registration Rights. The rights to cause Parent to include Registrable Securities in a Shelf Registration Statement may be transferred or assigned by any Holder to one or more transferee(s) or assignee(s) of such Registrable Securities; *provided that* (a) Parent is given written notice prior to any said transfer or assignment, stating the name and address of each such transferee and identifying the securities with respect to which such registration rights are being transferred or assigned, (b) each such transferee or assignee assumes in writing responsibility for its portion of the obligations of such Holder under this Agreement by executing a Joinder in the form attached hereto as Exhibit A (the "Joinder"), and (c) unless any such transferee or assignee is (i) a Sequel Stockholder or (ii) an affiliate of such Holder or any other Sequel Stockholder and after such transfer or assignment continues to be an affiliate of such Holder or any other Sequel Stockholder, the amount of Registrable Securities transferred or assigned to such transferee or assignee shall represent at least \$10 million of Registrable Securities (determined by multiplying the number of Registrable Securities owned by the Class A Common Stock Price).

Section 2.11 Information by Holder. Any Holder or Holders of Registrable Securities included in any registration statement shall promptly furnish to Parent such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as Parent may reasonably request and as shall be required in connection with any registration, qualification or compliance referred to herein.

Section 2.12 Limitation on Subsequent Registration Rights. From and after the date of this Agreement, Parent shall not, without the prior written consent of the Holders, enter into any agreement with any current or future holder of any securities of Parent that would allow such current or future holder to require Parent to include securities in any Piggyback Offering by Parent for its own account on a basis that is superior in any material respect to the Piggyback Offering rights granted to the Holders pursuant to Section 2.02 of this Agreement.

ARTICLE III. MISCELLANEOUS

Section 3.01 Communications. All notices and other communications provided for hereunder shall be in writing and shall be given by hand delivery, electronic mail, registered or certified mail, return receipt requested, regular mail, facsimile or air courier guaranteeing overnight delivery to the following addresses:

if to Parent to:

Earthstone Energy, Inc.
1400 Woodloch Forest Drive, Suite 300
The Woodlands, Texas 77380
Attention: Robert J. Anderson, President and Chief Executive Officer
Facsimile: (832) 823-0478
e-mail: robert@earthstoneenergy.com

with a copy to:

Jones & Keller, P.C.
1675 Broadway, 26th Floor
Denver, Colorado 80202
Attention: Reid A. Godbolt
Adam J. Fogoros
Facsimile: (303) 573-8133
e-mail: rgodbolt@joneskeller.com
adamf@joneskeller.com

if to Sequel to:

SEG-TRD LLC
c/o Sequel Energy Group LLC
8101 E. Prentice Avenue, Suite 1175
Greenwood Village, Colorado 80111
Attention: David J. Kornder
e-mail: dkornder@sequelenergy.com

with copies (which shall not constitute notice) to:

Welborn Sullivan Meck & Tooley, P.C.
1401 Lawrence, Suite 1800
Denver, Colorado 80202
Attention: Amy E. Seneshen
e-mail: aseneshen@wsmtlaw.com

or, if to (x) a Sequel Stockholder, to the address for such Sequel Stockholder provided to Parent in accordance with this [Section 3.01](#), and (y) a transferee of a Holder, to the transferee at the addresses provided pursuant to [Section 2.10](#) above. All notices and communications shall be deemed to have been duly given: (i) at the time delivered by hand, if personally delivered; (ii) when notice is sent to the sender that the recipient has read the message, if sent by electronic mail; (iii) upon actual receipt if sent by registered or certified mail, return receipt requested, or regular mail, if mailed; (iv) upon actual receipt if received during recipient's normal business hours, or at the beginning of the recipient's next Business Day if not received during recipient's normal business hours, if sent by facsimile and confirmed by appropriate answer-back; and (v) upon actual receipt when delivered to an air courier guaranteeing overnight deliver.

Section 3.02 [Successors and Assigns](#). This Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties, including subsequent Holders of Registrable Securities to the extent permitted herein.

Section 3.03 [Assignment of Rights](#). All or any portion of the rights and obligations of the Holders under this Agreement may be transferred or assigned by the Holders only in accordance with [Section 2.10](#) of this Agreement. Parent may not transfer or assign any portion of its rights and obligations under this Agreement without the prior written consent of the Holders of at least a majority of the outstanding Registrable Securities.

Section 3.04 [Recapitalization, Exchanges, etc. Affecting the Class A Common Stock](#). The provisions of this Agreement shall apply to the full extent set forth herein with respect to any and all shares of capital stock of Parent or any successor or assign of Parent (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in exchange for or in substitution of, the Registrable Securities, and shall be appropriately adjusted for combinations, recapitalizations and the like occurring after the date of this Agreement.

Section 3.05 [Change of Control](#). Parent shall not merge, consolidate or combine with any other Person unless the agreement providing for such merger, consolidation or combination expressly provides for the continuation of the registration rights specified in this Agreement with respect to the Registrable Securities or other Equity Securities issued pursuant to such merger, consolidation or combination.

Section 3.06 [Specific Performance](#). Damages in the event of breach of this Agreement by a party hereto may be difficult, if not impossible, to ascertain, and it is therefore agreed that each such Person, in addition to and without limiting any other remedy or right it may have, will have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach, and enforcing specifically the terms and provisions hereof, and each of the parties hereto hereby waives any and all defenses it may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief. The existence of this right will not preclude any such Person from pursuing any other rights and remedies at law or in equity which such Person may have.

Section 3.07 [Counterparts](#). This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature or other electronic means and in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 3.08 [Headings](#). The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

Section 3.09 [Governing Law](#). This Agreement is governed by and construed and enforced in accordance with the Laws of the State of Delaware, without giving effect to any conflicts of law principles that would result in the application of any Law other than the Law of the State of Delaware.

Section 3.10 [Jurisdiction](#). Each of the parties irrevocably agrees that any legal action or proceeding with respect to this Agreement and the rights and obligations arising hereunder shall be brought and determined exclusively in the Court of Chancery of the State of Delaware or, if such Court does not have subject matter jurisdiction, to the Superior Court of the State of Delaware or, if jurisdiction is vested exclusively in the Federal courts of the United States, the Federal courts of the United States

sitting in the State of Delaware, and any appellate court from any such state or Federal court. Each of the parties hereby irrevocably and unconditionally agrees that all claims with respect to any such claim shall be heard and determined in such Delaware court or in such Federal court, as applicable. The parties agree that a final judgment in any such claim is conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any other manner provided by law.

Section 3.11 WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH PARTY HEREBY IRREVOCABLY WAIVES AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING IN WHOLE OR IN PART UNDER, RELATED TO, BASED ON, OR IN CONNECTION WITH, THIS AGREEMENT OR THE SUBJECT MATTER HEREOF, WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER SOUNDING IN TORT OR CONTRACT OR OTHERWISE. ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 3.11 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

Section 3.12 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting or impairing the validity or enforceability of such provision in any other jurisdiction.

Section 3.13 Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the rights granted by Parent set forth herein. This Agreement and the Purchase Agreement supersede all prior agreements and understandings between the parties with respect to such subject matter.

Section 3.14 Amendment. This Agreement may be amended only by means of a written amendment signed by Parent and the Holders of a majority of the then outstanding Registrable Securities; *provided, however*, that no such amendment shall materially and adversely affect the rights of any Holder hereunder without the consent of such Holder.

Section 3.15 No Presumption. In the event any claim is made by a party relating to any conflict, omission, or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular party or its counsel.

Section 3.16 Obligations Limited to Parties to Agreement. Each of the Parties hereto covenants, agrees and acknowledges that no Person other than the Holders (and their transferees or assignees) and Parent shall have any obligation hereunder and that, notwithstanding that one or more of the Holders may be a corporation, partnership or limited liability company, no recourse under this Agreement shall be had against any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any Holder or any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any of the foregoing, whether by the enforcement of any assessment or by any legal or equitable proceeding, or by virtue of any applicable law, it being expressly agreed and acknowledged that no personal liability whatsoever shall attach to, be imposed on or otherwise be incurred by any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any Holder or any former, current or future director, officer, employee, agent, general or limited partner, manager, member, stockholder or affiliate of any of the foregoing, as such, for any obligations of a Holder under this Agreement or for any claim based on, in respect of or by reason of such obligation or its creation.

Section 3.17 Independent Nature of Each Holder's Obligations. The obligations of each Holder under this Agreement are several and not joint with the obligations of any other Holder, and no Holder shall be responsible in any way for the performance of the obligations of any other Holder under this Agreement. Nothing contained herein, and no action taken by any Holder pursuant thereto, shall be deemed to constitute the Holders as a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Holders are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement. Each Holder shall be entitled to independently protect and

enforce its rights, including without limitation, the rights arising out of this Agreement, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

Section 3.18 Termination of Registration Right. No Holder shall be entitled to exercise any right provided for in this Agreement after the fourth anniversary of the date hereof (the “Termination Date”).

Section 3.19 Further Assurances. Parent and each of the Holders shall cooperate with each other and shall take such further action and shall execute and deliver such further documents as may be reasonably requested by any other party in order to carry out the provisions and purposes of this Agreement.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto execute this Agreement, effective as of the date first above written.

EARTHSTONE ENERGY, INC.

By: /s/ Robert J. Anderson
Name: Robert J. Anderson
Title: President and Chief Executive Officer

SEG-TRD LLC

By: /s/ David J. Kornder
Name: David J. Kornder
Title: Director of Finance

SEG-TRD II LLC

By: /s/ David J. Kornder
Name: David J. Kornder
Title: Director of Finance

SCHEDULE 1

EXHIBIT A
FORM OF JOINDER AGREEMENT
[DATE]

The undersigned hereby absolutely, unconditionally and irrevocably agrees to be bound by the terms and provisions of that certain Registration Rights Agreement, dated as of July 20, 2021, by and among Earthstone Energy, Inc., a Delaware corporation, SEG-TRD LLC, a Delaware limited liability company, and SEG-TRD II, LLC, a Delaware limited liability company, and the Persons identified on Schedule I thereto who become party thereto from time to time (the "Registration Rights Agreement"), and to join in the Registration Rights Agreement as a Sequel Stockholder with the same force and effect as if the undersigned were originally a party thereto.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed this Joinder Agreement as of [DATE].

Name:

LOCK-UP AGREEMENT

July 20, 2021

Earthstone Energy, Inc.
1400 Woodloch Forest Drive, Suite 300
The Woodlands, Texas 77380

Ladies and Gentlemen:

This agreement is being delivered to Earthstone Energy, Inc., a Delaware corporation ("Earthstone"), in connection with the consummation of the transactions contemplated by that certain Purchase and Sale Agreement, dated as of March 31, 2021 (as amended, the "Purchase Agreement"), by and among Tracker Resource Development III, LLC ("Tracker"), TRD III Royalty Holdings (TX), LP, Earthstone and Earthstone Energy Holdings, LLC. Capitalized terms not defined herein shall have the meanings set forth in the Purchase Agreement.

In order to induce Earthstone to consummate the transactions contemplated by the Purchase Agreement, and in light of the benefits that the Purchase Agreement will confer upon the undersigned ("Investor") in its capacity as a securityholder of Tracker, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Investor agrees with Earthstone that, during the period beginning on and including the Closing Date through and including the date that is the 120th day after the Closing Date (the "Lock-Up Period"), Investor will not, without the prior written consent of Earthstone, directly or indirectly:

(i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of Class A common stock, par value \$0.001 per share of Earthstone (the "Class A Common Stock"), or any other class of Earthstone capital stock (collectively, "Capital Stock") or any other securities convertible into or exercisable or exchangeable for any Capital Stock, whether now owned or hereafter acquired by Investor during the Lock-Up Period or with respect to which Investor has or hereafter acquires the power of disposition during the Lock-Up Period, or

(ii) enter into any swap or other agreement, arrangement or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequence of ownership of any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock (the actions specified in clauses (i) and (ii), collectively, "Transfers"), whether any transaction described in clause (i) or (ii) above is to be settled by delivery of any Capital Stock, other securities, in cash or otherwise; *provided, however*, that the restrictions in the foregoing clauses (i) and (ii) shall not apply to:

- (a) in the case of an entity, Transfers to a stockholder, partner, member or affiliate of such entity, including by virtue of the laws of the state of the entity's organization and the entity's organizational documents upon dissolution of the entity or otherwise;
- (b) the entry by Investor into any trading plan providing for the sale of Class A Common Stock by Investor, which trading plan meets the requirements of Rule 10b-5 under the Securities Exchange Act of 1934, as amended, provided that such plan does not provide for, or permit, the sale of any Class A Common Stock during the Lock-Up Period and no public announcement or filing is voluntarily made or required regarding during such plan during the Lock-Up Period; or
- (c) Transfers or other transactions in the event of a liquidation, merger, equity exchange or other similar transaction which results in Earthstone's securityholders having the right to exchange their Capital Stock for cash, securities or other property;

provided, however, that in the case of clauses (a) and (b), the applicable transferees must enter into a written agreement, in substantially the form of this agreement, agreeing to be bound by these Transfer restrictions until the expiration of the Lock-Up Period. For purposes of the foregoing, the term “affiliate” shall have the meaning set forth in Rule 405 under the Securities Act of 1933, as amended (the “Securities Act”).

Furthermore, nothing in this agreement shall prohibit Investor from receiving shares of Capital Stock or any other securities convertible into or exercisable or exchangeable for any Capital Stock by reason of a stock dividend, reclassification, recapitalization, split, combination, exchange of shares or similar event or transaction, and any such shares received will also be subject to the terms of this agreement.

Investor further agrees that (i) it will not, during the Lock-Up Period make any demand for or exercise any right with respect to the registration under the Securities Act of any shares of any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock, and (ii) Earthstone may, with respect to any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock owned or held (of record or beneficially) by Investor that is subject to the restrictions set forth in this agreement, cause the transfer agent or other registrar to enter stop transfer instructions and implement stop transfer procedures with respect to such securities during the Lock-Up Period; *provided, however*, that nothing in the foregoing shall (x) reduce or eliminate Earthstone’s obligations with respect to the preparation and filing of a registration statement under the Securities Act pursuant to Section 2.01 of the Registration Rights Agreement, or (y) prevent Investor from exercising any rights it may have under the Registration Rights Agreement.

Investor hereby represents and warrants that Investor has full power and authority to enter into this agreement and that this agreement has been duly authorized, executed and delivered by Investor and is a valid and binding agreement of Investor. This agreement and all authority herein conferred are irrevocable and shall be binding upon the applicable successors and assigns of Investor.

This agreement and all related proceedings shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the law of any jurisdiction other than the State of Delaware. THE PARTIES HERETO EACH HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION (I) ARISING UNDER THIS AGREEMENT OR (II) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS RELATED HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY, OR OTHERWISE. THE PARTIES HERETO EACH HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT THE PARTIES HERETO MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

This agreement may be executed by facsimile or electronic (i.e., PDF) transmission, which is deemed an original.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed and delivered this agreement as of the date first set forth above.

Yours very truly,

ENCAP ENERGY CAPITAL FUND VIII, L.P.

By: /s/ D. Martin Phillips

Name: D. Martin Phillips

Title: Senior Managing Director

Agreed and Acknowledged:

Earthstone Energy, Inc.

By: /s/ Robert J. Anderson

Name: Robert J. Anderson

Title: President and Chief Executive Officer

LOCK-UP AGREEMENT

July 20, 2021

Earthstone Energy, Inc.
1400 Woodloch Forest Drive, Suite 300
The Woodlands, Texas 77380

Ladies and Gentlemen:

This agreement is being delivered to Earthstone Energy, Inc., a Delaware corporation ("Earthstone"), in connection with the consummation of the transactions contemplated by that certain Purchase and Sale Agreement, dated as of March 31, 2021 (as amended, the "Purchase Agreement"), by and among Tracker Resource Development III, LLC ("Tracker"), TRD III Royalty Holdings (TX), LP, Earthstone and Earthstone Energy Holdings, LLC. Capitalized terms not defined herein shall have the meanings set forth in the Purchase Agreement.

In order to induce Earthstone to consummate the transactions contemplated by the Purchase Agreement, and in light of the benefits that the Purchase Agreement will confer upon the undersigned ("Investor") in its capacity as a securityholder of Tracker, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Investor agrees with Earthstone that, during the period beginning on and including the Closing Date through and including the date that is the 120th day after the Closing Date (the "Lock-Up Period"), Investor will not, without the prior written consent of Earthstone, directly or indirectly:

(i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of Class A common stock, par value \$0.001 per share of Earthstone (the "Class A Common Stock"), or any other class of Earthstone capital stock (collectively, "Capital Stock") or any other securities convertible into or exercisable or exchangeable for any Capital Stock, whether now owned or hereafter acquired by Investor during the Lock-Up Period or with respect to which Investor has or hereafter acquires the power of disposition during the Lock-Up Period, or

(ii) enter into any swap or other agreement, arrangement or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequence of ownership of any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock (the actions specified in clauses (i) and (ii), collectively, "Transfers"), whether any transaction described in clause (i) or (ii) above is to be settled by delivery of any Capital Stock, other securities, in cash or otherwise; *provided, however*, that the restrictions in the foregoing clauses (i) and (ii) shall not apply to:

- (a) in the case of an entity, Transfers to a stockholder, partner, member or affiliate of such entity, including by virtue of the laws of the state of the entity's organization and the entity's organizational documents upon dissolution of the entity or otherwise;
- (b) the entry by Investor into any trading plan providing for the sale of Class A Common Stock by Investor, which trading plan meets the requirements of Rule 10b-5 under the Securities Exchange Act of 1934, as amended, provided that such plan does not provide for, or permit, the sale of any Class A Common Stock during the Lock-Up Period and no public announcement or filing is voluntarily made or required regarding during such plan during the Lock-Up Period; or
- (c) Transfers or other transactions in the event of a liquidation, merger, equity exchange or other similar transaction which results in Earthstone's securityholders having the right to exchange their Capital Stock for cash, securities or other property;

provided, however, that in the case of clauses (a) and (b), the applicable transferees must enter into a written agreement, in substantially the form of this agreement, agreeing to be bound by these Transfer restrictions until the expiration of the Lock-Up Period. For purposes of the foregoing, the term “affiliate” shall have the meaning set forth in Rule 405 under the Securities Act of 1933, as amended (the “Securities Act”).

Furthermore, nothing in this agreement shall prohibit Investor from receiving shares of Capital Stock or any other securities convertible into or exercisable or exchangeable for any Capital Stock by reason of a stock dividend, reclassification, recapitalization, split, combination, exchange of shares or similar event or transaction, and any such shares received will also be subject to the terms of this agreement.

Investor further agrees that (i) it will not, during the Lock-Up Period make any demand for or exercise any right with respect to the registration under the Securities Act of any shares of any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock, and (ii) Earthstone may, with respect to any Capital Stock or any securities convertible into or exercisable or exchangeable for any Capital Stock owned or held (of record or beneficially) by Investor that is subject to the restrictions set forth in this agreement, cause the transfer agent or other registrar to enter stop transfer instructions and implement stop transfer procedures with respect to such securities during the Lock-Up Period; *provided, however*, that nothing in the foregoing shall (x) reduce or eliminate Earthstone’s obligations with respect to the preparation and filing of a registration statement under the Securities Act pursuant to Section 2.01 of the Registration Rights Agreement, or (y) prevent Investor from exercising any rights it may have under the Registration Rights Agreement.

Investor hereby represents and warrants that Investor has full power and authority to enter into this agreement and that this agreement has been duly authorized, executed and delivered by Investor and is a valid and binding agreement of Investor. This agreement and all authority herein conferred are irrevocable and shall be binding upon the applicable successors and assigns of Investor.

This agreement and all related proceedings shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the law of any jurisdiction other than the State of Delaware. THE PARTIES HERETO EACH HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION (I) ARISING UNDER THIS AGREEMENT OR (II) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS RELATED HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY, OR OTHERWISE. THE PARTIES HERETO EACH HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT THE PARTIES HERETO MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

This agreement may be executed by facsimile or electronic (i.e., PDF) transmission, which is deemed an original.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed and delivered this agreement as of the date first set forth above.

Yours very truly,

ZIP Ventures I, L.L.C.

By: /s/ Bryan R. Begley

Name: Bryan R. Begley

Title: Managing Director

ZIP Ventures I, L.L.C.

By: /s/ Daniel Penrod

Name: Daniel Penrod

Title: Managing Director

Agreed and Acknowledged:

Earthstone Energy, Inc.

By: /s/ Robert J. Anderson

Name: Robert J. Anderson

Title: President and Chief Executive Officer

**Amendment No. 2
to the
Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan**

This Amendment No. 2 to the Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan (as amended, the “Plan”) was approved and adopted by the Board of Directors of Earthstone Energy, Inc. (the “Company”) on May 28, 2021, subject to approval by the stockholders of the Company, which was obtained on July 20, 2021. Accordingly, the Plan is hereby amended, effective as of July 20, 2021, as follows:

1. The first sentence of Section 3.1 of the Plan is hereby deleted in its entirety and replaced with the following:

“Subject to the limitations set forth herein, 12,000,000 shares of Common Stock are reserved for issuance pursuant to Awards made under this Plan.”

In all other respects, the Plan remains unchanged and in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 2 to the Plan has been executed to be effective as of July 20, 2021.

EARTHSTONE ENERGY, INC.

By: /s/ Robert J. Anderson

Name: Robert J. Anderson

Title: President and Chief Executive Officer

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated April 30, 2021 with respect to the consolidated financial statements of Independence Resources Holdings, LLC for the year ended December 31, 2020, which are included in this Current Report of Earthstone Energy, Inc. on Form 8-K.

/s/ GRANT THORNTON LLP

Houston, Texas
July 23, 2021

CONSENT OF INDEPENDENT AUDITOR

We hereby consent to the inclusion of our report dated May 21, 2021 relating to the consolidated and combined financial statements of Tracker Resource Development III, LLC and its subsidiaries and TRD III Royalty Holdings (TX), LP as of and for the years ended December 31, 2020 and 2019 in the Current Report on Form 8-K of Earthstone Energy, Inc. dated July 23, 2021.

/s/ Plante & Moran, PLLC

July 23, 2021
Denver, Colorado

ACCOUNTANT'S ACKNOWLEDGEMENT

We acknowledge the inclusion of our report dated May 21, 2021 relating to the consolidated and combined financial statements of Tracker Resource Development III, LLC and its subsidiaries and TRD III Royalty Holdings (TX), LP as of March 31, 2021 and for the three-month periods ended March 31, 2021 and 2020 in the Current Report on Form 8-K of Earthstone Energy, Inc. dated July 23, 2021.

/s/ Plante & Moran, PLLC

July 23, 2021
Denver, Colorado

CONSENT OF INDEPENDENT AUDITOR

We hereby consent to the inclusion of our report dated May 20, 2021 relating to the statements of revenues and direct operating expenses of the SEG-TRD LLC and SEG-TRD II LLC Properties for the years ended December 31, 2020 and 2019 in the Current Report on Form 8-K of Earthstone Energy, Inc. dated July 23, 2021.

/s/ Plante & Moran, PLLC

July 23, 2021
Denver, Colorado



Earthstone Completes Tracker Acquisition and Updates Guidance & Operations

Provides Estimated Mid-Year Proved Reserves

The Woodlands, Texas, July 20, 2021 – Earthstone Energy, Inc. (NYSE: ESTE) (“Earthstone”, the “Company”, “our” or “we”), today announced that it has completed the previously announced acquisition of privately held operated assets located in the Midland Basin from Tracker Resource Development III, LLC and an affiliate (“Tracker”) and from affiliates of Sequel Energy Group LLC, which hold well-bore interests in certain of the producing wells operated by Tracker (collectively, the “Tracker Acquisition”). The Company also updated its 2021 guidance, provided an operational update, and provided an estimate of mid-year 2021 proved reserves.

The Company estimates its oil and gas sales volumes for the second quarter of 2021 to be approximately 2.07 MMBoe or an average of 22,716 Boe/d (52% oil, 76% liquids). The Company also has provided its estimate of mid-year 2021 proved reserves based on SEC pricing as of June 30, 2021, on a standalone basis as well as based on NYMEX strip pricing as of June 30, 2021 and adjusted for closing of the Tracker Acquisition. Adjusted for the closing of the Tracker Acquisition and including only proved developed reserves from the Tracker Acquisition, the Company estimates total proved reserves were 133.6 MMBoe, with a corresponding PV-10 value¹ of \$1,677 million.

Key highlights include:

- Achieved record estimated average daily sales volumes in the second quarter of 2021 of 22,716 Boe/d (52% oil), an increase of 12% over first quarter 2021 volumes
- Closed the Tracker Acquisition on July 20, 2021, the third significant acquisition completed in 2021
- Maintained a strong balance sheet and liquidity position with \$249.5 million of undrawn capacity under our \$550 million senior secured revolving credit facility and a cash balance of \$0.5 million as of June 30, 2021, as adjusted for the closing of the Tracker Acquisition on July 20, 2021
- On track to achieve leverage below 1.25x at year-end 2021²
- \$1,677 million PV-10 value on Company estimated Mid-Year 2021 total proved reserves of 133.6 MMBoe, based on NYMEX strip pricing, adjusted to include only the proved developed reserves of 20.2 MMBoe from the Tracker Acquisition
- \$1,089 million PV-10 value of proved developed reserves of 83.6 MMBoe included in total proved reserves estimates above

¹ PV-10 as used herein is the present value of estimated future revenues, discounted at 10% annually, to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs as of the date of estimation, without giving effect to (i) non-property related expenses such as general and administrative expenses, debt service and future income tax expense, or (ii) depreciation, depletion and amortization.

² Combining for all 2021 acquisitions; leverage defined as total debt to Adjusted EBITDAX

- Full Year 2021 production guidance increased 19% at the mid-point to 23,500-24,250 Boe/d (50%-51% oil) compared to the previous guidance
- Average daily sales volumes in the second half of 2021 are expected to be between 25,500 and 27,000 Boe/d
- Estimated accrued capital expenditures of \$22.8 million and \$32.6 million for the second quarter of 2021 and first-half of 2021, respectively, excluding acquisitions
- Plan to add a second rig to the 2021 drilling program in mid-third quarter, with a revised Full Year 2021 capital budget of \$130-\$140 million,
- Expect to spud 9 incremental gross operated wells and turn to sales 4 incremental gross operated wells compared to the prior capital budget

Tracker Acquisition and Board Appointment

At the Company's Annual Meeting of Stockholders held on Tuesday, July 20, 2021, its stockholders approved the issuance of 6.2 million shares of Class A Common Stock, which were issued in the closing of the Tracker Acquisition. As of July 20, 2021, and as adjusted for closing of the Tracker Acquisition, Earthstone had 50,493,800 outstanding Class A shares and 34,397,877 outstanding Class B shares for a total of 84,891,677 outstanding Class A & Class B shares.

Further, the stockholders approved an amendment to the Company's Third Amended and Restated Certificate of Incorporation to increase the authorized size of the Board of Directors of Earthstone from nine to eleven members. Subsequently, the Board increased the size of the Board from nine members to ten members and appointed Robert J. Anderson, the Company's President and CEO, to fill the vacancy effective July 20, 2021.

The aggregate purchase price of the Tracker Acquisition was approximately \$126.5 million at signing of the purchase and sale agreement, consisting of \$81.6 million in cash and 6.2 million shares of Earthstone's Class A common stock valued at \$44.9 million based on a closing share price of \$7.24 on March 30, 2021. Cash consideration paid at closing was \$59.6 million, reflecting both the purchase price adjustment estimated prior to closing and the deposit paid at signing.

The low-cost, low-decline, high-margin assets acquired from the Tracker Acquisition are proximately located and complementary to Earthstone's existing operated assets, adding significant producing asset value with a Company estimated PV-10 value of mid-year 2021 proved developed reserves of \$169.0 million, based on NYMEX strip pricing and differentials as of June 30, 2021. We also obtained further economic upside from 49 high-graded drilling locations which the Company estimates to provide IRRs of ~56% at \$60/bbl WTI oil prices and \$2.50/mcf Henry Hub gas prices³.

Updated 2021 Guidance

The Company has revised its 2021 capital budget to include the addition of a second rig that is expected to commence operations in early August and now expects to spend \$130-\$140 million. This program is expected to result in spudding 30 gross / 26.2 net operated wells and bringing 20 gross / 16.1 net operated wells and 0.7 net non-operated wells online in 2021 on its acreage in the Midland Basin.

³ Based on current all-in estimated drilling, completions and equipment costs of \$600 per lateral foot for a 10,000 foot lateral. Assumes NGL differential realizations to be 30% of WTI.

Based on its 2021 capital budget, operating plan, and existing service costs, along with current commodity prices and hedges, the Company expects to generate significant positive free cash flow⁴ in 2021. The Company's capital budget excludes acquisitions.

	\$ millions (Net)	Gross / Net Operated Wells Spudded	Gross / Net Operated Wells On Line	Net Non-Operated Wells On Line
FY 2021 Capital Expenditures				
Drilling and Completions	\$120 – 130	30 / 26.2	20 / 16.1	0.7
Land / Infrastructure	10			
FY 2021 Total Capital Expenditures	\$130 – 140			
 FY 2021 Average Daily Production (Boe/d)	 23,500 – 24,250			
% Oil	50% – 51%			
% Liquids	74% – 75%			
 2H 2021 Average Daily Production (Boe/d)	 25,500 – 27,000			
% Oil	46% – 47%			
% Liquids	73% – 74%			
 2H 2021 Operating Costs				
Lease Operating Expense (\$/Boe)	\$5.75 – \$6.00			
Production and Ad Valorem Taxes (% of Revenue)	6.25% – 7.00%			
Cash G&A (\$mm)	\$12 – \$13			

Note: Guidance is forward-looking information that is subject to considerable change and numerous risks and uncertainties, many of which are beyond Earthstone's control. See "Forward-Looking Statements" section below. Cash G&A is defined as general and administrative expenses excluding stock-based compensation.

Management Comments

Robert J. Anderson, President and Chief Executive Officer of Earthstone, stated, "First off, I want to thank my fellow board members for this appointment to the Earthstone Board of Directors. I am honored to have worked with this distinguished group for a number of years in my capacity as an officer and look forward to working even closer with them as we continue to build Earthstone. We have had an exciting and productive first half of 2021, and we are entering the second half with a significant increase in operational scale, production, cash flow and most importantly, in value. We have invested an estimated \$360 million in aggregate acquisitions so far this year, and combined with a substantial increase in commodity prices, we have seen a significant increase in production volumes, cash flows and in estimated proved reserves and PV-10 value. We pride ourselves on targeting and completing acquisitions at highly accretive valuations and are focused on continuing to do so in the second half of the year.

⁴ As used in this news release, "free cash flow", a non-GAAP measure, means Adjusted EBITDAX (a non-GAAP measure), less interest expense, less accrual-based capital expenditures. As used in this news release "Adjusted EBITDAX", a non-GAAP measure means net income plus, when applicable, accretion of asset retirement obligations; impairment expense; depletion, depreciation and amortization; interest expense, net; transaction costs; loss (gain) on sale of oil and gas properties; unrealized (gain) loss on derivatives; stock-based compensation; and income tax expense.

“Our conservative approach to funding acquisitions with an appropriate mix of debt and equity has allowed us to maintain strong liquidity and low leverage while building significant scale. We expect to have nearly doubled our daily production volumes compared to 2020 levels, all while adding minimal G&A. The combination of continued improvements in operational and corporate efficiencies has allowed us to continue to drive down per unit costs, as we aim to maximize margins.

Mr. Anderson continued “With our increased production base, cash flow and economic drilling inventory, the addition of a second rig will further develop our growing drilling inventory, primarily impacting production volumes in 2022 and beyond. Our updated capital program is designed to allow spending within cash flow and is expected to generate significant free cash flow in 2021. We look forward to fully integrating the Tracker Acquisition assets in the coming months and expect a similarly smooth integration as we achieved with the IRM assets acquired in January. We recently finished drilling operations on our initial pad on the IRM assets ahead of schedule and under our estimated costs. As we move forward, we will continue to focus on cost-efficient drilling and completion operations as we look to create value through the drillbit.”

Liquidity Update

As of June 30, 2021, we had \$0.5 million in cash and \$241.4 million of long-term debt outstanding under our credit facility with a borrowing base of \$475 million. With the \$233.6 million of undrawn borrowing base capacity and \$0.5 million in cash, we had total liquidity of approximately \$234.1 million. Adjusted for the closing of the Tracker Acquisition on July 20, 2021, we had an estimated \$0.5 million in cash and \$301.0 million of long-term debt outstanding under our credit facility with a borrowing base of \$550 million. With the \$249.0 million of undrawn borrowing base capacity and \$0.5 million in cash, we had total liquidity of approximately \$249.5 million on a combined basis.

Operational Update

The Company completed three gross (2.1 net) wells in the second quarter on the Hamman 45 pad in Midland County in the Jo Mill, Lower Spraberry and Wolfcamp B zones. The wells began flowing back recently and continue to clean-up but have not yet reached peak IP-30 day rates. We expect to complete and turn to sales the recently drilled 4-well Pearl Jam pad (95% working interest) in Midland County late in the third quarter. These are the Company’s first wells drilled on the recently acquired IRM acreage. Subsequent to drilling on the Pearl Jam pad, the rig was moved to western Reagan County in early July to drill a 4-well pad, then is expected to move to Upton County to drill a 4-well pad before being moved to Midland County late in 2021. The Company plans to deploy a second rig in early August, beginning in Upton County.

Mid-Year 2021 SEC Estimated Proved Reserves

Earthstone Stand-Alone Mid-Year 2021 Estimated Proved Reserves Highlights:

- Proved Reserves of 111.4 MMBoe with corresponding PV-10 value of \$1,032 million
- Proved Reserves are 54% oil, 24% natural gas liquids, and 22% natural gas
- Proved Reserves are 55% Proved Developed and 45% Proved Undeveloped

As shown in the table below, the Company's estimated proved reserves at mid-year 2021, which were prepared in accordance with Securities and Exchange Commission ("SEC") guidelines by the Company, were approximately 111.4 million barrels of oil equivalent ("MMBoe").

Reserve Category	Oil (MBbls)	Gas (MMcf)	NGL (MBbls)	Total (MBoe)	PV-10 (\$ in thousands)
Proved Developed	31,008	86,092	16,319	61,675	646,779
Proved Undeveloped	29,015	58,744	10,871	49,677	385,061
Total	60,023	144,836	27,190	111,352	1,031,839

Note: PV-10 is a non-GAAP financial measure. See "Non-GAAP Financial Measure."

SEC rules require that calculations of economically recoverable reserves use the unweighted average price on the first day of the month for the prior twelve-month period. The resulting oil and natural gas prices used for the Company's 2021 mid-year internal reserve report, prior to adjusting for quality and basis differentials, were \$49.78 per barrel and \$2.428 per million British Thermal Units ("MMBtu"), respectively. SEC prices net of differentials were \$48.88 per barrel, \$14.58 per equivalent barrel of NGL and \$1.21 per Mcf.

Mid-Year 2021 Company Estimated Proved Reserves (Including Tracker Acquisition)

To illustrate the effects of commodity price fluctuations on estimated reserve quantities and present values and to illustrate the impact of the recent Tracker Acquisition, Earthstone is also providing alternative Mid-Year 2021 Company Estimated Proved Reserves. This alternative summary as shown in the table below has been prepared utilizing NYMEX strip benchmark prices and basis differentials as of June 30, 2021.

Highlights of Mid-Year 2021 Company Estimated Proved Reserves, combined with only the estimated proved developed reserves of 20.2 MMBOE from the Tracker Acquisition:

- \$1,667 million PV-10 value of Proved Reserves of 133.6 MMBoe (48% oil, 27% natural gas liquids, and 25% natural gas)
- \$1,089 million PV-10 value of Proved Developed Reserves of 83.6 MMBoe (42% oil, 30% natural gas liquids, and 28% natural gas)

Reserve Category	Oil (MBbls)	Gas (MMcf)	NGL (MBbls)	Total (MBoe)	PV-10 (\$ in thousands)
Proved Developed	34,818	141,482	25,175	83,573	1,089,312
Proved Undeveloped	29,172	59,420	10,993	50,068	587,693
Total	63,990	200,901	36,169	133,642	1,677,005

Note: See NYMEX strip benchmark prices and basis differentials "Alternative Mid-Year 2021 Estimated Proved Reserves" components below for a breakdown of the above by entity.

About Earthstone

Earthstone Energy, Inc. is a growth-oriented, independent energy company engaged in developing and operating oil and gas properties. The Company's primary assets are located in the Midland Basin of west

Texas and the Eagle Ford Trend of south Texas. Earthstone is traded on the NYSE under the symbol “ESTE.” For more information, visit the Company’s website at www.earthstoneenergy.com.

Forward-Looking Statements

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements that are not strictly historical statements constitute forward-looking statements and may often, but not always, be identified by the use of such words such as “expects,” “believes,” “intends,” “anticipates,” “plans,” “estimates,” “forecast,” “guidance,” “target,” “potential,” “possible,” or “probable” or statements that certain actions, events or results “may,” “will,” “should,” or “could” be taken, occur or be achieved. Forward-looking statements are based on current expectations and assumptions and analyses made by Earthstone and its management in light of experience and perception of historical trends, current conditions and expected future developments, as well as other factors appropriate under the circumstances that involve various risks and uncertainties that could cause actual results to differ materially from those reflected in the statements. These risks include, but are not limited to, those set forth in Earthstone’s annual report on Form 10-K and as amended on Form 10-K/A, for the year ended December 31, 2020, quarterly reports on Form 10-Q, recent current reports on Form 8-K, and other Securities and Exchange Commission filings. Earthstone undertakes no obligation to revise or update publicly any forward-looking statements except as required by law.

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Earthstone Energy, Inc.
Alternative Mid-Year 2021 Proved Reserves

The information presented below includes the combination of the stand-alone reserve quantities and PV-10 for Earthstone and the Tracker Acquisition as of June 30, 2021 prepared utilizing NYMEX strip benchmark prices and basis differentials as of June 30, 2021.

Reserve Category	ESTE			Tracker Acquisition	Combined		
	Proved Developed	Proved Undeveloped	Total	Proved Developed	Proved Developed	Proved Undeveloped	Total
Oil (MBbls)	31,659	29,172	60,831	3,159	34,818	29,172	63,990
Gas (MMcf)	89,129	59,420	148,549	52,352	141,482	59,420	200,901
NGL (MBbls)	16,904	10,993	27,898	8,271	25,175	10,993	36,169
Total (MBoe)	63,419	50,068	113,487	20,155	83,573	50,068	133,642
PV-10 (\$ in thousands)	\$920,343	\$587,693	\$1,508,036	\$168,969	\$1,089,312	\$587,693	\$1,677,005

Earthstone Energy, Inc.
Non-GAAP Financial Measure
Unaudited

The non-GAAP financial measure of PV-10, as defined and presented below, is intended to provide readers with meaningful information that supplements our financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

PV-10 is derived from the standardized measure of discounted future net cash flows ("Standardized Measure"), which is the most directly comparable financial measure under GAAP. PV-10 is a computation of the Standardized Measure on a pre-tax basis. PV-10 is equal to the Standardized Measure at the applicable date, before deducting future income taxes, discounted at 10%. We believe that the presentation of PV-10 is relevant and useful to investors because it presents the discounted future net cash flows attributable to our estimated net proved reserves prior to taking into account future corporate income taxes, and it is a useful measure for evaluating the relative monetary significance of our oil and natural gas properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies. We use this measure when assessing the potential return on investment related to our oil and natural gas properties. PV-10, however, is not a substitute for the Standardized Measure. Our PV-10 measure and the Standardized Measure do not purport to present the fair value of our oil and natural gas reserves.

The following table provides a reconciliation of PV-10 of the Company's estimated proved reserves to the Standardized Measure as of June 30, 2021 and not including the assets acquired in the Tracker Acquisition (in thousands):

Present value of estimated future net revenues (PV-10)	\$	1,031,839
Future income taxes, discounted at 10%		(65,552)
Standardized measure of discounted future net cash flows	\$	966,287



Investor Presentation
July 20, 2021



Disclaimer

Forward-Looking Statements

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This presentation contains Earthstone's 2021 production, capital expenditure and operating expense guidance. The actual levels of production, capital expenditures and operating expenses may be higher or lower than these estimates due to, among other things, uncertainty in drilling schedules, oil and natural gas prices, changes in market demand for hydrocarbons and unanticipated delays in production. These estimates are based on numerous assumptions. All or any of these assumptions may not prove to be accurate, which could result in actual results differing materially from estimates. No assurance can be made that any new wells will produce in line with historical performance, or that existing wells will continue to produce in line with Earthstone's expectations. Earthstone's ability to fund its 2021 and future capital budgets is subject to numerous risks and uncertainties, including volatility in commodity prices and the potential for unanticipated increases in costs associated with drilling, production and transportation. For additional discussion of the factors that may cause us not to achieve our production estimates, see Earthstone's filings with the SEC, including its 2020 Form 10-K (as amended), subsequent Form 10-Qs and Form 8-Ks. Earthstone does not undertake any obligation to release publicly the results of any future revisions it may make to this prospective data or to update the data to reflect events or circumstances after the date of this presentation. Therefore, you are cautioned not to place undue reliance on the information in this presentation.

Industry and Market Data

This presentation has been prepared by Earthstone and includes market data and other statistical information from third-party sources, including independent industry publications, government publications or other published independent sources. Although Earthstone believes these third-party sources are reliable as of their respective dates, Earthstone has not independently verified the accuracy or completeness of this information. Some data are also based on Earthstone's good faith estimates, which are derived from its review of internal sources as well as the third-party sources described above.

Estimated Ultimate Recovery and Locations

Management's use of the term estimated ultimate recovery ("EUR") in this presentation describes estimates of potentially recoverable hydrocarbons that the SEC rules prohibit from being included in filings with the SEC. These are more speculative than estimates of proved, probable and possible reserves and accordingly are subject to substantially greater risk of being actually realized, particularly in areas or zones where there has been limited or no drilling history. We include EUR to demonstrate what we believe to be the potential for future drilling and production by Earthstone.

Actual quantities that may be ultimately recovered may differ substantially from estimates. Factors affecting ultimate recovery include the scope of the operators' ongoing drilling programs, which will be directly affected by the availability of capital, drilling and production costs, availability of drilling services and equipment, drilling results, lease expirations, transportation constraints, regulatory approvals and other factors, and actual drilling results, including geological and mechanical factors affecting recovery rates. Estimates of potential resources may also change significantly as the development of the properties underlying Earthstone's mineral interests provides additional data. This presentation also contains Earthstone's internal estimates of its potential drilling locations, which may prove to be incorrect in a number of material ways. The actual number of locations that may be drilled may differ substantially from estimates.

Investment Highlights: Leading Small-Cap, Permian Focused Producer

Top Investment Criteria		Earthstone's Qualifications
Basin & Acreage Position	✓	High quality, Midland Basin acreage position enhanced by 2021 acquisitions of IRM and Tracker
Low Leverage Supported by Free Cash Flow	✓	1.3x leverage for 1Q21 ⁽¹⁾ supported by substantial free cash flow ⁽²⁾
Strong Liquidity	✓	~\$250 million pro forma liquidity (cash + undrawn availability) as of 6/30/21 under \$550 million borrowing base ⁽³⁾
High Commodity Price Protection	✓	~81% of 2H 2021 oil production hedged ⁽⁴⁾
High Margin, Low Cost Production	✓	1Q21 cash margins of \$28.67 per BOE on all-in cash costs ⁽⁵⁾ of \$12.66 per BOE
Commitment & Focus	✓	"Do the right thing" commitment to stakeholders, employees and environment

(1) Leverage reflects 1Q21 total debt / 1Q21 Annualized Adjusted EBITDAX.

(2) Free cash flow defined as Adjusted EBITDAX less interest expense less capital expenditures (accrual basis).

(3) Liquidity based on estimated 6/30/21 ESTE debt and cash balance and borrowing base, all as adjusted for the closing of the Tracker Acquisition in July 2021.

(4) Based on midpoint of updated 2H21 production guidance.

(5) Cash margin calculated on a per Boe basis as revenues less all-in cash costs, which consists of LOE, ad valorem and production taxes, transportation expense, cash G&A expense and interest expense. Excludes impact of income taxes and realized hedges.



Proven Leadership and Track Record of Value Creation

Operating team has extensive experience operating across various basins and in different operating environments



Leadership Team	Years of Experience	Years Working Together	Title
Frank Lodzinski	49	25	Executive Chairman
Robert Anderson	34	17	President and CEO
Steve Collins	33	25	Operations
Mark Lumpkin	24	4	CFO
Tim Merrifield	45	20	Geology and Geophysics
Tony Oviedo	40	4	Accounting and Administration

Track Record of Value Creation



2021: Increasing Scale and Efficiency Through Consolidation

- Over \$360 million in aggregate YTD acquisitions of Independence Resources Management, LLC (“IRM”) (closed 1/7/2021⁽¹⁾), assets from Tracker Resource Development III, LLC and affiliates of Sequel Energy (closed 7/20/2021) and Eagle Ford working interest acquisitions (closed in May and June 2021)

			Eagle Ford Acquisitions	Combined
Announced Date	12/18/2020	4/1/2021	6/14/2021	
Closing Date	1/7/2021	7/20/2021	May & June 2021	
1-Day Stock Price Impact	+17.7%	+25.3%	+2.6%	+15.2% (avg.)
Acquisition Price (\$MM) ⁽¹⁾	\$186	\$126	\$48	\$360
PDP PV10 (\$MM) ⁽²⁾	\$173	\$153	\$67	\$393
Production (Boe/d) ⁽³⁾	8,800	7,800	1,150	17,750
% Liquids	85%	59%	96%	74%
Net Acreage	43,400	20,300	2,397	66,097
Drilling Locations ⁽⁴⁾	70	49	0	119

(1) IRM Acquisition price of \$182MM based on \$50.8MM of equity consideration (approximately 12.7MM shares and ESTE share price of \$3.99 on 12/16/20) and cash consideration of \$131.2MM. Tracker Acquisition price of \$126MM based on \$44.2MM of equity consideration (approximately 6.2MM shares and ESTE share price of \$7.24 on 3/30/21) and cash consideration of \$81.6MM. Includes assets from Tracker Resource Development III, LLC and an affiliate and from affiliates of Sequel Energy. Eagle Ford working interest Acquisitions of ~\$48mm in cash and closed in May and June 2021.

(2) Based on ESTE estimates; PV10 as of 12/1/20 based on NYMEX strip pricing as of 11/30/20 for IRM and as of 3/1/21 based on NYMEX strip pricing as of 3/29/21 for Tracker. Eagle Ford Acquisitions PV10 based on 6/1/21 NYMEX strip pricing.

(3) Estimated 3Q 2020 production for IRM, estimated March 2021 production for Tracker and estimated May 2021 production for Eagle Ford Acquisitions.

(4) ESTE estimated drilling locations exceeding ESTE rate of return threshold based on 11/30/20 NYMEX strip pricing for IRM and \$50/bbl flat oil pricing for Tracker.

Recent Acquisitions Meet Key Earthstone Criteria

Earthstone Objectives	Commentary	Recent Acquisitions
Increase Scale at Favorable Valuations	<ul style="list-style-type: none"> ▪ ~75% increase in ESTE base production volumes ▪ PDP-focused purchase price valuation 	✓
High Quality Basin & Acreage Position	<ul style="list-style-type: none"> ▪ Complementary Midland Basin acreage footprint ▪ Adds ~120 high-graded drilling locations 	✓
Increase Free Cash Flow Capacity	<ul style="list-style-type: none"> ▪ Increased cash flow base positions ESTE for continued organic growth within free cash flow <ul style="list-style-type: none"> — Add 2nd drilling rig 3Q 2021 	✓
Maintain Balance Sheet Strength	<ul style="list-style-type: none"> ▪ ESTE targeting sub-1.25x leverage at YE21 ⁽¹⁾ ▪ ~45% undrawn borrowing base ⁽²⁾ 	✓
Maintain Leading Cost Structure & Margins	<ul style="list-style-type: none"> ▪ Maintain low cost, high margin operating metrics ▪ Eliminate ~95% of IRM/Tracker G&A 	✓

(1) Pro forma for Tracker Acquisition and Eagle Ford Acquisitions; leverage defined as total debt to Adjusted EBITDAX.

(2) Based on estimated 6/30/21 ESTE debt and cash balance and borrowing base, all as adjusted for the closing of the Tracker Acquisition.

Company Overview

- The Woodlands, Texas based E&P company focused on development and production of oil and natural gas with current operations in the Midland Basin (~52,800 core net acres⁽¹⁾)
 - Additional ~38,500 net acres in the Midland Basin and ~13,200 net acres in the Eagle Ford
- Strategy of growing through the drill bit, organic leasing, and attractive asset acquisitions and business combinations
- 2021 2Q production of 22,716 Boe/d (52% oil, 76% liquids)⁽²⁾

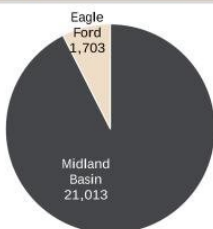
Market Statistics⁽³⁾

(\$ in millions, except share price)

Class A Common Stock (MM)	50.5
Class B Common Stock (MM)	34.4
Total Common Stock Outstanding (MM)	84.9
Stock Price (as of 7/16/21)	\$9.72
Market Capitalization	\$825.1
Plus: Total Debt (as of 6/30/21)	\$301.0
Less: Cash (as of 6/30/21)	(0.5)
Enterprise Value	\$1,125.7

Production Summary⁽²⁾

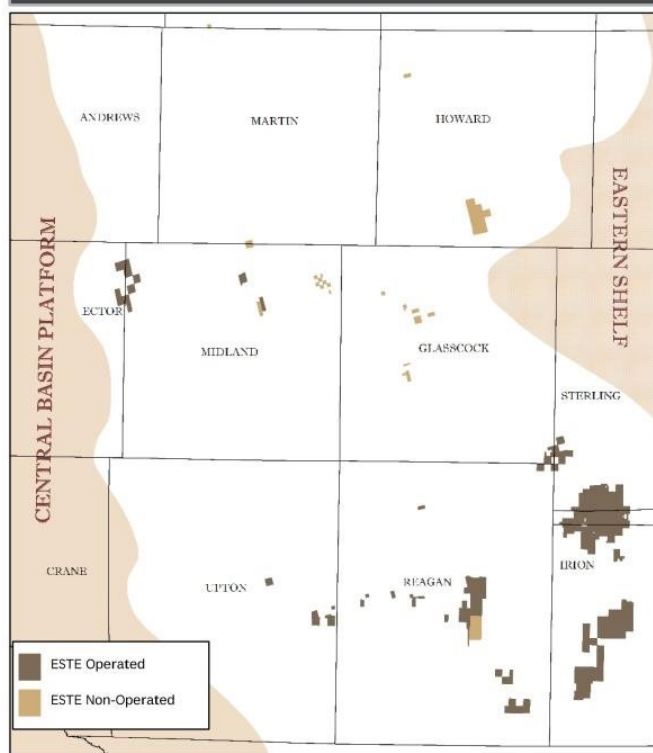
2Q21 Net Sales Volumes: 22,716 Boe/d



2H21 Production Guidance

25,500 - 27,000 Boe/d estimated production

Midland Basin Asset Overview



(1) Total Midland Basin ~91,300 net acres.

(2) Reflects 2Q21 Earthstone estimated sales volumes (excludes Tracker).

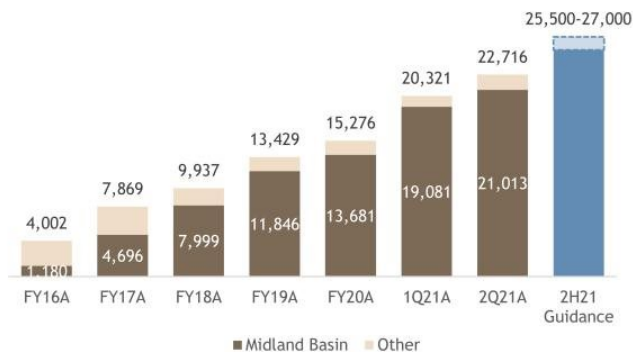
(3) Class A and Class B Common Stock outstanding as of 7/20/21 pro forma for 6.2MM shares issued in Tracker Acquisition. Total ESTE debt and cash as of 6/30/21 pro forma for Tracker Acquisition.

Earthstone Overview

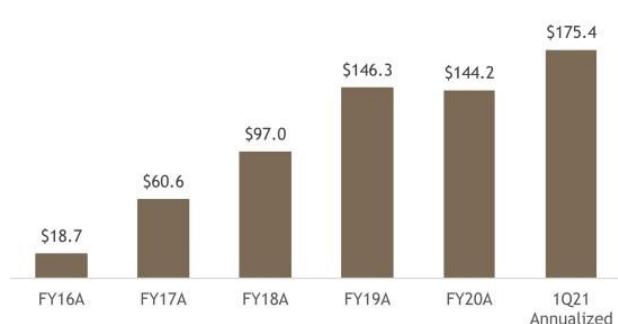
Midland Basin Growth Story

- Since entering the Midland Basin in 2016, Earthstone has substantially increased production and decreased per unit cash expenses, resulting in increased Adjusted EBITDAX, while maintaining low leverage and preserving financial flexibility

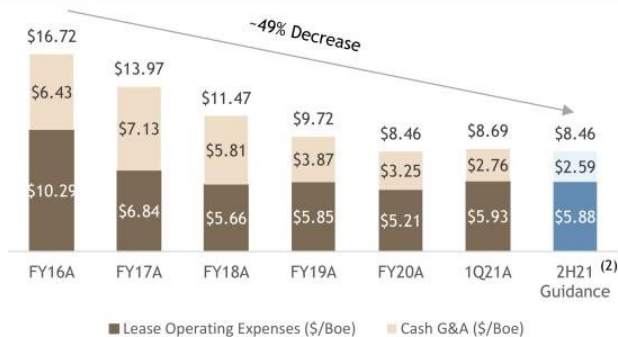
Average Daily Production (Boe/d)



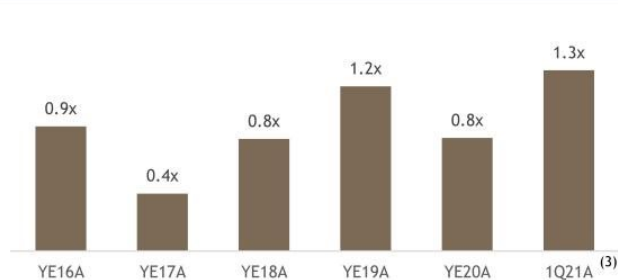
Adjusted EBITDAX (\$MM)



Lease Operating Expense and Cash G&A⁽¹⁾ (\$/Boe)



Debt / Adjusted LTM EBITDAX



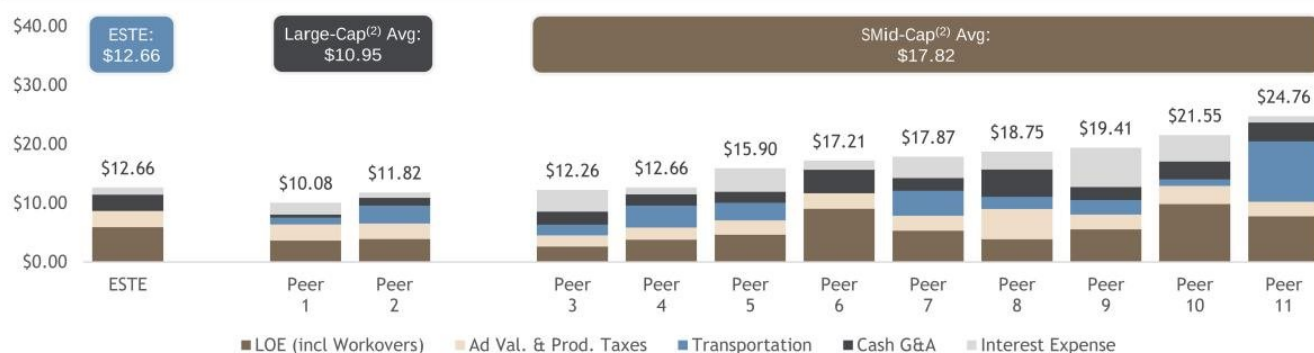
(1) Excludes stock-based compensation.

(2) Represents midpoint of 2H21 guidance.

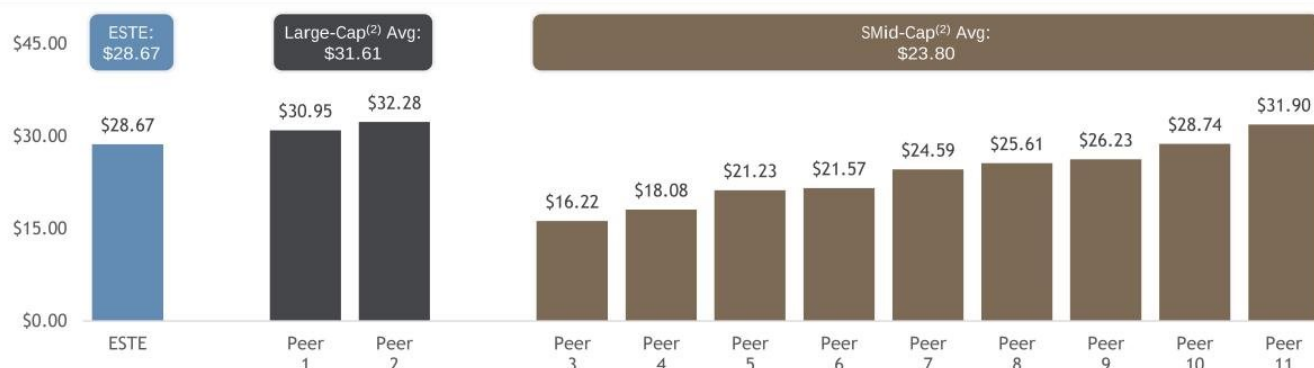
(3) Calculated as 1Q21 total debt / 1Q21 Annualized Adjusted EBITDAX.

Low Cost Production Generates Leading Cash Margins

1Q21 All-in Cash Costs (\$/Boe)⁽¹⁾



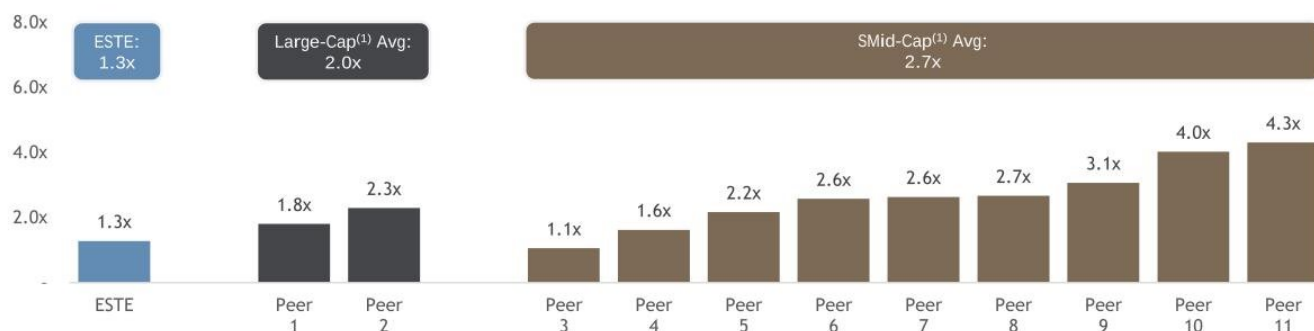
1Q21 All-in Cash Margin (\$/Boe)⁽¹⁾



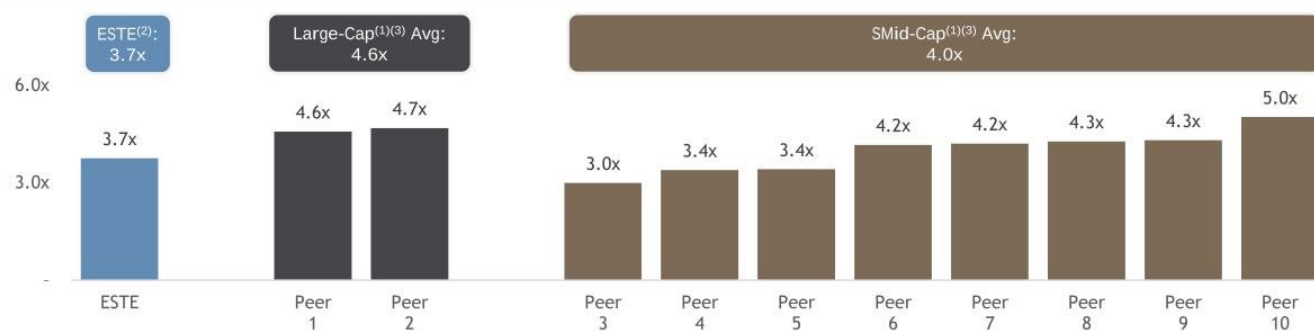
(1) All-in cash margin calculated on a per Boe basis as revenues less all-in cash costs, which consists of LOE, ad valorem and production taxes, transportation expense, cash G&A expense and interest expense. Excludes impact of income taxes and realized hedges. Cash G&A and interest expense includes expensing of capitalized cash G&A and capitalized interest expense, respectively. Companies that capitalized a portion of their cash G&A and/or interest expense include CDEV, CPE, FANG, MTDR and XEC.
 (2) Large-Cap includes: FANG and PXD. SMid-Cap includes: BATL, CDEV, CPE, LPI, MTDR, REI, REPX, SM and XEC.

Leading Leverage Metrics but Undervalued Equity Trading

1Q21 Total Debt / 1Q21 Annualized EBITDAX



Enterprise Value to 2022E EBITDAX



Source: Factset, Wall Street research, Market Data as of 7/16/21.

(1) Large-Cap includes: FANG and PXD. SMid-Cap includes: BATL, CDEV, CPE, LPI, MTDR, REI, REPX, SM and XEC (BATL excluded in bottom chart due to lack of research coverage).

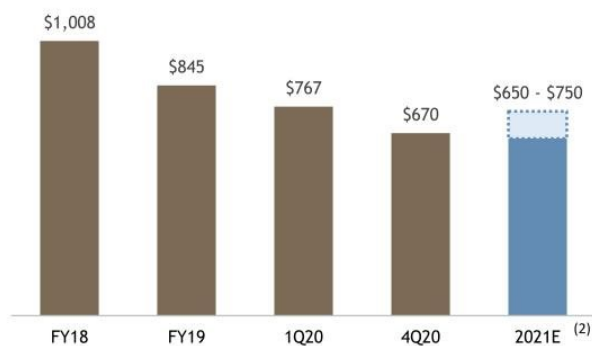
(2) Pro forma for Tracker Acquisition.

(3) Reflects PXD pro forma for its acquisition of Doublepoint and LPI pro forma for its acquisition of Sabalo Energy.

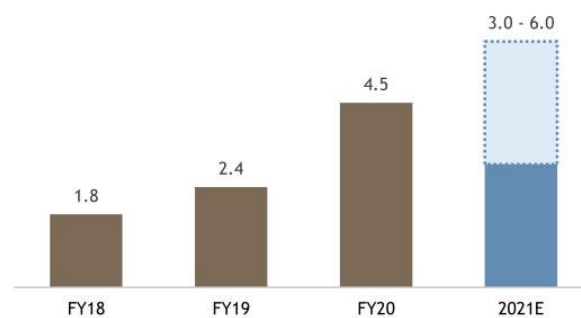
Continuous Focus on Operational Improvement

- A continued focus on driving down costs and increased efficiencies achieved by developing larger pads and driving down drilling and completion days

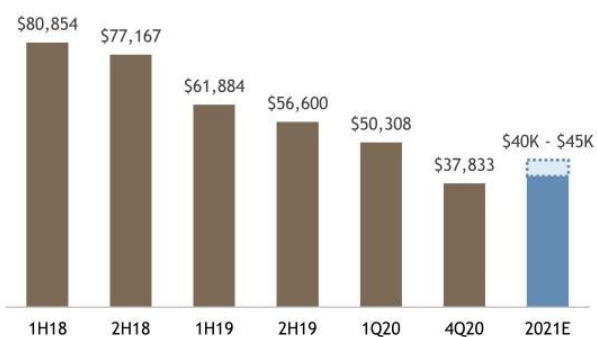
Actual Drilling, Completions & Equip. Cost (\$/Lat Ft.)⁽¹⁾



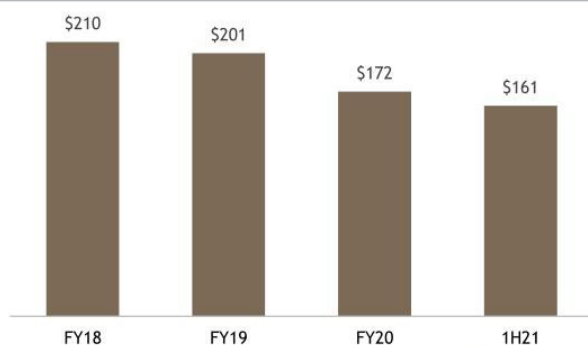
Average Number of Wells Per Pad



All-in Frac Costs per Stage (\$/Stage)



Drilling Costs (\$/TMD)⁽¹⁾⁽³⁾



- (1) Excludes wells that required additional casing string or pilot well test. Includes operated Midland Basin wells only.
 (2) Estimate based on total drilling, completions and equipment costs for a 10,000 ft lateral.
 (3) Drilling Costs = total drilling costs / total measured depth feet.

Highly Focused Environmental Stewardship

Key Environmental Priorities Focus on Responsible Operatorship

- ✓ Installation of Vapor Recovery Units (“VRUs”) in conjunction with tank battery construction minimizes air emissions
- ✓ Target Zero Flaring: Connect natural gas pipelines ahead of flowback and first production negates need for flaring
- ✓ Leak Detection & Repair (“LDAR”) program since 2019 to further minimize air emissions
- ✓ Target >60% of 2021 oil production in Midland Basin on pipeline. Increased from 14% to 43% in 2020
- ✓ Plan for 100% of water disposal on pipeline in the Midland Basin to reduce truck hauls, which, in turn, reduces CO2 emissions



Earthstone is an Environmental Partnership Program Participant

Responsible Management of Air Emissions and Flaring

Earthstone’s “Do the Right Thing” approach and proactive emissions and flaring initiatives are demonstrated by:



29%

Below Permian Peers Avg.⁽¹⁾

2020 Greenhouse Gas
Emissions Intensity of 12.4
(mT CO₂e / Mboe)



45%

Below Permian Peers Avg.⁽¹⁾

2020 Flaring Intensity of 2.17%
(operated gas flared /
operated gas produced)

(1) Peers include CDEV, CPE, FANG, LPI, MTDR, PXD, SM and XEC. Data compiled from company published data for most recent available year (2019 or 2020) and from publicly available EPA reports as of June 1, 2021.

Executive Compensation Fully Aligned with Shareholders

- Leading executive compensation practices
 - Consistent with investor demands
 - Focused on share price and corporate performance
 - Designed to incentivize management for performance
- Lower cash, higher equity weighted compensation structure
 - Reasonable salaries, but below peers⁽¹⁾
 - Annual bonus is performance-based and 100% at risk with target below peers⁽¹⁾
 - Equity compensation fully aligned with shareholders and dependent upon stock performance
 - 75% of shares at-risk based solely on shareholder return (see right side of page)
 - 25% of shares vest over 3-year period

75% of Equity Compensation based on 3-year Absolute Shareholder Return⁽²⁾

3-Year Total Shareholder Return ⁽³⁾	Payout (% of target) ⁽³⁾
<25%	0%
25% - 50%	50-100%
50% - 75%	100-200%
>75%	200%

Majority of executive compensation is based directly on shareholder gains

(1) Peers include all U.S. public upstream operators with market capitalization from \$250MM to \$1.0BN as of 1/29/2021: BRY, BCEI, CPE, CDEV, MCF, LPI, OAS, PVAC, QEP, TALO, WTI, WLL. Data based on 2020 SEC proxy filings.

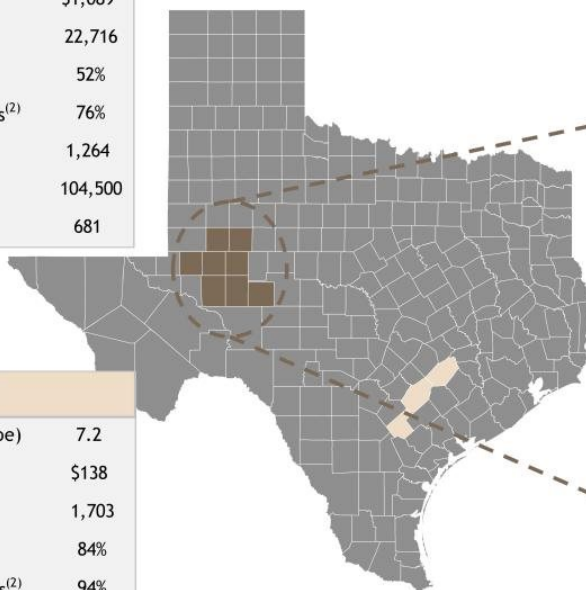
(2) Absolute shareholder return includes change in stock price plus impact of dividends paid.

(3) Based on 2021 long term equity incentive plan awards.

Areas of Operations

Total ⁽¹⁾	
Total Proved Developed (Mmboe)	83.6
Total PD PV-10 (\$mm)	\$1,089
2Q21 Net Production (Boe/d) ⁽²⁾	22,716
2Q21 Net Production - % Oil ⁽²⁾	52%
2Q21 Net Production - % Liquids ⁽²⁾	76%
Gross Producing Wells	1,264
Net Acres	104,500
Gross Drilling Locations	681

Eagle Ford ⁽¹⁾	
Total Proved Developed (Mmboe)	7.2
Total PD PV-10 (\$mm)	\$138
2Q21 Net Production (Boe/d) ⁽²⁾	1,703
2Q21 Net Production - % Oil ⁽²⁾	84%
2Q21 Net Production - % Liquids ⁽²⁾	94%
Gross Producing Wells	123
Net Acres	13,200
Gross Drilling Locations	0



Midland Basin ⁽¹⁾	
Total Proved Developed (Mmboe)	76.4
Total PD PV-10 (\$mm)	\$951
2Q21 Net Production (Boe/d) ⁽²⁾	21,013
2Q21 Net Production - % Oil ⁽²⁾	50%
2Q21 Net Production - % Liquids ⁽²⁾	75%
Gross Producing Wells	1,141
Net Acres	91,300
Gross Drilling Locations	681

(1) Reserves based on ESE management estimates of mid-year 2021 assuming NYMEX strip pricing as of 6/30/21. Includes impact of Tracker Acquisition.
 (2) Represents estimated sales volumes. Excludes impact of Tracker Acquisition.

Substantial Economic Inventory in the Midland Basin

Midland Basin Overview

- Long lateral development increases capital efficiency
- Over 85% of Midland horizontal locations have laterals of ~6,750 feet or greater
- Near-term drilling focused in the Lower Spraberry, Wolfcamp A and Wolfcamp B targets in Midland, Upton and Western Reagan Counties

Well Level Economics (10,000' lateral)⁽¹⁾

Project Area	3-Stream EUR (Mboe)	Oil (%)	Liquids (%)	IRR \$50 Oil / \$2.50 Gas	IRR \$60 Oil / \$2.50 Gas
Midland	1,250	60%	81%	93%	>100%
Upton	1,000	56%	79%	69%	>100%
Reagan	1,300	38%	70%	46%	71%
Irion	950	29%	66%	36%	56%

Gross Locations by Lateral Length and Target⁽²⁾

Target	Gross Locations by Lateral Length			Total	% Total
	5,000' - 6,750'	6,750' - 8,750'	8,750'+		
Lower Spraberry	19	22	35	76	11%
Wolfcamp A & B	37	139	262	438	64%
All Other Targets	27	53	87	167	25%
Total Gross Locations	83	214	384	681	100%
Total Net Locations	79	153	226	458	
% Total (Gross)	12%	31%	56%	100%	

Midland Basin Locations by Op / Non-Op⁽²⁾

	Gross Locations	Net Locations	Average Lateral Length	Average WI	% of Gross Locations in LSBY, WC A/B
Operated	438	378	8,435	86%	80%
Non-Operated	243	80	9,338	33%	67%
Total	681	458	8,757	67%	76%

(1) Single well rates of return ("IRR") based on all-in drilling, completions and equipment costs of \$650/foot for a 10,000 foot lateral for Midland, Upton and Reagan Counties. Assumes \$600/foot for a 10,000 foot lateral for Irion County. Assumes 3-stream economics on flat benchmark price deck of Oil - \$50 and \$60/Bbl, Gas - \$2.50/Mcf before deductions for transportation, gathering, and quality differential. Assumes NGL differential realizations to be 30% of WTI NYMEX strip pricing.

(2) Gross location count includes only economic locations based on ESE management estimates of reserves as of 12/31/20 assuming Oil - \$50/Bbl, Gas - \$2.50/Mcf and includes locations from IRM and Tracker Acquisitions.

Financial Overview

Capital Budget, Guidance and Liquidity

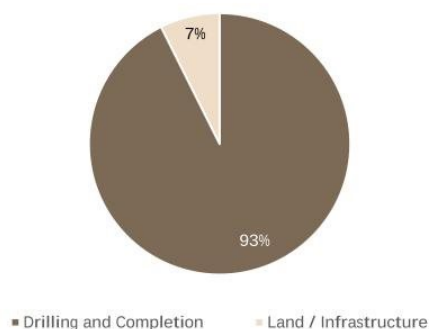
ESTE FY 2021 Capital Budget

(\$ in millions)		Gross / Net Operated Wells Spudded	Gross / Net Operated Wells On Line	Net Non-Op Wells On Line
Drilling and Completion	\$120 - \$130	30 / 26.2	20 / 16.1	0.7
Land / Infrastructure	\$10			
Total	\$130 - \$140			

2021 Guidance

FY 2021 Average Daily Production (Boe/d)	23,500	-	24,250
% Oil	50%	-	51%
% Liquids	74%	-	75%
2H 2021 Average Daily Production (Boe/d)	25,500	-	27,000
% Oil	46%	-	47%
% Liquids	73%	-	74%
2H 2021 Operating Costs			
Lease Operating Expense (\$/Boe)	\$5.75	-	\$6.00
Production and Ad Valorem Taxes (% of Revenue)	6.25%	-	7.00%
Cash G&A (\$MM)	\$12.0	-	\$13.0

FY 2021 Capital Budget Breakdown⁽¹⁾



Liquidity (6/30/21)⁽²⁾

(\$ in millions)	6/30/21	PF 6/30/21
Cash	\$0.5	\$0.5
Revolver Borrowings	241.4	301.0
Total Debt	\$241.4	\$301.0
Revolver Borrowing Base	475.0	550.0
Less: Revolver Borrowings	(241.4)	(301.0)
Plus: Cash	0.5	0.5
Liquidity	\$234.1	\$249.5

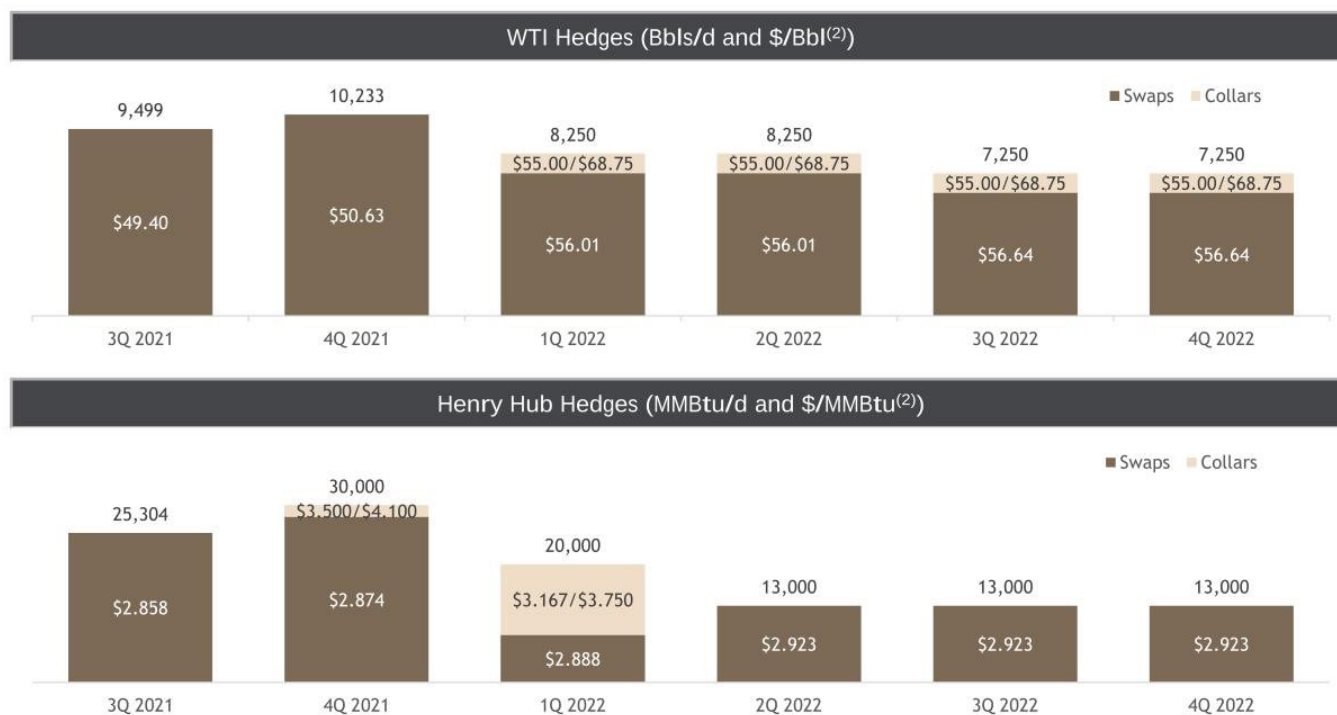
Note: Guidance is forward-looking information that is subject to considerable change and numerous risks and uncertainties, many of which are beyond Earthstone's control. See "Forward-Looking Statements". Cash G&A is defined as general and administrative expenses excluding stock-based compensation.

(1) Reflects midpoint of FY2021 Guidance. Excludes acquisitions.

(2) Liquidity presented at 6/30/21 on an ESTE stand-alone basis and at 6/30/21 pro forma for Tracker Acquisition.

Oil and Gas Hedging Summary

- Disciplined approach to hedging majority of near-term volumes to provide cash flow visibility
- Currently 81% and 65% of 2H2021 underlying oil and gas production guidance⁽¹⁾ hedged, respectively
- Strategy includes hedging basis differential in volumes similar to underlying WTI and Henry Hub hedges (not shown herein)



Note: Includes all WTI and Henry Hub hedges as of 7/19/21. Does not include basis / roll swaps.
 (1) Based on midpoint of 2H 2021 production guidance (25,500 - 27,000 Boe/d; 46% - 47% oil, 26% - 27% gas).
 (2) Reflects weighted average swap price and weighted average collar floor / ceiling prices for each quarter.

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Appendix

Oil and Gas Hedges Summary

WTI Oil Hedges - Swaps			
Period	Volume (Bbls)	Volume (Bbls/d)	\$/Bbl
3Q 2021	873,925	9,499	\$49.40
4Q 2021	941,475	10,233	\$50.63
2H 2021	1,815,400	9,866	\$50.04
1Q 2022	652,500	7,250	\$56.01
2Q 2022	659,750	7,250	\$56.01
3Q 2022	575,000	6,250	\$56.64
4Q 2022	575,000	6,250	\$56.64
FY 2022	2,462,250	6,746	\$56.31

WTI Oil Hedges - Collars				
Period	Volume (Bbls)	Volume (Bbls/d)	\$/Bbl (Floor)	\$/Bbl (Ceiling)
1Q 2022	90,000	1,000	\$55.00	\$68.75
2Q 2022	91,000	1,000	\$55.00	\$68.75
3Q 2022	92,000	1,000	\$55.00	\$68.75
4Q 2022	92,000	1,000	\$55.00	\$68.75
FY 2022	365,000	1,000	\$55.00	\$68.75

WTI Midland Argus Crude Basis Swaps			
Period	Volume (Bbls)	Volume (Bbls/d)	\$/Bbl (Differential)
3Q 2021	751,925	8,173	\$0.79
4Q 2021	757,475	8,233	\$0.80
2H 2021	1,509,400	8,203	\$0.80
1Q 2022	495,000	5,500	\$0.68
2Q 2022	500,500	5,500	\$0.68
3Q 2022	506,000	5,500	\$0.68
4Q 2022	506,000	5,500	\$0.68
FY 2022	2,007,500	5,500	\$0.68

HH Gas Hedges - Swaps			
Period	Volume (MMBtu)	Volume (MMBtu/d)	\$/MMBtu
3Q 2021	2,328,000	25,304	\$2.858
4Q 2021	2,576,000	28,000	\$2.874
2H 2021	4,904,000	26,652	\$2.866
1Q 2022	720,000	8,000	\$2.888
2Q 2022	1,183,000	13,000	\$2.923
3Q 2022	1,196,000	13,000	\$2.923
4Q 2022	1,196,000	13,000	\$2.923
FY 2022	4,295,000	11,767	\$2.917

HH Gas Hedges - Collars				
Period	Volume (MMBtu)	Volume (MMBtu/d)	\$/MMBtu (Floor)	\$/MMBtu (Ceiling)
Nov21 - Dec21	122,000	2,000	\$3.500	\$4.100
1Q 2022	1,080,000	12,000	\$3.167	\$3.750
2Q 2022	--	--	--	--
3Q 2022	--	--	--	--
4Q 2022	--	--	--	--
FY 2022	1,080,000	2,959	\$3.167	\$3.750

WAHA Differential Basis Swaps			
Period	Volume (MMBtu)	Volume (MMBtu/d)	\$/MMBtu
3Q 2021	2,328,000	25,304	(\$0.313)
4Q 2021	2,698,000	29,326	(\$0.294)
2H 2021	5,026,000	27,315	(\$0.303)
1Q 2022	3,600,000	40,000	(\$0.160)
2Q 2022	1,365,000	15,000	(\$0.312)
3Q 2022	1,380,000	15,000	(\$0.312)
4Q 2022	1,380,000	15,000	(\$0.312)
FY 2022	7,725,000	21,164	(\$0.241)

Note: Hedgebook as of 7/19/21.

SEC Stand-Alone Reserves Summary & PV-10 – Mid-Year 2021

As shown in the table below, the Company's stand-alone estimated proved reserves at mid-year 2021, which were prepared in accordance with Securities and Exchange Commission ("SEC") guidelines by the Company, were approximately 111.4 million barrels of oil equivalent ("MMBoe"). SEC rules require that calculations of economically recoverable reserves use the unweighted average price on the first day of the month for the prior twelve-month period. The resulting oil and natural gas prices used for the Company's stand-alone 2021 mid-year reserve report, prior to adjusting for quality and basis differentials, were \$49.78 per barrel and \$2.428 per million British Thermal Units ("MMBtu"), respectively. SEC prices net of differentials were \$48.88 per barrel, \$14.58 per equivalent barrel of NGL and \$1.21 per Mcf.

Stand-Alone Mid-Year 2021 SEC Proved Reserves					
Reserves Category	Oil (Mbbbls)	Gas (MMcf)	NGL (Mbbbls)	Total (Mboe)	PV-10 (\$ in thousands)
Proved Developed	31,008	86,092	16,319	61,676	\$646,779
Proved Undeveloped	29,015	58,744	10,871	49,677	\$385,061
Total	60,023	144,836	27,190	111,352	\$1,031,839

PV-10 is a measure not prepared in accordance with accounting principles generally accepted in the United States ("GAAP") that differs from a measure under GAAP known as "standardized measure of discounted future net cash flows" in that PV-10 is calculated without including future income taxes. Management believes that the presentation of the PV-10 value of our oil and natural gas properties is relevant and useful to investors because it presents the estimated discounted future net cash flows attributable to our estimated proved reserves independent of our income tax attributes, thereby isolating the intrinsic value of the estimated future cash flows attributable to our reserves. We believe the use of a pre-tax measure provides greater comparability of assets when evaluating companies because the timing and quantification of future income taxes is dependent on company-specific factors, many of which are difficult to determine. For these reasons, management uses and believes that the industry generally uses the PV-10 measure in evaluating and comparing acquisition candidates and assessing the potential rate of return on investments in oil and natural gas properties. PV-10 does not necessarily represent the fair market value of oil and natural gas properties. PV-10 is not a measure of financial or operational performance under GAAP, nor should it be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

The table below provides a reconciliation of PV-10 to the standardized measure of discounted future net cash flows (in thousands):

Reconciliation of PV-10	
Present value of estimated future net revenues (PV-10)	\$1,031,839
Future income taxes, discounted at 10%	(\$65,552)
Standardized measure of discounted future net cash flows	\$966,287

Alternative Reserves Summary – Mid-Year 2021

The information presented below includes the combination of the stand-alone reserve quantities and PV-10 for Earthstone and from the Tracker Acquisition as of June 30, 2021. This alternative summary as shown in the table below has been prepared utilizing NYMEX strip benchmark prices and basis differentials as of June 30, 2021.

Alternative Mid-Year 2021 Proved Reserves at NYMEX Strip Pricing as of 6/30/21							
Reserves Category	ESTE			Tracker Acquisition	Combined		
	Proved Developed	Proved Undeveloped	Total	Proved Developed	Proved Developed	Proved Undeveloped	Total
Oil (MBbls)	31,659	29,172	60,831	3,159	34,818	29,172	63,990
Gas (MMcf)	89,129	59,420	148,549	52,352	141,482	59,420	200,901
NGL (MBbls)	16,904	10,993	27,898	8,271	25,175	10,993	36,169
Total (MBoe)	63,419	50,068	113,487	20,155	83,573	50,068	133,642
PV-10 (\$ in thousands)	\$920,343	\$587,693	\$1,508,036	\$168,969	\$1,089,312	\$587,693	\$1,677,005

Reconciliation of Non-GAAP Financial Measure – Adjusted EBITDAX

Earthstone uses Adjusted EBITDAX, a financial measure that is not presented in accordance with GAAP. Adjusted EBITDAX is a supplemental non-GAAP financial measure that is used by Earthstone's management team and external users of its financial statements, such as industry analysts, investors, lenders and rating agencies. Earthstone's management team believes Adjusted EBITDAX is useful because it allows Earthstone to more effectively evaluate its operating performance and compare the results of its operations from period to period without regard to its financing methods or capital structure.

Earthstone defines Adjusted EBITDAX as net (loss) income plus, when applicable, (gain) loss on sale of oil and gas properties, net; accretion of asset retirement obligations; impairment expense; depletion, depreciation and amortization; transaction costs; interest expense, net; rig termination expense; exploration expense; unrealized loss (gain) on derivative contracts; stock based compensation (non-cash); and income tax expense (benefit). Earthstone excludes the foregoing items from net income (loss) in arriving at Adjusted EBITDAX because these amounts can vary substantially from company to company within their industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. Adjusted EBITDAX should not be considered as an alternative to, or more meaningful than, net (loss) income as determined in accordance with GAAP or as an indicator of Earthstone's operating performance or liquidity. Certain items excluded from Adjusted EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of Adjusted EBITDAX. Earthstone's computation of Adjusted EBITDAX may not be comparable to other similarly titled measures of other companies or to similar measures in Earthstone's revolving credit facility.

The following table provides a reconciliation of Net (loss) income to Adjusted EBITDAX for:

Q1 2021 Adjusted EBITDAX (\$ in 000s)	
	1Q 21
Net (loss) income	(\$10,557)
Accretion of asset retirement obligations	\$290
Depreciation, depletion and amortization	\$24,407
Impairment expense	\$0
Interest expense, net	\$2,217
Transaction costs	\$2,106
Rig termination expense	\$0
Loss (gain) on sale of oil and gas properties	\$0
Exploration expense	\$0
Unrealized loss (gain) on derivative contracts	\$22,358
Stock based compensation (non-cash) ⁽¹⁾	\$3,329
Income tax expense (benefit)	(\$308)
Adjusted EBITDAX	\$43,842

FY 2020 Adjusted EBITDAX (\$ in 000s)	
	FY 20
Net (loss) income	(\$29,434)
Accretion of asset retirement obligations	\$307
Depreciation, depletion and amortization	\$96,414
Impairment expense	\$64,498
Interest expense, net	\$5,232
Transaction costs	\$622
Rig termination expense	\$426
Loss (gain) on sale of oil and gas properties	(\$204)
Exploration expense	\$298
Unrealized loss (gain) on derivative contracts	(\$3,855)
Stock based compensation (non-cash) ⁽¹⁾	\$10,054
Income tax expense (benefit)	(\$112)
Adjusted EBITDAX	\$144,246

(1) Included in General and administrative expense in the Consolidated Statements of Operations.

Reconciliation of Non-GAAP Financial Measure – Adjusted EBITDAX

The following table provides a reconciliation of Earthstone's and IRM's Net (loss) income to Adjusted EBITDAX for:

Combined FY 2020 Adjusted EBITDAX (\$ in 000s)			
	ESTE	IRM	Combined
Net (loss) income	(\$29,434)	\$18,154	(\$11,280)
Accretion of asset retirement obligations	\$307	\$1,277	\$1,584
Depreciation, depletion and amortization	\$96,414	\$46,230	\$142,644
Impairment expense	\$64,498	\$0	\$64,498
Interest expense, net	\$5,232	\$9,845	\$15,077
Transaction costs	\$622	\$0	\$622
Rig termination expense	\$426	(\$24)	\$402
Loss (gain) on sale of oil and gas properties	(\$204)	\$0	(\$204)
Exploration expense	\$298	\$0	\$298
Unrealized loss (gain) on derivative contracts	(\$3,855)	\$1,109	(\$2,746)
Stock based compensation (non-cash) ⁽¹⁾	\$10,054	\$1,799	\$11,853
Income tax expense (benefit)	(\$112)	\$362	\$250
Adjusted EBITDAX	\$144,246	\$78,752	\$222,998

(1) Included in Earthstone's General and administrative expense in the Consolidated Statements of Operations.

Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP

Consolidated and Combined Financial Report December 31, 2020

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Independent Auditor's Report

To the Members and Partners
Tracker Resource Development III, LLC and
TRD III Royalty Holdings (TX), LP

We have audited the accompanying consolidated and combined financial statements of Tracker Resource Development III, LLC and its subsidiaries and TRD III Royalty Holdings (TX), LP (collectively, the "Company"), which comprise the consolidated and combined balance sheet as of December 31, 2020 and 2019 and the related consolidated and combined statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and combined financial statements.

To the Members and Partners
Tracker Resource Development III, LLC and
TRD III Royalty Holdings (TX), LP

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

Opinion

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Tracker Resource Development III, LLC and its subsidiaries and TRD III Royalty Holdings (TX), LP as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the consolidated and combined financial statements, subsequent to year end, the Company signed a definitive agreement to sell certain of its oil and gas properties, and the Company is planning on dissolving. Our opinion is not modified with respect to this matter.

/s/ Plante & Moran, PLLC

Denver, Colorado
May 21, 2021

Consolidated and Combined Balance Sheet

		December 31, 2020 and 2019	
		2020	2019
Assets			
Current Assets			
Cash and cash equivalents	\$	5,095,369	\$ 16,048,169
Accounts receivable		2,589,639	4,934,679
Inventory		194,818	471,645
Commodity derivative instruments		—	191,430
Assets held for sale		1,594,527	—
Other current assets		97,808	266,784
Total current assets		9,572,161	21,912,707
Oil and Gas Properties (using the successful efforts method of accounting)			
Proved oil and gas properties		128,066,527	237,710,487
Unproved oil and gas properties		4,900,000	167,043,891
Less accumulated depletion, depreciation, and amortization		61,966,527	43,199,303
Total oil and gas properties		71,000,000	361,555,075
Property and Equipment - Net		82,066	2,038,464
Commodity Derivative Instruments		—	18,491
Other Long-term Assets		188,278	299,881
Total assets	\$	80,842,505	\$ 385,824,618
Liabilities and Equity			
Current Liabilities			
Accounts payable	\$	2,671,381	\$ 15,675,998
Revenue payable		2,433,340	3,248,882
Accrued lease operating expenses and capital expenditures		10,988	1,000,650
Current portion of asset retirement obligations		117,677	258,672
Cash call prepayments		27,816	28,588
Current portion of revolving credit facility		20,300,000	—
Commodity derivative instruments		1,286,967	—
Current portion of limited recourse note payable		—	8,100,000
Other accrued liabilities		3,605,964	403,349
Total current liabilities		30,454,133	28,716,139
Revolving Credit Facility		—	33,000,000
Limited Recourse Note Payable - Net of current portion		5,062,500	2,025,000
Asset Retirement Obligations - Net of current portion		3,258,770	3,290,425
Total liabilities		38,775,403	67,031,564
Equity		42,067,102	318,793,054
Total liabilities and equity	\$	80,842,505	\$ 385,824,618

See notes to consolidated and combined financial statements.

**Tracker Resource Development III, LLC and
TRD III Royalty Holdings (TX), LP**

Consolidated and Combined Statement of Operations

	Years Ended December 31, 2020 and 2019	
	2020	2019
Revenue		
Oil and natural gas revenue	\$ 25,569,946	\$ 34,565,866
Loss on sale of oil and gas properties	(73,077)	—
Total revenue	25,496,869	34,565,866
Operating Expenses		
Production taxes	1,380,542	1,722,667
Lease operating expenses	5,378,348	5,253,936
Marketing expenses	573,127	671,576
Depletion, depreciation, amortization, and accretion	18,981,670	17,046,298
Unproved lease write-off	170,849,772	796,710
Exploration, dry hole, geological, and delay rentals	130,207	2,815,249
Proved property impairment	102,988,011	2,327,551
General and administrative expenses	4,939,897	5,837,015
Total operating expenses	305,221,574	36,471,002
Operating Loss	(279,724,705)	(1,905,136)
Other (Expense) Income		
Interest expense	(1,906,935)	(2,345,396)
Realized gain on commodity derivatives	7,458,803	838,658
Unrealized loss on commodity derivatives	(1,496,888)	(3,187,014)
Other income (expense)	21,585	(70,967)
Loss on disposal of asset	(277,288)	—
Total other income (expense)	3,799,277	(4,764,719)
Consolidated and Combined Net Loss	\$ (275,925,428)	\$ (6,669,855)
Amounts Attributable to Noncontrolling Interest and Parent Group		
Consolidated and combined net (loss) income attributable to:		
Noncontrolling interests	\$ (2,754,178)	\$ 269,524
Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP	(273,171,250)	(6,939,379)
Consolidated and combined net loss	\$ (275,925,428)	\$ (6,669,855)

See notes to consolidated and combined financial statements.

Consolidated and Combined Statement of Changes in Equity

Years Ended December 31, 2020 and 2019

	Class A Units	Class B Units	Other Contributions	Noncontrolling Interests	Accumulated Deficit	Total Tracker Resource Development III, LLC Equity	Total TRD III Royalty Holdings (TX), LP Equity	Total Combined Equity
Balance - January 1, 2019	\$ 366,828,990	\$ 366,828,990	\$ 29,655,152	\$ 3,993,482	\$ (93,865,194)	\$ 314,098,768	\$ 11,644,141	\$ 325,742,909
Net income (loss)	—	—	—	269,524	(6,939,379)	(6,669,855)	—	(6,669,855)
Noncash transfer	301,142	301,142	—	—	—	307,285	(307,285)	—
Cash distribution	—	—	—	(280,000)	—	(280,000)	—	(280,000)
Balance - December 31, 2019	367,130,132	367,130,132	29,655,152	3,983,006	(100,804,573)	307,456,198	11,336,856	318,793,054
Net loss	—	—	—	(2,754,178)	(265,769,102)	(268,523,280)	(7,402,148)	(275,925,428)
Noncash transfer	3,029,922	3,029,922	—	—	—	3,091,758	(3,112,282)	(20,524)
Cash distribution	—	—	—	(780,000)	—	(780,000)	—	(780,000)
Balance - December 31, 2020	<u>\$ 370,160,054</u>	<u>\$ 370,160,054</u>	<u>\$ 29,655,152</u>	<u>\$ 448,828</u>	<u>\$ (366,573,675)</u>	<u>\$ 41,244,676</u>	<u>\$ 822,426</u>	<u>\$ 42,067,102</u>

See notes to consolidated and combined financial statements.

Consolidated and Combined Statement of Cash Flows

	Years Ended December 31, 2020 and 2019	
	2020	2019
Cash Flows from Operating Activities		
Net loss	\$ (275,925,428)	\$ (6,669,855)
Adjustments to reconcile net loss to net cash and cash equivalents from operating activities:		
Depletion, depreciation, amortization, and accretion	18,981,670	17,046,298
Unrealized loss on commodity derivatives	1,496,888	3,187,014
Unproved lease write-off	170,849,772	796,710
Proved property impairment	102,988,011	2,327,551
Exploratory well cost write-off	—	2,362,729
Loss on sale of oil and gas properties	73,077	—
Loss on disposal of asset	277,288	—
Amortization of debt issuance costs	182,756	—
Changes in operating assets and liabilities:		
Accounts receivable	2,345,040	749,833
Inventory	276,827	(181,816)
Other assets	168,976	(117,093)
Accounts payable and accrued liabilities	(14,884,059)	(2,073,116)
Cash call prepayments	(772)	(61,222)
Settlement of asset retirement obligations	(63,707)	(161,361)
Net cash and cash equivalents provided by operating activities	6,766,339	17,205,672
Cash Flows from Investing Activities		
Investments in oil and gas properties	(4,372,486)	(11,201,354)
Proceeds from sale of oil and gas properties	204,500	—
Purchase of property and equipment	—	(183,083)
Net cash and cash equivalents used in investing activities	(4,167,986)	(11,384,437)
Cash Flows from Financing Activities		
Noncontrolling interest distributions	(780,000)	(280,000)
Proceeds from revolving credit facility	2,500,000	8,500,000
Payments on revolving credit facility	(15,200,000)	(4,500,000)
Payment of limited recourse note payable	—	(8,100,000)
Payment of debt issuance costs	(71,153)	(76,899)
Net cash and cash equivalents used in financing activities	(13,551,153)	(4,456,899)
Net (Decrease) Increase in Cash and Cash Equivalents	(10,952,800)	1,364,336
Cash and Cash Equivalents - Beginning of period	16,048,169	14,683,833
Cash and Cash Equivalents - End of period	\$ 5,095,369	\$ 16,048,169
Supplemental Cash Flow Information - Cash paid for interest	\$ 1,751,978	\$ 2,367,667
Significant Noncash Transactions		
Change in accrued capital expenditures	\$ 3,276,853	\$ 979,558
Capital expenditures included in accounts payable	—	13,631,024
Asset retirement obligations additions and revisions	(238,806)	1,082,788
Noncash transfer of oil and gas property	20,524	307,285
Oil and gas property assigned for note payable principle reduction	5,062,500	—
Transfer of property and equipment to assets held for sale	1,594,527	—

See notes to consolidated and combined financial statements.

Note 1 - Nature of Business

Tracker Resource Development III, LLC (Tracker) is a Delaware limited liability company that was formed on April 6, 2011. Tracker is engaged in the acquisition, exploration, and development of crude oil and natural gas reserves, primarily in Texas and Ohio.

Tracker formed a subsidiary known as TLU, a Delaware limited liability company, on July 3, 2012. TLU is engaged in the acquisition, exploration, and development of crude oil and natural gas reserves, primarily in Ohio. Tracker has a 60 percent interest in TLU, with the 40 percent not owned by Tracker reflected as a noncontrolling interest.

On July 15, 2014, TLU formed a wholly owned subsidiary, TLU Royalty Holdings, LLC (TLUR), for the purpose of holding overriding royalty interests in oil and gas properties owned by TLU. During the years ended December 31, 2020 and 2019, TLU did not transfer overriding royalty interests to TLUR. During 2014, the membership units of TLUR were transferred to the members of TLU in proportion to their investment in TLU. Accordingly, through Tracker's 60 percent investment in TLU, Tracker has consolidated the assets, liabilities, and operations of TLUR, with the 40 percent not owned accounted for as a noncontrolling interest.

On December 13, 2016, Tracker formed a wholly owned subsidiary, Tracker North Ohio Holdings, LLC (TNOH), for the purpose of holding interests and developing unproved oil and gas properties that were distributed by TLU.

On March 14, 2017, Tracker formed a wholly owned subsidiary, TRI66 Holdings, LLC (TRI66), for the purpose of holding real estate and other property to support ongoing oil and gas operations.

On July 15, 2014, Tracker formed a wholly owned subsidiary, TRD III Royalty Holdings (TX), LP (TRDR), for the purpose of holding overriding royalty interests in unproved oil and gas properties owned by Tracker in the state of Texas. TRDR transferred noncash overriding royalty interests of approximately \$3.1 million and \$0.3 million to Tracker during the years ended December 31, 2020 and 2019, respectively. During 2014, the limited partnership interests of TRDR were transferred to the members of Tracker in proportion to their investment in Tracker. The management investor (Note 11) serves as the manager of TRDR. Due to the common ownership between Tracker and TRDR, the assets, liabilities, equity, and operations of TRDR have been combined with the consolidated financial statements of Tracker as of and for the years ended December 31, 2020 and 2019.

During the year ended December 31, 2020, the Company, as disclosed in Note 2, initiated a process of divesting certain of its assets, with the expectation of finalizing any sales of assets in 2021. On March 31, 2021, the Company signed a definitive agreement to sell its Midland Basin assets to Earthstone Energy, Inc. (Earthstone) for cash consideration of \$29.6 million and 4.7 million shares of Earthstone. One of the Class A members of the Company also has an interest in Earthstone. As a result of this anticipated sales transaction, the Company has not pursued extending the December 2021 maturity date of its revolving line of credit (Note 6), which has resulted in a negative working capital deficit as of December 31, 2020. The Company anticipates retiring the amounts owed under its revolving credit facility with the net proceeds received from any potential sales transaction. If a sales transaction is not finalized prior to the maturity date of the revolving line of credit, the Company would anticipate negotiating with the lender for repayment alternatives, including an extension of the maturity date. There can be no guarantee that any sales transactions and/or negotiations with the lender will be resolved prior to the maturity date. In

Note 1 - Nature of Business (Continued)

addition, as any contemplated sale transaction was not deemed to be probable as of December 31, 2020, these consolidated and combined financial statements do not present assets held for sale, except for the property and equipment of TRI66 in the amount of \$1,594,527 (Note 2). If the sales transaction with Earthstone is completed, the Company's intent is to dissolve within 12 months from the date these consolidated and combined financial statements are available to be issued.

Note 2 - Significant Accounting Policies

Principles of Consolidation and Combination

The accompanying consolidated and combined financial statements include the consolidated accounts of Tracker; its wholly owned subsidiaries, TNOH and TRI66; and its majority-owned subsidiaries, TLU and TLUR. The Company consolidates TLU and TLUR, as it has a controlling interest. Due to common ownership with its investors, Tracker has combined the accounts of TRDR (collectively, the "Company"). All material intercompany accounts and transactions have been eliminated in consolidation and combination.

The Company records a noncontrolling interest for the portion of its net assets and net income (loss) in any subsidiaries that are less than 100 percent owned. The Company reflects noncontrolling interests in the equity section of its consolidated and combined balance sheet of \$448,828 and \$3,983,006 as of December 31, 2020 and 2019, respectively, representing the 40 percent interest in TLU and TLUR not owned by Tracker. The Company recorded \$(2,754,178) and \$269,524 in its consolidated and combined statement of operations for the noncontrolling interests attributable to TLU's and TLUR's net income (loss) for the years ended December 31, 2020 and 2019, respectively.

Use of Estimates

The preparation of the consolidated and combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Depletion, depreciation, and amortization (DD&A) and impairment of proved oil and gas properties are generally determined using unaudited estimates of oil and gas reserves. There are numerous uncertainties in estimating the quantity of reserves and in projecting the future rates of production and timing of development expenditures, including future costs to dismantle, dispose, and restore the Company's properties. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way. In addition, significant estimates include the estimated cost and timing related to asset retirement obligations (AROs), fair value of commodity derivative instruments, and the realizability of unproved properties.

Note 2 - Significant Accounting Policies (Continued)

Cash Equivalents

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas activities. Under this method of accounting, costs associated with the acquisition, drilling, and equipping of successful exploratory wells and costs of successful and unsuccessful development wells are capitalized and depleted, net of estimated salvage values, using the units-of-production on a field-by-field basis based upon proved oil and gas reserves. The Company's proved oil and gas reserve information was computed by applying the average first day of the month oil and gas price during the 12-month periods ended December 31, 2020 and 2019. Depletion expense for the years ended December 31, 2020 and 2019 was \$18,767,224 and \$16,665,388, respectively. Exploration, geological and geophysical costs, delay rentals, and drilling costs of unsuccessful exploratory wells are charged to expense as incurred.

Costs associated with unevaluated exploratory wells are excluded from the depletable base until the determination of proved reserves, at which time those costs are reclassified to proved oil and gas properties and subject to depletion. If it is determined that the exploratory well costs were not successful in establishing proved reserves, such costs are expensed at the time of such determination (Note 3).

The Company assesses the recoverability of its proved oil and gas properties when circumstances suggest there is a need for such a review, but at least on an annual basis. To determine if a depletable unit (generally defined as an individual field) is impaired, the Company compares the net book value of the depletable unit to the undiscounted future net cash flows by applying estimated future prices over the economic lives of the reserves. For each depletable unit determined to be impaired, an impairment loss equal to the difference between the net book value and estimated fair value of the depletable unit will be recognized. Fair value, on a depletable unit basis, is estimated to be the present value of expected future cash flows computed by applying estimated future oil and gas prices, as determined by management, to estimated future production of oil and gas reserves over the economic lives of the reserves and applying a discount rate commensurate with the risk associated with realizing the expected cash flows or using a market participant negotiated fair value (Note 9). The discount rate is a rate that management believes is representative of current market conditions and includes estimates for the risk premium. The Company recorded \$102,988,011 and \$2,327,551 of proved oil and gas property impairments during the years ended December 31, 2020 and 2019, respectively.

Unproved oil and gas properties are assessed at least annually to determine whether they have been impaired by the drilling of dry holes on or near the related acreage or other circumstances that may indicate a decline in value. When unproved property is determined to be impaired, a loss equal to the portion impaired is recognized. When leases for unproved properties expire, the costs thereof are removed from the accounts and charged to expense. Based on lease expiration dates and management's intent not to pursue development, the Company wrote off \$170,849,772 and \$796,710 in lease costs for the years ended December 31, 2020 and 2019, respectively.

Note 2 - Significant Accounting Policies (Continued)

The sale of a partial interest in a proved oil and gas property is accounted for as a normal retirement, and no gain or loss is recognized as long as this treatment does not significantly affect the units-of-production depletion rate. A gain or loss is recognized for all other sales of proved properties and is included in the results of operations. The sale of a partial interest in an unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to the recovery of the cost applicable to the interest retained. A gain on the sale is recognized to the extent the sale price exceeds the carrying amount of the unproved property. The Company recorded a \$73,077 loss on the sale of oil and gas properties during the year ended December 31, 2020. There were no sales of oil and gas properties during the year ended December 31, 2019.

The Company has not capitalized interest costs, as such amounts capitalizable were deemed immaterial.

Asset Retirement Obligation

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Liabilities are required to be accreted to their present value each period, and capitalized costs are depleted using the units-of-production method. This periodic accretion expense is included in depletion, depreciation, amortization, and accretion in the consolidated and combined statement of operations. Upon settlement of the liability, the Company will settle the obligation against its recorded amount and will record any resulting gain or loss in the consolidated and combined statement of operations.

Commodity Derivative Instruments

The Company uses commodity derivative instruments to provide a measure of stability to its cash flows in an environment of volatile oil and natural gas prices and to manage its exposure to oil and natural gas price volatility. All commodity derivative instruments are initially, and subsequently, measured at estimated fair value and recorded as assets or liabilities on the consolidated and combined balance sheet. The Company has elected not to designate its commodity derivative instruments as cash flow hedges. For commodity derivative instruments that do not qualify as cash flow hedges, changes in the estimated fair value of the contracts are recorded as gains and losses in other (expense) income in the consolidated and combined statement of operations. When commodity derivative instruments are settled, the Company recognizes realized gains and losses in other (expense) income in the consolidated and combined statement of operations. Commodity derivative instrument cash flows are reported as cash flows from operating activities in the consolidated and combined statement of cash flows.

Income Taxes

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Company. Members are taxed individually on their pro rata ownership share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the Company's operating agreement.

The Company accounts for uncertainty in income taxes in accordance with GAAP, which prescribe a comprehensive model for recognizing, measuring, presenting, and disclosing in the consolidated and combined financial statements tax positions taken or expected to be taken on a tax return, including a decision on whether to file in a particular jurisdiction. Only tax positions that meet a more likely than not recognition threshold at the effective date may be recognized or continue to be recognized. If taxing

Note 2 - Significant Accounting Policies (Continued)

authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company.

The Company classifies interest and penalties associated with tax positions as general and administrative expenses in the accompanying consolidated and combined financial statements. No interest or penalties have been assessed during the years ended December 31, 2020 and 2019.

Internal Revenue Service (IRS) audits of partnerships that result in adjustments of the partnership will be assessed at the partnership level.

Revenue Recognition

The Company's revenue is derived from the sale of its produced oil and natural gas.

Revenue is recognized in the month in which the contractual performance obligations are satisfied, which is generally at the point in time when the purchaser obtains control of the produced oil and natural gas. The point in time when the purchaser obtains control may differ depending on the contractual terms of each of the Company's sales agreements and generally occurs when the purchaser accepts, takes possession of and title to, and bears the risk of loss of the produced oil and natural gas.

The Company sells its produced oil and natural gas under a variety of long-term agreements with numerous purchasers. The Company's produced oil and natural gas production is primarily produced and sold in Texas. The Company's revenue is primarily derived from produced oil and natural gas from oil and gas wells operated by the Company. Oil sales for the years ended December 31, 2020 and 2019 were \$15,643,314 and \$25,285,805, respectively. Natural gas sales for the years ended December 31, 2020 and 2019 were \$9,926,632 and \$9,280,061, respectively. The Company also receives revenue from its ownership in nonoperating or royalty interests. Approximately 4 percent of the Company's revenue is from its nonoperating or royalty interests.

All of the Company's sales of produced oil and natural gas are made under contracts with purchasers, which typically include variable consideration based on monthly pricing tied to published indices and volumes delivered. While revenue is recorded at the point in time when control of the produced oil and natural gas transfers to the purchaser, statements and payment from those purchasers may not be received for one to two months after the date the produced oil and natural gas is delivered, and, as a result, the amount of production delivered to the purchaser and the price that will be received for the sale of the product is estimated utilizing production reports, contractual pricing, and market indices. Estimated revenue due to the Company is recorded within accounts receivable in the accompanying consolidated and combined balance sheet until payment is received. Differences between the estimated amounts and the actual amounts received from the sale of the produced oil and natural gas are recorded when known, which is generally when payment is received from the purchaser.

For the Company's produced oil sales agreements, the Company generally delivers produced oil to the purchaser at the Company's wellhead or lease facility near the wellhead location. Upon delivery to the purchaser, the Company is entitled to an agreed-upon index price, net of pricing differentials for each barrel produced. With these agreements, the Company recognizes revenue when control transfers to the purchaser at the Company's wellhead or lease facility near the wellhead location at the net price received.

Note 2 - Significant Accounting Policies (Continued)

For the Company's natural gas sales agreements, the Company generally delivers produced natural gas to a midstream entity at the wellhead or the inlet of the midstream entity's transportation system. The Company sells natural gas under a variety of sales agreements, including percentage-of-proceeds processing agreements, fee-based agreements, or a hybrid of percentage-of-proceeds and fee-based agreements. Under the majority of the Company's contracts, the midstream entity gathers the natural gas in the field where it is produced and transports it to natural gas processing plants where natural gas liquids are extracted. The natural gas liquids and residue gas are then sold by the midstream entity. Under the percentage-of-proceeds and hybrid percentage-of-proceeds and fee-based agreements, the Company receives a percentage of the value for the extracted natural gas liquids and the residue gas. Under the fee-based agreement, the Company receives natural gas liquids and residue gas sales proceeds, less the fee component. To the extent control of the natural gas transfers before the transportation and processing activities, which is generally at the Company's wellhead lease facility, revenue is recognized at the net amount received from the purchaser.

As of January 1, 2019, the accrued revenue balance, which is a component of accounts receivable, was \$2,696,464.

Concentrations of Credit Risk

The Company grants credit in the normal course of business to purchasers and joint interest operators. Collectibility of the Company's oil and natural gas sales is dependent upon the financial condition of the purchasers and joint interest operators, as well as general economic conditions.

The following entities accounted for 10 percent or more of total revenue and accounts receivable:

	Revenue		Accounts Receivable	
	2020	2019	2020	2019
Texican Crude & Hydrocarbons, LLC	61%	69%	38%	38%
Cogent Midstream Holdings	25	14	29	-
Davis Gas Processing, Inc.	-	-	11	-
SEG I & SEG II	-	-	-	44

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives, ranging from 3 to 39 years. Land is not depreciated. Costs of maintenance and repairs are charged to expense when incurred.

Depreciation expense for property and equipment totaled \$84,583 and \$84,032 for the years ended December 31, 2020 and 2019, respectively.

	Depreciable Life - Years
Land	-
Buildings	39
Furniture, fixtures, and equipment	3 - 15

Note 2 - Significant Accounting Policies (Continued)

Impairment or Disposal of Long-lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

Assets Held for Sale

As of December 31, 2020, assets held for sale consist of certain ranch and real estate assets held at TRI66 that were sold subsequent to year end and were recorded at fair value less the cost to sell as of December 31, 2020. A loss of \$277,288 was recorded on these assets during the year ended December 31, 2020.

Segment Information and Geographic Area

Operating segments are defined under GAAP as components of an enterprise (i) that engage in activities from which the enterprise may earn revenue and incur expenses and (ii) for which separate operational financial information is available and is regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance.

Based on its organization and management, the Company has one reportable operating segment, which is oil and natural gas acquisition, exploration, development, and production. The Company's primary operations are currently conducted in Texas.

Risks and Uncertainties

The outbreak of COVID-19 and decreases in commodity prices resulting from oversupply, travel restrictions, and other constraints on economic activity have caused a significant decrease in the demand and consumption of oil and gas and has created disruptions and volatility in the global marketplace throughout numerous industries, beginning late in the first quarter of 2020. Decreased commodity prices have negatively impacted the Company's oil revenue and the fair value of the Company's oil and gas property, which resulted in the impairment of oil and gas properties during the year ended December 31, 2020. Additionally, the Company had a reduction in workforce during the year. While commodity prices and commodity demand have showed signs of recovery, financial results are likely to continue to be challenged until a full recovery is made. Due to this changing environment, there continues to be uncertainty surrounding the extent of the impact of these events, which may result in continued direct and indirect negative impacts to the Company's results of operations, liquidity, and cash flows. As a result of this continued uncertainty, the estimates used in these consolidated and combined financial statements have become more challenging, and actual results may differ materially from amounts previously established.

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense

Note 2 - Significant Accounting Policies (Continued)

recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Company is still evaluating which method it will apply. The new lease standard is not expected to have a material effect on the Company's financial statements as a result of the Company's operating leases, as disclosed in Note 10. Upon adoption, the Company will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Adoption of Accounting Standard

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. The Company adopted ASU No. 2018-13 for the year ended December 31, 2020 and updated disclosures accordingly.

Unit-based Compensation

The Company follows authoritative guidance that applies to unit-based awards, which requires entities to recognize compensation expense over the requisite service period for unit-based awards to employees, based on the estimated grant date fair value of the awards. Authoritative guidance also requires unit-based awards to employees by a related party or other holder of an economic interest in the entity to be accounted for as unit-based award transactions if awards are for services provided by such employees.

Note 3 - Wells in Progress

The Company classifies exploratory well costs as a component of unproved properties on the consolidated and combined balance sheet. The following table reflects the net changes in capitalized exploratory well costs during the years ended December 31, 2020 and 2019. The table does not include amounts that were capitalized and either subsequently expensed or reclassified to producing well costs during the same period.

	2020	2019
Beginning balance	\$ —	\$ 2,362,729
Capitalized exploratory well costs charged to expense	\$ —	\$ (2,362,729)

December 31, 2020 and 2019

Note 4 - Accounts Receivable

The following is the detail of accounts receivable:

	2020	2019
Revenue accrual	\$ 2,083,785	\$ 2,696,464
Joint interest billing receivable	241,296	2,202,667
Other receivables	264,558	35,548
Total accounts receivable	<u>\$ 2,589,639</u>	<u>\$ 4,934,679</u>

Note 5 - Asset Retirement Obligations

A reconciliation of the changes in the Company's asset retirement obligation is as follows:

	2020	2019
Balance - Beginning	\$ 3,549,097	\$ 2,474,205
Settlements	(63,707)	(161,361)
Liabilities incurred	—	586,276
Revisions of previous estimate	(238,806)	496,512
Accretion expense	129,863	153,465
Balance - Ending	<u>\$ 3,376,447</u>	<u>\$ 3,549,097</u>

Revisions made to the asset retirement obligations during the years ended December 31, 2020 and 2019 were a result of updates to the estimated reclamation costs based on current year actual reclamation costs. During 2020, the Company did not drill and complete any wells, and no additional liabilities were incurred.

Note 6 - Revolving Line of Credit

In December 2016, Tracker entered into a revolving line of credit (the "JPMorgan Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Lender") with a maximum commitment of \$300,000,000. As defined in the JPMorgan Credit Agreement, the initial borrowing base was \$0. Effective March 23, 2018, the JPMorgan Credit Agreement was amended, and a borrowing base of \$35,000,000 was established. During 2019, the JPMorgan Credit Agreement was syndicated with another lender, but the commitment was still \$300,000,000. Tracker was subject to an arrangement fee and annual administration fee upon establishing the borrowing base under the JPMorgan Credit Agreement. The arrangement fee was 0.75 percent of the initial borrowing base, plus an annual administration fee of \$15,000 per year plus \$5,000 per additional lender, up to a maximum of \$35,000 per year. During 2020, the JPMorgan Credit Agreement was amended to provide a schedule of borrowing base reductions. The borrowing base was \$20,300,000 at December 31, 2020. On April 19, 2021, the Company received a letter from the Lender waiving the scheduled redetermination on March 1, 2021 and postponing the scheduled redetermination from May 2021 to August 1, 2021. The letter also states the borrowing base decreased to \$18,000,000. Additionally, the JPMorgan Credit Agreement matures in December 2021; accordingly, \$20,300,000 is recorded as a current liability on the consolidated and combined balance sheet as of December 31, 2020. Additionally, the JPMorgan Credit Agreement was amended to include mandatory weekly prepayments if excess cash exists, as defined. Interest accrues at the prime rate plus applicable margins, ranging from 1.75 percent to 2.75 percent, or the London Interbank Offered Rate (LIBOR) plus applicable margins, ranging from 2.75 percent to 3.75 percent, and will be based upon the borrowing base usage. The

Note 6 - Revolving Line of Credit (Continued)

Company will pay an annual commitment fee of 0.50 percent of the unused borrowing base. As of December 31, 2020, the interest rate on the JPMorgan Credit Agreement was 3.93 percent. Borrowings under the JPMorgan Credit Agreement are collateralized by certain proved oil and gas properties of Tracker. The JPMorgan Credit Agreement contains certain financial covenants, including, but not limited to, a minimum current ratio and a maximum leverage ratio. As of December 31, 2020, the Company was in compliance with these financial covenants. The outstanding balance as of December 31, 2020 and 2019 totaled \$20,300,000 and \$33,000,000, respectively. The Company did not have letters of credit outstanding under the JPMorgan Credit Agreement as of December 31, 2020.

Note 7 - Limited Recourse Note Payable

In December 2012, Tracker entered into a limited recourse note payable with a third party for \$25,000,000 to partially fund the acquisition of unproved properties. During October 2018, the limited recourse note payable agreement was amended to extend the maturity date to March 2021 and required Tracker to make equal quarterly principal payments of \$2,025,000. Effective March 16, 2020, the limited recourse note payable agreement was amended to reduce the interest rate from 5 percent to 4 percent and to extend the maturity date to March 2022. Effective August 3, 2020, the limited recourse note payable agreement was amended to reduce the principal balance to \$5,062,500 through the assignment of certain property interests from Tracker and to extend the maturity date to June 2023. Tracker will make equal quarterly interest-only payments beginning in September 2020 through March 2022 based on an annual 4 percent rate. Following the interest-only payments, Tracker will make equal quarterly principal payments beginning June 2022 through maturity. These amendments resulted in an accounting extinguishment, but such impact was immaterial. The note has limited recourse because it is only collateralized by certain oil and gas properties located in Irion County, Texas. As of December 31, 2020 and 2019, the outstanding amount under this limited recourse note payable was \$5,062,500 and \$10,125,000, respectively.

Note 8 - Derivative Instruments

Tracker periodically enters into various commodity hedging instruments to protect its cash flows and to mitigate a portion of the effect of oil and natural gas price fluctuations. Open commodity derivative positions are accounted for on a fair value basis on the consolidated and combined balance sheet, and any unrealized gain or loss is included in other income (expense) in the consolidated and combined statement of operations. Realized gains and losses from settled transactions are also recorded in other income (expense) in the consolidated and combined statement of operations. The Company does not have any derivative contracts designated as cash flow hedges. As of December 31, 2020, the Company had no offsetting positions and all amounts were recorded gross on the consolidated and combined balance sheet.

During the years ended December 31, 2020 and 2019, Tracker recognized realized gains of \$7,458,803 and \$838,658, respectively, from the settlement of crude oil and natural gas swap agreements. Realized gains and losses on commodity derivatives are classified as an operating activity in the consolidated and combined statement of cash flows.

Note 8 - Derivative Instruments (Continued)

As of December 31, 2020, the Company had the following crude oil and natural gas derivative contracts outstanding:

Contract	Type	Term	Volume (Bbls or MMBTU)	Index	Fixed Price (\$/Bbl / \$/MMBTU)
1	Crude Oil Swap	February 2020 - January 2021	1,800	WTI-MID ARGUS	\$61.50
2	Crude Oil Swap	August 2020 - January 2021	7,642	WTI-NYMEX	\$56.00
3	Natural Gas Swap	January 2020 - December 2021	442,876	NG-WAHA	\$1.573
4	Natural Gas Swap	July 2020 - December 2021	1,233,000	NG-WAHA	\$2.185
5	Crude Oil Swap	January 2021 - June 2021	68,600	WTI-NYMEX	\$42.95
6	Crude Oil Swap	July 2021 - December 2021	32,400	WTI-NYMEX	\$43.60

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets and liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset and liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 9 - Fair Value Measurements (Continued)

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Company to determine those fair values:

Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2020			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Commodity Derivative Instruments -			
Current liability	\$ —	\$ (1,286,967)	\$ —
			\$ (1,286,967)
Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Commodity Derivative Instruments -			
Current asset	\$ —	\$ 191,430	\$ —
Noncurrent asset	\$ —	\$ 18,491	\$ —
Total commodity derivative instruments assets	\$ —	\$ 209,921	\$ —
			\$ 209,921

Recurring Fair Value Measurements

The counterparty to the Company's derivative instruments is JPMorgan Chase Bank, N.A. and another lender under the JPMorgan Credit Agreement. The Company is not required to post collateral beyond that already pledged under the JPMorgan Credit Agreement. The fair value of these derivative swap contracts is based on December 31, 2020 market prices posted on the New York Mercantile Exchange (NYMEX) and WTI Midland Argus for crude oil and West Texas WAHA for natural gas. The Company determines the fair value of its commodity derivative instruments under the income approach using a discounted cash flow model. The valuation model requires a variety of inputs, including contractual terms, projected commodity prices, discount rates, and credit risk adjustments, as appropriate. The Company's estimates of fair value of derivatives include consideration of the counterparty's creditworthiness, the Company's creditworthiness, and the time value of money. The consideration of these factors results in an estimated exit price for each derivative asset or liability under a marketplace participant's view. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's commodity derivative instruments are included within the Level 2 fair value hierarchy.

Note 9 - Fair Value Measurements (Continued)
Nonrecurring Fair Value Measurements

Nonrecurring measurements included the fair value of impaired proved oil and gas properties. The Company determines the estimated fair value the impaired proved oil and gas properties by using a discounted cash flow approach with unobservable Level 3 inputs (Note 2), as well as other objective information at the time of impairment. At the measurement date, the Company was pursuing a divestiture of certain of its oil and gas properties. Subsequent to year end, the Company entered into an agreement to sell its Midland Basin assets (Note 1). This negotiated sales price was considered to be a reasonable indicator of fair value from a market participant perspective. The Company estimated the fair value of its proved oil and gas properties to be \$66,100,000 as of December 31, 2020 and considered the fair value to be a Level 3 fair value measurement in the fair value hierarchy.

Fair value used in the initial recognition of asset retirement obligations, and any subsequent upward changes in estimates, is determined under the income approach using the present value of expected future remediation and dismantlement costs and incorporates the Company's best estimate of inputs based on remediation and dismantlement costs used by industry participants when valuing similar liabilities. The significant inputs used to calculate such liabilities include estimates of remediation and dismantlement costs (ranging from \$60,000 to \$130,000), the Company's credit-adjusted risk-free rate (4.0 percent), inflation rate (1.5 percent), and estimated dates of abandonment (ranging from 1 to 87 years). Accordingly, the fair value is based on unobservable pricing inputs and, therefore, is considered a Level 3 fair value measurement in the fair value hierarchy. During the year ended December 31, 2019, the Company recorded an increase to asset retirement obligations of \$1,082,788 related to its oil and gas wells.

Note 10 - Operating Leases

The Company is obligated under operating leases primarily for office space, expiring in 2022. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$232,396 and \$400,221 for 2020 and 2019, respectively. In March 2021, the Company entered into a new office lease agreement for approximately \$4,700 per month for 14 months.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2021	\$ 372,810
2022	132,237
Total	<u>\$ 505,047</u>

Note 11 - Equity

Tracker Resource Development III, LLC

Tracker issued units to partners under the terms of its limited liability company agreement and unit purchase agreement (collectively, the "Agreements") dated April 8, 2011. The Agreements allow for ownership interest in Tracker in the form of Class A and Class B units. Class A units are owned by certain institutional investors (the "Institutional Investors"), and Class B units are held by Tracker III Holdings, LLC (the "Management Investor"), an entity owned by Tracker's officers and other select employees.

The total authorized number of each class of units for Tracker, together with the number of issued and outstanding units, is as follows:

	Authorized	Outstanding as of December 31, 2020	Outstanding as of December 31, 2019
Class A units	392,000	378,280	378,280
Class B units	8,000	7,720	7,720

Class A and Class B units are issuable for \$1,000 per unit. The affairs of Tracker are managed by a board of managers, and costs, revenue, and distributions are governed by the specific provisions in the Agreements. Also, under certain circumstances more fully provided for in the Agreements, upon the termination of employment of an employee of Tracker who owns Class A units or Class B units of the Management Investor, Tracker has the right, but not the obligation, to repurchase the pro rata portion of Tracker's Class B units held by the Management Investor.

Tracker III Holdings, LLC

The limited liability company agreement of the Management Investor (the "Holdings LLC Agreement") provides for ownership interests of the Management Investor that consist of Class A, Class B, and Class C units. The Class C units are intended to comprise profits units under the Internal Revenue Code, and Class C units (i) have no voting rights; (ii) vest according to each grantee's award letter; and (iii) are subject to forfeiture. As of December 31, 2020, as it relates to the Management Investor, 54,701 Class C units were issued and outstanding. All of the Class C units outstanding at December 31, 2020 were fully vested. As of December 31, 2020 and 2019, Tracker had not recognized any unit-based compensation, as such amount was deemed *de minimis*.

TRD III Royalty Holdings (TX), LP

TRDR issued units to members under the terms of its agreement of limited partnership (the "Agreement") dated July 15, 2014. The Agreement allows for ownership interest in TRDR in the form of Class A and Class B units. Class A units are owned by certain Institutional Investors, and Class B units are held by the Management Investor.

Note 11 - Equity (Continued)

The total authorized number of each class of units for TRDR, together with the number of issued and outstanding units, is as follows:

	Authorized	Outstanding as of December 31, 2020	Outstanding as of December 31, 2019
Class A units	490,000	378,280	378,280
Class B units	10,000	7,720	7,720

Note 12 - Subsequent Events

Management has evaluated subsequent events for the Company through the independent auditor's report date, May 21, 2021, which is the date the Company's consolidated and combined financial statements were available to be issued, and has concluded that there are no subsequent events required to be adjusted or disclosed within the consolidated and combined financial statements except as previously disclosed.

Note 13 - Supplemental Oil and Natural Gas Information (Unaudited)

Costs Incurred (unaudited)

The following table sets forth the costs incurred for property acquisition, exploration and development activities:

	2020	2019
Acquisition:		
Proved	\$ 105	\$ 352,097
Unproved	23,163	381,546
Exploration	—	—
Development	7,662,896	24,804,038
Total Costs incurred	<u>\$ 7,686,164</u>	<u>\$ 25,537,681</u>

Oil and Natural Gas Reserves (Unaudited)

The estimates of proved oil and natural gas reserves and discounted future net cash flows for the Company's oil and gas properties as of December 31, 2020 and 2019 were prepared using historical data and other information by qualified petroleum engineers engaged by the Company. Users of this information should be aware that the process of estimating quantities of proved oil and natural gas reserves is complex, requiring significant subjective decisions to be made in the evaluation of available geologic, engineering, and economic data for each reservoir. The data for any given reservoir may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, production history, and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time.

Note 13 - Supplemental Oil and Natural Gas Information (Unaudited) (Continued)

The estimated proved net recoverable reserves presented below include only those quantities of oil and natural gas that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future periods from known reservoirs under existing economic, operating, and regulatory practices. In accordance with the SEC's guidelines, estimates of proved reserves from which present values are derived were based on the unweighted 12-month average price of the first day of the month price for the period and held constant. Proved developed reserves represent only those reserves estimated to be recovered through existing wells. All of the oil and gas reserves set forth herein are in the United States and are proved reserves.

The estimated rounded quantities of proved oil and natural gas reserves and changes in net proved reserves are summarized below for the years ended December 31, 2020 and 2019:

	Oil (MBbl)	Natural Gas (MMcf)	NGLs (MBbl)	Total (MBOE) ⁽¹⁾
Balance - December 31, 2018	23,192	206,620	35,361	92,989
Production	(474)	(2,493)	(424)	(1,313)
Revisions to previous estimates ⁽²⁾	10,205	(8,798)	(1,246)	7,493
Balance - December 31, 2019	32,923	195,329	33,691	99,169
Production	(440)	(3,089)	(495)	(1,449)
Revisions to previous estimates ⁽³⁾	(20,169)	(70,617)	(12,589)	(44,528)
Balance - December 31, 2020	12,314	121,623	20,607	53,192
Proved developed reserves:				
December 31, 2018	1,775	18,493	3,010	7,867
December 31, 2019	2,492	23,419	3,942	10,338
December 31, 2020	1,673	24,237	4,009	9,721
Proved undeveloped reserves:				
December 31, 2018	21,416	188,127	32,351	85,122
December 31, 2019	30,431	171,910	29,748	88,831
December 31, 2020	10,641	97,386	16,598	43,470

Note 13 - Supplemental Oil and Natural Gas Information (Unaudited) (Continued)

Changes in proved undeveloped reserves for the years ended December 31, 2020 and 2019 are summarized below (in MBOE) ⁽¹⁾.

Balance - December 31, 2018	85,122
Conversions to proved developed	(3,426)
Revisions to previous estimates ⁽²⁾	7,135
Balance - December 31, 2019	88,831
Revisions to previous estimates ⁽³⁾	(45,361)
Balance - December 31, 2020	43,470

⁽¹⁾ Bbl equivalents (BOE) consist of oil (Bbl), NGLs (Bbl), and natural gas reserves (mcf) converted to Bbl using a factor of 6 mcf for each Bbl.

⁽²⁾ Revisions of previous estimates primarily attributable to new type curve and shrink and yield models.

⁽³⁾ Revisions of previous estimates primarily attributable to decreased commodity prices.

Standardized Measure (Unaudited)

A standardized measure of future net cash flows and changes therein relating to estimated proved reserves is computed in accordance with authoritative accounting guidance. The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and the SEC. These assumptions do not necessarily reflect expectations of actual revenue to be derived from those reserves nor their present value amount. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these reserve quantity estimates are the basis for the valuation process.

Future cash inflows and production and development costs are determined by applying prices and costs, including transportation, quality, and basis differentials, to the year-end estimated future reserve quantities. The following prices, as adjusted for transportation, quality, and basis differentials, were used in the calculation of the standardized measure:

	2020	2019
Oil (per Bbl)	\$ 34.56	\$ 53.81
Natural gas (per Mcf)	\$ 0.68	\$ 0.88
NGLs (per Bbl)	\$ 7.47	\$ 11.64

Future operating costs are determined based on estimates of expenditures to be incurred in developing and producing the proved reserves in place at the end of the period using year-end costs and assuming continuation of existing economic conditions. The standardized measure presented here does not include the effects of federal income taxes, as the Company is taxed as a partnership and not subject to federal income taxes; however, the Company is subject to the Texas margin tax, which is included. The resulting

Note 13 - Supplemental Oil and Natural Gas Information (Unaudited) (Continued)

future net cash flows are reduced to present value amounts by applying a 10 percent annual discount factor.

The standardized measure of discounted future net cash flows relating to the Company's proved oil and natural gas reserves is as follows as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Future cash inflows	\$ 724,574	\$ 2,336,853
Future production costs	(282,631)	(530,299)
Future development costs	(239,999)	(800,233)
Future Texas margin taxes	(1,834)	(8,015)
Future net cash flows	200,110	998,306
Less 10 percent annual discount for estimated timing of cash flows	(153,160)	(658,851)
Standardized measure of discounted future net cash flows	\$ 46,950	\$ 339,455

The changes in the standardized measure of the future net cash flows relating to proved oil and natural gas reserves for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Balance - Beginning of year	\$ 339,455	\$ 459,313
Sales of oil and gas produced - Net of production costs	(18,238)	(26,917)
Net changes in prices and production costs	(542,349)	(133,048)
Previously estimated development costs incurred during the period	4,372	18,925
Net changes in future development costs	432,479	(102,020)
Revisions of previous quantity estimates	(201,761)	69,300
Accretion of discount	33,945	45,931
Net change in Texas margin taxes	2,475	(3,142)
Changes in timing of estimated cash flows and other	(3,428)	11,113
Balance - End of year	\$ 46,950	\$ 339,455

Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP

Consolidated and Combined Financial Report
(Unaudited)
March 31, 2021

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Independent Auditor's Review Report

To the Members and Partners
Tracker Resource Development III, LLC and
TRD III Royalty Holdings (TX), LP

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated and combined financial statements of Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP (collectively, the "Company"), which comprise the consolidated and combined balance sheet as of March 31, 2021 and the related consolidated and combined statements of operations, changes in equity, and cash flows for the three-month periods ended March 31, 2021 and 2020, and the related notes to the consolidated and combined financial statements.

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

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. 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 review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information 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 interim financial information that is free from material misstatement, whether due to fraud or error.

To the Members and Partners
Tracker Resource Development III, LLC and
TRD III Royalty Holdings (TX), LP

Report on Consolidated and Combined Balance Sheet as of December 31, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated and combined balance sheet as of December 31, 2020 and the related consolidated and combined statements of operations, changes in equity, and cash flows for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated and combined financial statements in our report dated May 21, 2021. In our opinion, the accompanying consolidated and combined balance sheet of the Company as of December 31, 2020 is consistent, in all material respects, with the audited consolidated and combined financial statements from which it has been derived.

Emphasis of Matter

As described in Note 1 to the consolidated and combined financial statements, on March 31, 2021, the Company signed a definitive agreement to sell certain of its oil and gas properties, and the Company is planning on dissolving. Our opinion is not modified with respect to this matter.

/s/ Plante & Moran, PLLC

Denver, Colorado
May 21, 2021

Consolidated and Combined Balance Sheet (Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,676,725	\$ 5,095,369
Accounts receivable	3,086,453	2,589,639
Inventory	194,818	194,818
Other current assets	111,536	97,808
Assets held for sale	—	1,594,527
Total current assets	8,069,532	9,572,161
Oil and Gas Properties (using the successful efforts method of accounting)		
Proved oil and gas properties	127,083,583	128,066,527
Unproved oil and gas properties	4,900,000	4,900,000
Less accumulated depletion, depreciation, and amortization	65,601,381	61,966,527
Total oil and gas properties	66,382,202	71,000,000
Property and Equipment - Net	13,555	82,066
Other Long-term Assets	171,400	188,278
Total assets	<u>\$ 74,636,689</u>	<u>\$ 80,842,505</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 392,676	\$ 2,671,381
Revenue payable	2,204,344	2,433,340
Accrued lease operating expenses and capital expenditures	292,531	10,988
Current portion of asset retirement obligations	117,677	117,677
Cash call prepayments	32,787	27,816
Revolving credit facility	18,000,000	20,300,000
Commodity derivative instruments	1,876,512	1,286,967
Other accrued liabilities	1,922,315	3,605,964
Total current liabilities	24,838,842	30,454,133
Limited Recourse Note Payable	5,062,500	5,062,500
Asset Retirement Obligations - Net of current portion	3,242,256	3,258,770
Total liabilities	33,143,598	38,775,403
Equity	41,493,091	42,067,102
Total liabilities and equity	<u>\$ 74,636,689</u>	<u>\$ 80,842,505</u>

See notes to consolidated and combined financial statements (unaudited).

Consolidated and Combined Statement of Operations (Unaudited)

Three-months Ended March 31, 2021 and 2020

	2021	2020
Revenue		
Oil and natural gas revenue	\$ 7,532,338	\$ 8,712,733
Loss on sale of oil and gas properties	(48,738)	—
Total revenue	7,483,600	8,712,733
Operating Expenses		
Production taxes	471,689	417,683
Lease operating expenses	903,035	1,381,526
Marketing expenses	—	175,654
Depletion, depreciation, amortization, and accretion	3,694,196	5,347,699
Exploration, dry hole, geological, and delay rentals	10,791	96,201
General and administrative expenses	938,594	1,586,140
Total operating expenses	6,018,305	9,004,903
Operating Income (Loss)	1,465,295	(292,170)
Other (Expense) Income		
Interest expense	(302,588)	(543,280)
Realized (loss) gain on commodity derivatives	(798,488)	1,664,031
Unrealized (loss) gain on commodity derivatives	(589,545)	7,924,976
Other income	995	115,586
Loss on disposal of asset	(15,680)	—
Total other (expense) income	(1,705,306)	9,161,313
Consolidated and Combined Net (Loss) Income	\$ (240,011)	\$ 8,869,143
Amounts Attributable to Noncontrolling Interest and Parent Group		
Consolidated and combined net (loss) income attributable to:		
Noncontrolling interests	\$ (16,583)	\$ 27,903
Tracker Resource Development III, LLC and TRD III Royalty Holdings (TX), LP	(223,428)	8,841,240
Consolidated and combined net (loss) income	\$ (240,011)	\$ 8,869,143

See notes to consolidated and combined financial statements (unaudited).

Consolidated and Combined Statement of Changes in Equity (Unaudited)

Three-months Ended March 31, 2021 and 2020

	Class A Units	Class B Units	Other Contributions	Noncontrolling Interests	Accumulated Deficit	Total Tracker Resource Development III, LLC Equity	Total TRD III Royalty Holdings (TX), LP Equity	Total Combined Equity
Balance - January 1, 2021	\$ 370,160,054	\$ 7,554,317	\$ 29,655,152	\$ 448,828	\$ (366,573,675)	\$ 41,244,676	\$ 822,426	\$ 42,067,102
Net loss	—	—	—	(16,583)	(223,428)	(240,011)	—	(240,011)
Cash distribution	—	—	—	(334,000)	—	(334,000)	—	(334,000)
Balance - March 31, 2021	\$ 370,160,054	\$ 7,554,317	\$ 29,655,152	\$ 98,245	\$ (366,797,103)	\$ 40,670,665	\$ 822,426	\$ 41,493,091

	Class A Units	Class B Units	Other Contributions	Noncontrolling Interests	Accumulated Deficit	Total Tracker Resource Development III, LLC Equity	Total TRD III Royalty Holdings (TX), LP Equity	Total Combined Equity
Balance - January 1, 2020	367,130,132	7,492,481	29,655,152	3,983,006	(100,804,573)	307,456,198	11,336,856	318,793,054
Net income	—	—	—	27,903	8,841,240	8,869,143	—	8,869,143
Balance - March 31, 2020	\$ 367,130,132	\$ 7,492,481	\$ 29,655,152	\$ 4,010,909	\$ (91,963,333)	\$ 316,325,341	\$ 11,336,856	\$ 327,662,197

See notes to consolidated and combined financial statements (unaudited).

Consolidated and Combined Statement of Cash Flows (Unaudited)

	Three-months Ended March 31, 2021 and 2020	
	2021	2020
Cash Flows from Operating Activities		
Net (loss) income	\$ (240,011)	\$ 8,869,143
Adjustments to reconcile net (loss) income to net cash and cash equivalents from operating activities:		
Depletion, depreciation, amortization, and accretion	3,694,196	5,347,699
Unrealized loss (gain) on commodity derivatives	589,545	(7,924,976)
Loss on disposal of asset and sale of oil and gas properties	64,418	—
Amortization of debt issuance costs	59,892	39,086
Changes in operating assets and liabilities:		
Accounts receivable	(496,814)	1,054,824
Inventory	—	31,803
Other assets	(13,728)	61,910
Accounts payable and accrued liabilities	(2,133,250)	(15,599,946)
Cash call prepayments	4,971	(772)
Settlement of asset retirement obligations	(16,514)	(63,707)
Net cash and cash equivalents provided by (used in) operating activities	1,512,705	(8,184,936)
Cash Flows from Investing Activities		
Investments in oil and gas properties	(1,778,183)	(3,032,912)
Proceeds from sale of oil and gas properties	2,523,848	—
Net cash and cash equivalents provided by (used in) investing activities	745,665	(3,032,912)
Cash Flows from Financing Activities		
Noncontrolling interest distributions	(334,000)	—
Proceeds from revolving credit facility	—	2,500,000
Payments on revolving credit facility	(2,300,000)	—
Payment of debt issuance costs	(43,014)	—
Net cash and cash equivalents (used in) provided by financing activities	(2,677,014)	2,500,000
Net Decrease in Cash and Cash Equivalents	(418,644)	(8,717,848)
Cash and Cash Equivalents - Beginning of period	5,095,369	16,048,169
Cash and Cash Equivalents - End of period	\$ 4,676,725	\$ 7,330,321
Supplemental Cash Flow Information - Cash paid for interest	\$ 249,393	\$ 458,623
Significant Noncash Transactions		
Change in capital expenditures in accounts payable, accrued capital expenditures, and other accrued liabilities	\$ (1,776,557)	\$ (3,134,950)

See notes to consolidated and combined financial statements (unaudited).

Note 1 - Nature of Business

Tracker Resource Development III, LLC (Tracker) is a Delaware limited liability company that was formed on April 6, 2011. Tracker is engaged in the acquisition, exploration, and development of crude oil and natural gas reserves, primarily in Texas and Ohio.

Tracker formed a subsidiary known as TLU, a Delaware limited liability company, on July 3, 2012. TLU is engaged in the acquisition, exploration, and development of crude oil and natural gas reserves, primarily in Ohio. Tracker has a 60 percent interest in TLU, with the 40 percent not owned by Tracker reflected as a noncontrolling interest.

On July 15, 2014, TLU formed a wholly owned subsidiary, TLU Royalty Holdings, LLC (TLUR), for the purpose of holding overriding royalty interests in oil and gas properties owned by TLU. During the three-month periods ended March 31, 2021 and 2020, TLU did not transfer overriding royalty interests to TLUR. During 2014, the membership units of TLUR were transferred to the members of TLU in proportion to their investment in TLU. Accordingly, through Tracker's 60 percent investment in TLU, Tracker has consolidated the assets, liabilities, and operations of TLUR, with the 40 percent not owned accounted for as a noncontrolling interest.

On December 13, 2016, Tracker formed a wholly owned subsidiary, Tracker North Ohio Holdings, LLC (TNOH), for the purpose of holding interests and developing unproved oil and gas properties that were distributed by TLU.

On March 14, 2017, Tracker formed a wholly owned subsidiary, TRI66 Holdings, LLC (TRI66), for the purpose of holding real estate and other property to support ongoing oil and gas operations.

On July 15, 2014, Tracker formed a wholly owned subsidiary, TRD III Royalty Holdings (TX), LP (TRDR), for the purpose of holding overriding royalty interests in unproved oil and gas properties owned by Tracker in the state of Texas. During 2014, the limited partnership interests of TRDR were transferred to the members of Tracker in proportion to their investment in Tracker. The management investor (Note 9) serves as the manager of TRDR. Due to the common ownership between Tracker and TRDR, the assets, liabilities, equity, and operations of TRDR have been combined with the consolidated financial statements of Tracker as of March 31, 2021 and December 31, 2020 and for three-month periods ended March 31, 2021 and 2020.

During 2020, the Company, as disclosed in Note 2, initiated a process of divesting certain of its assets, with the expectation of finalizing any sales of assets in 2021. On March 31, 2021, the Company signed a definitive agreement to sell its Midland Basin assets to Earthstone Energy, Inc. (Earthstone) for cash consideration of \$29.6 million and 4.7 million shares of Earthstone, subject to customary closing period adjustments. One of the Class A members of the Company also has an interest in Earthstone. As a result of this anticipated sales transaction, the Company has not pursued extending the December 2021 maturity date of its revolving line of credit (Note 4), which has resulted in a negative working capital deficit as of March 31, 2021. The Company anticipates retiring the amounts owed under its revolving credit facility with the net proceeds received from any potential sales transaction. If a sales transaction is not finalized prior to the maturity date of the revolving line of credit, the Company would anticipate negotiating with the lender for repayment alternatives, including an extension of the maturity date. There can be no guarantee that any sales transactions and/or negotiations with the lender will be resolved prior to the

Note 1 - Nature of Business (Continued)

maturity date. If the sales transaction with Earthstone is completed, the Company's intent is to dissolve within 12 months from the date these consolidated and combined financial statements are available to be issued.

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation of interim financial information, have been included. Operating results for the periods presented are not necessarily indicative of expected results for the full year.

Principles of Consolidation and Combination

The accompanying consolidated and combined financial statements include the consolidated accounts of Tracker; its wholly owned subsidiaries, TNOH and TRI66; and its majority-owned subsidiaries, TLU and TLUR. The Company consolidates TLU and TLUR, as it has a controlling interest. Due to common ownership with its investors, Tracker has combined the accounts of TRDR (collectively, the "Company"). All material intercompany accounts and transactions have been eliminated in consolidation and combination.

The Company records a noncontrolling interest for the portion of its net assets and net (loss) income in any subsidiaries that are less than 100 percent owned. The Company reflects noncontrolling interests in the equity section of its consolidated and combined balance sheet of \$98,245 and \$448,828 as of March 31, 2021 and December 31, 2020, respectively, representing the 40 percent interest in TLU and TLUR not owned by Tracker. The Company recorded \$(16,583) and \$27,903 in its consolidated and combined statement of operations for the noncontrolling interests attributable to TLU's and TLUR's net income (loss) for the three-month periods ended March 31, 2021 and 2020, respectively.

Use of Estimates

The preparation of the consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Depletion, depreciation, and amortization (DD&A) and impairment of proved oil and gas properties are generally determined using unaudited estimates of oil and gas reserves. There are numerous uncertainties in estimating the quantity of reserves and in projecting the future rates of production and timing of development expenditures, including future costs to dismantle, dispose, and restore the Company's properties. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way. In

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 2 - Significant Accounting Policies (Continued)

addition, significant estimates include the estimated cost and timing related to asset retirement obligations (AROs), fair value of commodity derivative instruments, the likelihood of selling its oil and gas properties, and the realizability of unproved properties.

Cash Equivalents

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas activities. Under this method of accounting, costs associated with the acquisition, drilling, and equipping of successful exploratory wells and costs of successful and unsuccessful development wells are capitalized and depleted, net of estimated salvage values, using the units-of-production on a field-by-field basis based upon proved oil and gas reserves. The Company's proved oil and gas reserve information was computed by applying the average first day of the month oil and gas price during the 12-month periods ended March 31, 2021 and 2020. Depletion expense for the three-month periods ended March 31, 2021 and 2020 was \$3,634,854 and \$5,268,083, respectively. Exploration, geological and geophysical costs, delay rentals, and drilling costs of unsuccessful exploratory wells are charged to expense as incurred.

Costs associated with unevaluated exploratory wells are excluded from the depletable base until the determination of proved reserves, at which time those costs are reclassified to proved oil and gas properties and subject to depletion. If it is determined that the exploratory well costs were not successful in establishing proved reserves, such costs are expensed at the time of such determination. As of March 31, 2021 and December 31, 2020, the Company had no exploratory wells in progress.

The Company assesses the recoverability of its proved oil and gas properties when circumstances suggest there is a need for such a review, but at least on an annual basis. To determine if a depletable unit (generally defined as an individual field) is impaired, the Company compares the net book value of the depletable unit to the undiscounted future net cash flows by applying estimated future prices over the economic lives of the reserves. For each depletable unit determined to be impaired, an impairment loss equal to the difference between the net book value and estimated fair value of the depletable unit will be recognized. Fair value, on a depletable unit basis, is estimated to be the present value of expected future cash flows computed by applying estimated future oil and gas prices, as determined by management, to estimated future production of oil and gas reserves over the economic lives of the reserves and applying of a discount rate commensurate with the risk associated with realizing the expected cash flows or using a market participant negotiated fair value. The discount rate is a rate that management believes is representative of current market conditions and includes estimates for the risk premium. The Company did not record any impairments of proved oil and gas properties during the three-month periods ended March 31, 2021 and 2020.

Unproved oil and gas properties are assessed at least annually to determine whether they have been impaired by the drilling of dry holes on or near the related acreage or other circumstances that may indicate a decline in value. When unproved property is determined to be impaired, a loss equal to the

Note 2 - Significant Accounting Policies (Continued)

portion impaired is recognized. When leases for unproved properties expire, the costs thereof are removed from the accounts and charged to expense. The Company did not record any impairments of unproved oil and gas properties during the three-month periods ended March 31, 2021 and 2020.

The sale of a partial interest in a proved oil and gas property is accounted for as a normal retirement, and no gain or loss is recognized as long as this treatment does not significantly affect the unit-of-production depletion rate. A gain or loss is recognized for all other sales of proved properties and is included in the results of operations. The sale of a partial interest in an unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to the recovery of the cost applicable to the interest retained. A gain on the sale is recognized to the extent the sale price exceeds the carrying amount of the unproved property.

The Company has not capitalized interest costs during the three-month periods ended March 31, 2021 and 2020, as such amounts capitalizable were deemed immaterial.

Asset Retirement Obligation

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Liabilities are required to be accreted to their present value each period, and capitalized costs are depleted using the units-of-production method. This periodic accretion expense is included in depletion, depreciation, amortization, and accretion in the consolidated and combined statement of operations. Upon settlement of the liability, the Company will settle the obligation against its recorded amount and will record any resulting gain or loss in the consolidated and combined statement of operations.

Commodity Derivative Instruments

The Company uses commodity derivative instruments to provide a measure of stability to its cash flows in an environment of volatile oil and natural gas prices and to manage its exposure to oil and natural gas price volatility. All commodity derivative instruments are initially, and subsequently, measured at estimated fair value and recorded as assets or liabilities on the consolidated and combined balance sheet. The Company has elected not to designate its commodity derivative instruments as cash flow hedges. For commodity derivative instruments that do not qualify as cash flow hedges, changes in the estimated fair value of the contracts are recorded as gains and losses in other (expense) income in the consolidated and combined statement of operations. When commodity derivative instruments are settled, the Company recognizes realized gains and losses in other (expense) income in the consolidated and combined statement of operations. Commodity derivative instrument cash flows are reported as cash flows from operating activities in the consolidated and combined statement of cash flows.

Income Taxes

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Company. Members are taxed individually on their pro rata ownership share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the Company's operating agreement.

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 2 - Significant Accounting Policies (Continued)

The Company accounts for uncertainty in income taxes in accordance with GAAP, which prescribe a comprehensive model for recognizing, measuring, presenting, and disclosing in the consolidated and combined financial statements tax positions taken or expected to be taken on a tax return, including a decision on whether to file in a particular jurisdiction. Only tax positions that meet a more likely than not recognition threshold at the effective date may be recognized or continue to be recognized. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the members rather than the Company.

The Company classifies interest and penalties associated with tax positions as general and administrative expenses in the accompanying consolidated and combined financial statements. No interest or penalties have been assessed during the three-month periods ended March 31, 2021 and 2020.

Internal Revenue Service (IRS) audits of partnerships that result in adjustments of the partnership will be assessed at the partnership level.

Revenue Recognition

The Company's revenue is derived from the sale of its produced oil and natural gas.

Revenue is recognized in the month in which the contractual performance obligations are satisfied, which is generally at the point in time when the purchaser obtains control of the produced oil and natural gas. The point in time when the purchaser obtains control may differ depending on the contractual terms of each of the Company's sales agreements and generally occurs when the purchaser accepts, takes possession of and title to, and bears the risk of loss of the produced oil and natural gas.

The Company sells its produced oil and natural gas under a variety of long-term agreements with numerous purchasers. The Company's produced oil and natural gas production is primarily produced and sold in Texas. The Company's revenue is primarily derived from produced oil and natural gas from oil and gas wells operated by the Company. Oil sales for the three-month periods ended March 31, 2021 and 2020 were \$3,360,988 and \$7,626,607, respectively. Natural gas sales for the three-month periods ended March 31, 2021 and 2020 were \$4,171,350 and \$1,086,126, respectively. The Company also receives revenue from its ownership in nonoperating or royalty interests. Approximately 4 percent of the Company's revenue is from its nonoperating or royalty interests.

All of the Company's sales of produced oil and natural gas are made under contracts with purchasers, which typically include variable consideration based on monthly pricing tied to published indices and volumes delivered. While revenue is recorded at the point in time when control of the produced oil and natural gas transfers to the purchaser, statements and payment from those purchasers may not be received for one to two months after the date the produced oil and natural gas is delivered, and, as a result, the amount of production delivered to the purchaser and the price that will be received for the sale of the product is estimated utilizing production reports, contractual pricing, and market indices. Estimated revenue due to the Company is recorded within accounts receivable in the accompanying consolidated and combined balance sheet until payment is received. Differences between the estimated amounts and the actual amounts received from the sale of the produced oil and natural gas are recorded when known, which is generally when payment is received from the purchaser.

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 2 - Significant Accounting Policies (Continued)

For the Company's produced oil sales agreements, the Company generally delivers produced oil to the purchaser at the Company's wellhead or lease facility near the wellhead location. Upon delivery to the purchaser, the Company is entitled to an agreed-upon index price, net of pricing differentials for each barrel produced. With these agreements, the Company recognizes revenue when control transfers to the purchaser at the Company's wellhead or lease facility near the wellhead location at the net price received.

For the Company's natural gas sales agreements, the Company generally delivers produced natural gas to a midstream entity at the wellhead or the inlet of the midstream entity's transportation system. The Company sells natural gas under a variety of sales agreements, including percentage-of-proceeds processing agreements, fee-based agreements, or a hybrid of percentage-of-proceeds and fee-based agreements. Under the majority of the Company's contracts, the midstream entity gathers the natural gas in the field where it is produced and transports it to natural gas processing plants where natural gas liquids are extracted. The natural gas liquids and residue gas are then sold by the midstream entity. Under the percentage-of-proceeds and hybrid percentage-of-proceeds and fee-based agreements, the Company receives a percentage of the value for the extracted natural gas liquids and the residue gas. Under the fee-based agreement, the Company receives natural gas liquids and residue gas sales proceeds, less the fee component. To the extent control of the natural gas transfers before the transportation and processing activities, which is generally at the Company's wellhead lease facility, revenue is recognized at the net amount received from the purchaser.

Concentrations of Credit Risk

The Company grants credit in the normal course of business to purchasers and joint interest operators. Collectibility of the Company's oil and natural gas sales is dependent upon the financial condition of the purchasers and joint interest operators, as well as general economic conditions.

The following entities accounted for 10 percent or more of total revenue and accounts receivable:

	Revenue		Accounts Receivable	
	Three-month Period Ended March 31, 2021	Three-month Period Ended March 31, 2020	As of March 31, 2021	As of December 31, 2020
Texican Crude & Hydrocarbons, LLC	45%	84%	41%	38%
Cogent Midstream Holdings	39	10	38	29
Davis Gas Processing, Inc.	13	-	12	11

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives, ranging from 3 to 39 years. Land is not depreciated. Costs of maintenance and repairs are charged to expense when incurred.

	Depreciable Life - Years
Land	-
Buildings	39
Furniture, fixtures, and equipment	3 - 15

Impairment or Disposal of Long-lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

Discontinued Operations and Assets Held for Sale

Midland Basin Assets

As discussed in Note 1, during 2020, the Company initiated a process of divesting certain of its assets. On March 31, 2021, the Company signed a definitive agreement to sell its Midland Basin assets to Earthstone. The Company determined that the transaction met the reporting and disclosure requirements of discontinued operations as upon entering into the definitive agreement on March 31, 2021, the Company determined the transaction met the requirements of assets held for sale and that the divestiture of the assets represented a strategic shift that will have a major effect on the Company's operations and financial results. The Company expects the transaction to be completed during 2021 and upon completion of the transaction, expects to have no continuing involvement with the assets. The Company ceased depletion, depreciation, and amortization of the assets associated with the discontinued operations as of March 31, 2021 which was the date the Company signed the definitive agreement to sell its Midland Basin assets. As of March 31, 2021, the assets associated with the discontinued operations were carried at an amount that approximated their fair value less costs to sell, which was based on the sale price per the definitive agreement. As these assets make up substantially all of the oil and gas properties and the asset retirement obligations on the consolidated and combined balance sheet, substantially all of the revenue and operating expenses on the consolidated and combined statement of operations, and substantially all of the cash flows from operating and investing activities, these assets, liabilities, and operating results have not been presented as held for sale or discontinued operations.

Ranch and Real Estate Assets

As of December 31, 2020, assets held for sale consisted of certain ranch and real estate assets held at TRI66. As of December 31, 2020, the assets were recorded at fair value less the cost to sell, and the assets were sold during the three-month period ended March 31, 2021.

Note 2 - Significant Accounting Policies (Continued)

Segment Information and Geographic Area

Operating segments are defined under GAAP as components of an enterprise (i) that engage in activities from which the enterprise may earn revenue and incur expenses and (ii) for which separate operational financial information is available and is regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance.

Based on its organization and management, the Company has one reportable operating segment, which is oil and natural gas acquisition, exploration, development, and production. The Company's primary operations are currently conducted in Texas.

Risks and Uncertainties

The outbreak of COVID-19 and decreases in commodity prices resulting from oversupply, travel restrictions, and other constraints on economic activity have caused a significant decrease in the demand and consumption of oil and gas and has created disruptions and volatility in the global marketplace throughout numerous industries, beginning late in the first quarter of 2020. While commodity prices and commodity demand have showed signs of recovery, financial results are likely to continue to be challenged until a full recovery is made. Due to this changing environment, there continues to be uncertainty surrounding the extent of the impact of these events, which may result in continued direct and indirect negative impacts to the Company's results of operations, liquidity, and cash flows. As a result of this continued uncertainty, the estimates used in these consolidated and combined financial statements have become more challenging, and actual results may differ materially from amounts previously established.

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Company is still evaluating which method it will apply. The new lease standard is not expected to have a material effect on the Company's financial statements as a result of the Company's operating leases, as disclosed in Note 8. Upon adoption, the Company will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Note 2 - Significant Accounting Policies (Continued)

Unit-based Compensation

The Company follows authoritative guidance that applies to unit-based awards, which requires entities to recognize compensation expense over the requisite service period for unit-based awards to employees, based on the estimated grant date fair value of the awards. Authoritative guidance also requires unit-based awards to employees by a related party or other holder of an economic interest in the entity to be accounted for as unit-based award transactions if awards are for services provided by such employees.

Note 3 - Accounts Receivable

The following is the detail of accounts receivable:

	March 31, 2021	December 31, 2020
Revenue accrual	\$ 2,815,816	\$ 2,083,785
Joint interest billing receivable	229,056	241,296
Other receivables	41,581	264,558
Total accounts receivable	<u>\$ 3,086,453</u>	<u>\$ 2,589,639</u>

Note 4 - Revolving Line of Credit

In December 2016, Tracker entered into a revolving line of credit (the "JPMorgan Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Lender") with a maximum commitment of \$300,000,000. As defined in the JPMorgan Credit Agreement, the initial borrowing base was \$0. Effective March 23, 2018, the JPMorgan Credit Agreement was amended, and a borrowing base of \$35,000,000 was established. During 2019, the JPMorgan Credit Agreement was syndicated with another lender, but the commitment was still \$300,000,000. Tracker was subject to an arrangement fee and annual administration fee upon establishing the borrowing base under the JPMorgan Credit Agreement. The arrangement fee was 0.75 percent of the initial borrowing base, plus an annual administration fee of \$15,000 per year plus \$5,000 per additional lender, up to a maximum of \$35,000 per year. During 2020, the JPMorgan Credit Agreement was amended to provide a schedule of borrowing base reductions. The borrowing base was \$20,300,000 at March 31, 2021 and December 31, 2020. On April 19, 2021, the Company received a letter from the Lender waiving the scheduled redetermination on March 1, 2021 and postponing the scheduled redetermination from May 2021 to August 1, 2021. The letter also states the borrowing base decreased to \$18,000,000. Additionally, the JPMorgan Credit Agreement matures in December 2021; accordingly, the outstanding balance of \$18,000,000 and \$20,300,000 is recorded as a current liability on the consolidated and combined balance sheet as of March 31, 2021 and December 31, 2020. Additionally, the JPMorgan Credit Agreement was amended to include mandatory weekly prepayments if excess cash exists, as defined. Interest accrues at the prime rate plus applicable margins, ranging from 1.75 percent to 2.75 percent, or the London Interbank Offered Rate (LIBOR) plus applicable margins, ranging from 2.75 percent to 3.75 percent, and will be based upon the borrowing base usage. The Company will pay an annual commitment fee of 0.50 percent of the unused borrowing base. As of March 31, 2021 and December 31, 2020, the interest rate on the JPMorgan Credit Agreement was 3.86 and 3.93 percent, respectively. Borrowings under the JPMorgan Credit Agreement are collateralized by certain proved oil and gas properties of Tracker. The JPMorgan Credit Agreement contains certain financial covenants, including, but not limited to, a minimum current ratio and a maximum leverage ratio. As of March 31, 2021 and December 31, 2020, the Company was in compliance with these financial covenants. The Company did not have letters of credit outstanding under the JPMorgan Credit Agreement as of March 31, 2021 or December 31, 2020.

Note 5 - Limited Recourse Note Payable

In December 2012, Tracker entered into a limited recourse note payable with a third party for \$25,000,000 to partially fund the acquisition of unproved properties. During October 2018, the limited recourse note payable agreement was amended to extend the maturity date to March 2021 and required Tracker to make equal quarterly principal payments of \$2,025,000. Effective March 16, 2020, the limited recourse note payable agreement was amended to reduce the interest rate from 5 percent to 4 percent and to extend the maturity date to March 2022. Effective August 3, 2020, the limited recourse note payable agreement was amended to reduce the principal balance to \$5,062,500 through the assignment of certain property interests from Tracker and to extend the maturity date to June 2023. Tracker will make equal quarterly interest-only payments beginning in September 2020 through March 2022 based on an annual 4 percent rate. Following the interest-only payments, Tracker will make equal quarterly principal payments beginning June 2022 through maturity. The note has limited recourse because it is only collateralized by

Notes to Consolidated and Combined Financial Statements
(Unaudited)

Note 5 - Limited Recourse Note Payable (Continued)

certain oil and gas properties located in Irion County, Texas. As of March 31, 2021 and December 31, 2020, the outstanding amount under this limited recourse note payable was \$5,062,500.

Note 6 - Derivative Instruments

Tracker periodically enters into various commodity hedging instruments to protect its cash flows and to mitigate a portion of the effect of oil and natural gas price fluctuations. Open commodity derivative positions are accounted for on a fair value basis on the consolidated and combined balance sheet, and any unrealized gain or loss is included in other income (expense) in the consolidated and combined statement of operations. Realized gains and losses from settled transactions are also recorded in other income (expense) in the consolidated and combined statement of operations. The Company does not have any derivative contracts designated as cash flow hedges. As of March 31, 2021 and December 31, 2020, the Company had no offsetting positions and all amounts were recorded gross on the consolidated and combined balance sheet. Realized gains and losses on commodity derivatives are classified as an operating activity in the consolidated and combined statement of cash flows.

As of March 31, 2021, the Company had the following crude oil and natural gas derivative contracts outstanding:

Contract	Type	Term	Volume (Bbls or MMBTU)	Index	Fixed Price (\$/Bbl / \$/MMBTU)
1	Natural Gas Swap	January 2020 - December 2021	324,200	NG-WAHA	\$ 1.573
2	Natural Gas Swap	July 2020 - December 2021	900,000	NG-WAHA	\$ 2.185
3	Crude Oil Swap	January 2021 - June 2021	38,100	WTI-NYMEX	\$ 42.95
4	Crude Oil Swap	July 2021 - December 2021	32,400	WTI-NYMEX	\$ 43.60

Note 7 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets and liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset and liability. These Level 3 fair value measurements are

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 7 - Fair Value Measurements (Continued)

based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2021 and December 31, 2020 and the valuation techniques used by the Company to determine those fair values:

Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2021			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2021
Commodity Derivative Instruments - Current liability			
\$ —	\$ (1,876,512)	\$ —	\$ (1,876,512)
Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2020			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Commodity Derivative Instruments - Current liability			
\$ —	\$ (1,286,967)	\$ —	\$ (1,286,967)

Note 7 - Fair Value Measurements (Continued)

Recurring Fair Value Measurements

The counterparty to the Company's derivative instruments is JPMorgan Chase Bank, N.A. and another lender under the JPMorgan Credit Agreement. The Company is not required to post collateral beyond that already pledged under the JPMorgan Credit Agreement. The fair value of these derivative swap contracts is based on the March 31, 2021 and December 31, 2020 market prices posted on the New York Mercantile Exchange (NYMEX) and WTI Midland Argus for crude oil and West Texas WAHA for natural gas. The Company determines the fair value of its commodity derivative instruments under the income approach using a discounted cash flow model. The valuation model requires a variety of inputs, including contractual terms, projected commodity prices, discount rates, and credit risk adjustments, as appropriate. The Company's estimates of fair value of derivatives include consideration of the counterparty's creditworthiness, the Company's creditworthiness, and the time value of money. The consideration of these factors results in an estimated exit price for each derivative asset or liability under a marketplace participant's view. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's commodity derivative instruments are included within the Level 2 fair value hierarchy.

Note 8 - Operating Leases

The Company is obligated under operating leases primarily for office space, expiring in 2022. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$185,460 and \$72,860 for the three-month periods ended March 31, 2021 and 2020, respectively. In March 2021, the Company entered into a new office lease agreement for approximately \$4,700 per month for 14 months.

Future minimum annual commitments remaining under these operating leases are as of March 31, 2021 are as follows:

Years Ending December 31	Amount
2021	\$ 57,402
2022	34,696
Total	<u>\$ 92,098</u>

Note 9- Equity

Tracker Resource Development III, LLC

Tracker issued units to partners under the terms of its limited liability company agreement and unit purchase agreement (collectively, the "Agreements") dated April 8, 2011. The Agreements allow for ownership interest in Tracker in the form of Class A and Class B units. Class A units are owned by certain institutional investors (the "Institutional Investors"), and Class B units are held by Tracker III Holdings, LLC (the "Management Investor"), an entity owned by Tracker's officers and other select employees.

Notes to Consolidated and Combined Financial Statements (Unaudited)

Note 9- Equity (Continued)

The total authorized number of each class of units for Tracker, together with the number of issued and outstanding units, is as follows:

	Authorized	Outstanding as of March 31, 2021	Outstanding as of December 31, 2020
Class A units	392,000	378,280	378,280
Class B units	8,000	7,720	7,720

Class A and Class B units are issuable for \$1,000 per unit. The affairs of Tracker are managed by a board of managers, and costs, revenue, and distributions are governed by the specific provisions in the Agreements. Also, under certain circumstances as more fully provided for in the Agreements, upon the termination of employment of an employee of Tracker who owns Class A units or Class B units of the Management Investor, Tracker has the right, but not the obligation, to repurchase the pro rata portion of Tracker's Class B units held by the Management Investor.

Tracker III Holdings, LLC

The limited liability company agreement of the Management Investor (the "Holdings LLC Agreement") provides for ownership interests of the Management Investor that consist of Class A, Class B and Class C Units. The Class C units are intended to comprise profits units under the Internal Revenue Code, and Class C units and (i) have no voting rights; (ii) vest according to each grantee's award letter; and (iii) are subject to forfeiture. As of March 31, 2021 and December 31, 2020, as it relates to the Management Investor, 54,701 Class C units were issued and outstanding. All of the Class C units outstanding at March 31, 2021 and December 31, 2020 were fully vested. During the three-month periods ended March 31, 2021 and 2020, no unit-based compensation was recognized.

TRD III Royalty Holdings (TX), LP

TRDR issued units to members under the terms of its agreement of limited partnership (the "Agreement") dated July 15, 2014. The Agreement allows for ownership interest in TRDR in the form of Class A and Class B units. Class A units are owned by certain Institutional Investors, and Class B units are held by the Management Investor.

The total authorized number of each class of units for TRDR, together with the number of issued and outstanding units, is as follows:

	Authorized	Outstanding as of March 31, 2021	Outstanding as of December 31, 2020
Class A units	490,000	378,280	378,280
Class B units	10,000	7,720	7,720

Notes to Consolidated and Combined Financial Statements
(Unaudited)

Note 10 - Subsequent Events

Management has evaluated subsequent events for the Company through the independent auditor's review report date, May 21, 2021, which is the date the Company's consolidated and combined financial statements were available to be issued, and has concluded that there are no subsequent events required to be adjusted or disclosed within the consolidated and combined financial statements except as previously disclosed.

SEG-TRD LLC and SEG-TRD II LLC Properties
Statements of Revenues and Direct Operating Expenses
For the Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

To SEG-TRD LLC and SEG-TRD II LLC

We have audited the accompanying statements of revenues and direct operating expenses of the oil and natural gas properties of SEG-TRD LLC and SEG-TRD II LLC (collectively referred to as the "Properties") for the years ended December 31, 2020 and 2019 and the related notes (collectively referred to as the "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

SEG-TRD LLC and SEG-TRD II LLC Properties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues and direct operating expenses of the Properties for the years ended December 31, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1. The presentation is not intended to be a complete presentation of the financial position, results of operations, or cash flows of the Properties. Our opinion is not modified with respect to this matter.

/s/ Plante & Moran, PLLC

Denver, Colorado
May 20, 2021

Statements of Revenues and Direct Operating Expenses of the SEG-TRD LLC and SEG-TRD II LLC Properties
(in thousands)

	Audited For the Years Ended December 31,		Unaudited For the Three Months Ended March 31,	
	2020	2019	2021	2020
Revenues				
Oil, natural gas, and natural gas liquids revenues	\$ 36,793	\$ 37,432	\$ 9,379	\$ 14,520
Direct operating expenses				
Lease operating expenses	4,843	3,935	614	1,813
Gathering, processing and transportation	2,117	1,467	471	568
Production taxes	3,014	2,589	845	978
Total direct operating expenses	9,974	7,991	1,930	3,359
Revenues in excess of direct operating expenses	<u>\$ 26,819</u>	<u>\$ 29,441</u>	<u>\$ 7,449</u>	<u>\$ 11,161</u>

See accompanying Notes to the Statements of Revenues and Direct Operating Expenses

Notes to the Statements of Revenues and Direct Operating Expenses**Note 1 – Basis of Presentation**

On March 31, 2021 Earthstone Energy Holdings LLC (“EEH”), a subsidiary of Earthstone Energy Inc. (“Earthstone”) entered into a Purchase and Sale Agreement to acquire all of the oil and natural gas properties (the “Properties”) owned by SEG-TRD LLC (“SEG I”) and SEG-TRD II LLC (SEG II”) and collectively “Sequel” or the “Company”) which include non-operated well bore interests, related proved reserves and associated well equipment and infrastructure in the Midland Basin of Texas. The total consideration for the Properties was approximately \$62.9 million, subject to post-closing adjustments which reflect an effective date of March 1, 2021. The consideration is comprised of \$52.5 million cash and 1.5 million shares of Earthstone common stock.

The Sequel Properties were less than substantially all of the key operating assets of the manager of the Sequel Properties during the presented periods. Accordingly, complete financial statements under U.S. generally accepted accounting principles (“GAAP”) are not available, or practicable to obtain for the Sequel Properties. The accompanying Statements of Revenue and Direct Operating Expenses are not intended to be a complete presentation of the results of operations of the Sequel Properties and may not be representative of future operations as they do not include general and administrative expenses, interest income or expense, depreciation, depletion and amortization, impairments, income taxes or other income and expense items not directly associated with revenues from oil and natural gas. The accompanying Statements of Revenue and Direct Operating Expenses are presented in lieu of the full financial statements required under Rule 8-04 of the Securities and Exchange Commission (“SEC”) Regulation S-X.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates – The preparation of the Statements of Revenue and Direct Operating Expenses in conformity with GAAP required Sequel’s management to make various assumptions, judgements and estimates to determine the reported amounts of revenues and direct operating expenses of the Sequel Properties for the periods reported. These estimates and assumptions are based on Sequel’s best estimates and judgements. Changes in these assumptions, judgements and estimates will occur due to the passage of time and occurrence of future events. Accordingly, actual results could differ materially from amounts previously established.

Revenue Recognition – Oil, natural gas, and natural gas liquids revenues are derived from non-operated interests in oil and natural gas wells. The sales of oil, natural gas, and natural gas liquids are made under contracts that the third-party operator of the oil and natural gas wells have negotiated with customers. The Sequel Properties receive payment between one to two months after delivery of the oil and natural gas production. At the end of each period when the performance obligation is satisfied, the variable consideration can be reasonably estimated and amounts due from customers are accrued. Variances between the Sequel Properties estimated revenue and actual payments are recorded in the month the payment is received; however, differences have historically been insignificant. As a non-operator of oil and natural gas properties, management of Sequel records its share of the revenues and expenses based on information provided by the operators within the revenue statements.

Notes to the Statements of Revenues and Direct Operating Expenses**Note 2 – Summary of Significant Accounting Policies (continued)**

Direct Operating Expenses – Direct operating expenses are recognized when incurred and include amounts required to operate the wells to produce, gather, transport, process and treat oil and natural gas. Direct operating expenses also include production taxes.

Concentration of Credit Risk - The Sequel Properties have exposure to credit risk in the event of nonpayment of oil and natural gas receivables by the joint interest operator of the Properties. All revenues are paid and distributed by the sole operator of all of the Properties.

Note 3 – Commitments and Contingencies

Pursuant to the terms of the purchase and sale agreement between Sequel and Earthstone, certain liabilities arising in connection with ownership of the Properties prior to the effective date are to be retained by Sequel.

The Sequel Properties were subject to Joint Development Agreements (“JDAs”) with the third-party operator of all the Properties. Pursuant to the JDAs, Sequel funded a portion of the development costs and earned a non-operating wellbore only working interest in the Sequel Properties. During 2020, all Sequel funding obligations under the JDAs had been paid in full or expired and there were no remaining commitments. The JDAs provided for certain customary assignment restrictions, right of first refusal, right of first offer, tag-along and drag-along rights. Neither Sequel or the third-party operator exercised those rights under the JDAs related to the Purchase and Sale Agreement with Earthstone.

Management is not aware of any pending or threatened legal, environmental remediation or other commitments or contingencies that would have a material effect on the Sequel Properties, other than customary plugging and abandonment obligations associated with the Properties.

Note 4 – Excluded Expenses

Indirect general and administrative expenses, interest expense, income taxes and other indirect expenses have not been allocated to the Sequel Properties by Sequel and as such, have been excluded from the accompanying Statements of Revenue and Direct Operating Expenses. Any allocation of such indirect expenses may not be indicative of costs which would have been incurred by Earthstone on a stand-alone basis. Depreciation, depletion and amortization expense has also been excluded from the accompanying Statements of Revenue and Direct Operating Expenses as such amounts would not be indicative of the depletion calculation by Earthstone on the Sequel Properties on a stand-alone basis.

Note 5 – Subsequent Events

Subsequent events have been evaluated through May 20, 2021, the date the accompanying Statements of Revenues and Direct Operating Expenses were available to be issued. There were no material subsequent events that require recognition or additional disclosure in the accompanying Statements of Revenue and Direct Operating Expenses.

Notes to the Statements of Revenues and Direct Operating Expenses

Note 6 – Supplemental Oil and Gas Information (Unaudited)

The estimates of proved oil and natural gas reserves and discounted future net cash flows for the Sequel Properties as of December 31, 2020 and 2019, were prepared using historical data and other information by qualified petroleum engineers engaged by Sequel. Users of this information should be aware that the process of estimating quantities of proved oil and natural gas reserves is very complex, requiring significant subjective decisions to be made in the evaluation of available geologic, engineering and economic data for each reservoir. The data for any given reservoir may also change substantially over time as the result of numerous factors, including but not limited to, additional development activity, production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time.

The estimated proved net recoverable reserves presented below include only those quantities of oil and natural gas that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future periods from known reservoirs under existing economic, operating, and regulatory practices. In accordance with the Securities and Exchange Commission's (SEC's) guidelines, estimates of proved reserves from which present values are derived were based on unweighted 12-month average price of the first day of the month price for the period, and held constant. Proved developed reserves represent only those reserves estimated to be recovered through existing wells. All the Sequel Properties' reserves set forth herein are in the United States and are proved reserves.

The Sequel Properties' estimated quantities of proved oil and natural gas reserves and changes in net proved reserves are summarized below for the years ended December 31, 2020 and 2019:

	Crude Oil (MBbls)	Natural Gas Liquids (MBbls)	Natural Gas (MMcf)
Proved developed and undeveloped reserves – January 1, 2019	1,715	1,717	9,668
Revisions of previous estimates	264	239	2,375
Extensions and discoveries	816	822	4,504
Production	(548)	(365)	(2,206)
End of Year – December 31, 2019	2,247	2,413	14,341
Proved developed reserves at beginning of year	872	905	5,230
Proved developed reserves at end of year	2,247	2,413	14,341
Proved undeveloped reserves at beginning of year	843	812	4,438
Proved undeveloped reserves at end of year	-	-	-

Notes to the Statements of Revenues and Direct Operating Expenses

Note 6 – Supplemental Oil and Gas Information (Unaudited) (continued)

	Crude Oil (MBbls)	Natural Gas Liquids (MBbls)	Natural Gas (MMcf)
Proved developed and undeveloped reserves – January 1, 2020	2,247	2,413	14,341
Revisions of previous estimates	(184)	667	4,490
Extensions and discoveries	-	-	-
Production	(665)	(589)	(3,645)
End of Year – December 31, 2020	1,398	2,491	15,186
Proved developed reserves at beginning of year	2,247	2,413	14,341
Proved developed reserves at end of year	1,398	2,491	15,186
Proved undeveloped reserves at beginning of year	-	-	-
Proved undeveloped reserves at end of year	-	-	-

Standardized Measure (unaudited) – The Company computes a standardized measure of future net cash flows and changes therein relating to estimated proved reserves in accordance with authoritative accounting guidance for the Sequel Properties. The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board (FASB) and the SEC. These assumptions do not necessarily reflect the Company's expectations of actual revenues to be derived from those reserves, nor their present value amount. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these reserve quantity estimates are the basis for the valuation process.

Future cash inflows and production and development costs are determined by applying prices and costs, including transportation, quality, and basis differentials, to the year-end estimated future reserve quantities. The following weighted average prices as adjusted for transportation, quality, and basis differentials were used in the calculation of the standardized measure:

	2020	2019
Oil per Bbl	\$36.36	\$51.20
NGL per Bbl	\$10.41	\$15.01
Gas per Mcfe	\$1.14	\$1.33

Future operating costs are determined based on estimates of expenditures to be incurred in developing and producing the proved reserves in place at the end of the period using year-end costs and assuming continuation of existing economic conditions. The standardized measure presented here does not include the effects of federal income taxes as Sequel is a limited liability company and not subject to federal income taxes; however, Sequel is subject to state taxes.

Notes to the Statements of Revenues and Direct Operating Expenses

Note 6 – Supplemental Oil and Gas Information (Unaudited) (continued)

The standardized measure of discounted future net cash flows relating to the Sequel Properties' proved oil and natural gas reserves is as follows (in thousands):

	December 31,	
	2020	2019
Future cash inflows	\$ 94,087	\$ 170,340
Future production costs	(43,592)	(65,241)
Future development costs	(3,226)	(8,144)
Future Texas margin tax expense	(355)	(727)
Future net cash flows	46,914	96,228
Less 10% annual discount to reflect timing of cash flows	(11,937)	(22,438)
Standardized measure of discounted future net cash flows	<u>\$ 34,977</u>	<u>\$ 73,790</u>

Changes in Standardized Measure – Changes in the standardized measure of discounted future net cash flows before income taxes related to the proved oil and gas reserves of the Properties are as follows (in thousands):

	For the Years Ended December 31,	
	2020	2019
Standardized measure – beginning of year	\$ 73,790	\$ 37,853
Sales of oil and natural gas, net of production costs	(26,819)	(29,441)
Net changes in price and production cost	(30,120)	(28,407)
Revisions in previous quantity estimates	7,252	14,644
Development costs incurred	—	42,965
Extensions and discoveries	—	43,755
Accretion of discount	7,379	3,785
Net change in Texas margin tax	293	(558)
Changes in timing and other	3,202	(10,806)
Standardized measure - end of year	<u>\$ 34,977</u>	<u>\$ 73,790</u>



Independence Resources Holdings, LLC

**Consolidated Financial Statements
December 31, 2020 and 2019 with
Report of Independent Certified Public Accountants**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Members
Independence Resources Holdings, LLC

We have audited the accompanying consolidated financial statements of Independence Resources Holdings, LLC (a Delaware limited liability company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, cash flows, and changes in members' equity for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

/s/ GRANT THORNTON LLP

Houston, Texas

April 30, 2021

Independence Resources Holdings, LLC
Consolidated Balance Sheets

(in thousands)	December 31,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 4,963	\$ 17,239
Accounts receivable	10,420	9,770
Inventory	141	177
Prepaid expenses and other current assets	505	615
Total current assets	16,029	27,801
Oil and gas properties - successful efforts method		
Proved properties	548,878	493,749
Unproved properties, net	56,144	88,728
Furniture, fixtures and other property and equipment	3,193	3,192
Total property and equipment	608,215	585,669
Less: Accumulated depreciation, depletion, amortization and impairment	(185,997)	(139,767)
Total property and equipment, net	422,218	445,902
Derivative instruments	—	14
Other long-term assets	6	39
Total Assets	\$ 438,253	\$ 473,756
Liabilities		
Accounts payable and accrued operating expenses	\$ 5,582	\$ 7,838
Accrued capital expenditures	1,131	1,846
Accrued rig commitment expense	—	944
Accrued interest	17	33
Current portion of long-term debt	134,157	13,900
Asset retirement obligations	90	90
Derivative instruments	7,767	7,164
Other current liabilities	494	—
Total current liabilities	149,238	31,815
Long-term debt, net of unamortized insurance costs	—	194,303
Derivative instruments	548	57
Deferred tax liability	1,135	1,157
Asset retirement obligations	18,492	17,215
Other long-term liabilities	47	391
Total Liabilities	169,460	244,938
Members' Equity	268,793	228,818
Total Liabilities and Members' Equity	\$ 438,253	\$ 473,756

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

Independence Resources Holdings, LLC
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Revenues		
Oil sales	\$ 72,319	\$ 91,434
Gas sales	8,154	7,756
Realized gain (loss) - commodity derivatives	28,585	(2,691)
Unrealized loss - commodity derivatives	(1,109)	(15,402)
Other revenues	56	38
Total revenues	108,005	81,135
Expenses		
Lease operating expenses	16,473	17,074
Severance and ad valorem taxes	5,154	6,148
Exploration expense	—	27,272
General and administrative	8,735	10,755
Rig commitment expense	(24)	3,854
Depreciation, depletion, and amortization	46,230	36,830
Impairment expense	—	56,600
Accretion expense	1,277	1,190
Equity-based compensation	1,799	2,961
Total operating expenses	79,644	162,684
Operating Income (Loss)	28,361	(81,549)
Interest expense	(9,845)	(11,866)
Income tax (expense) benefit	(340)	575
Net Income (Loss)	\$ 18,176	\$ (92,840)

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

Independence Resources Holdings, LLC
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Operating Activities:		
Net income (loss)	\$ 18,176	\$ (92,840)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Unrealized loss - commodity derivatives	1,109	15,402
Exploratory unproved property impairments	—	27,226
Depreciation, depletion and amortization	46,230	36,830
Impairment expense	—	56,600
Accretion expense	1,277	1,190
Equity-based compensation	1,799	2,961
Amortization of debt issuance costs	753	436
Deferred income taxes	(22)	(575)
Changes in operating assets and liabilities:		
Accounts receivable	(650)	(3,931)
Prepaid expenses and other current assets	110	(24)
Accounts payable and accrued operating expenses	(1,749)	2,577
Accrued rig commitment expense	(944)	944
Accrued interest	(16)	9
Other long-term assets	33	10
Other long-term liabilities	(345)	(144)
Net cash provided by operating activities	65,761	46,671
Investing Activities:		
Acquisitions of oil and gas properties	—	436
Oil and gas capital expenditures, including inventory	(23,236)	(100,171)
Furniture, fixtures and other equipment	(1)	(223)
Net cash used in investing activities	(23,237)	(99,958)
Financing Activities:		
Payments on revolving credit facility	(74,265)	—
Borrowings under revolving credit facility	—	56,900
Debt issuance costs	(535)	(205)
Capital contributions	20,000	10,000
Net cash (used in) provided by financing activities	(54,800)	66,695
(Decrease) increase in cash and cash equivalents	(12,276)	13,408
Cash and cash equivalents, beginning of period	17,239	3,831
Cash and cash equivalents, end of period	\$ 4,963	\$ 17,239
Supplemental Non-Cash Information:		
Asset retirement obligations assumed or incurred	\$ —	\$ 16
Supplemental Cash Flow Information:		
Cash paid during period for interest	\$ 9,108	\$ 11,421

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

Independence Resources Holdings, LLC
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2020 and 2019

(in thousands)	Series A Units		Incentive Units		Total
			Series B/C/D		
December 31, 2018	\$	308,697	\$	—	\$ 308,697
Capital contributions		10,000		—	10,000
Equity-based compensation		—		2,961	2,961
Net income (loss)		(89,879)		(2,961)	(92,840)
December 31, 2019		228,818		—	228,818
Capital contributions		20,000		—	20,000
Equity-based compensation		—		1,799	1,799
Net income (loss)		19,975		(1,799)	18,176
December 31, 2020	\$	268,793	\$	—	\$ 268,793
Remaining capital commitment at December 31, 2020	\$	—	\$	—	\$ —

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

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

NOTE 1 – Summary of Organization and Business

Organization and Overview of the Company's Business

Independence Resources Holdings, LLC (the "Company"), formed in 2014 as a Delaware limited liability company, is a privately held exploration and production company focused on acquiring and developing Permian Basin hydrocarbon resources with substantial oil-in-place and low historical recovery factors, where advanced drilling and completion techniques can create compelling risk-adjusted returns. To date, the Company has acquired approximately 43,500 net acres in the Midland Basin of West Texas and operates over 800 wells.

The Company's limited liability agreement (the "LLC Agreement") authorizes four classes of units referred to as Series A Units, Series B Units, Series C Units and Series D Units. The Company is authorized to issue up to 50,000,000 Series A Units at \$10 per unit and up to an aggregate 14,516,000 Series B Units, Series C Units and Series D Units (collectively, the "Incentive Units") to management, employees and independent directors for no consideration. Members holding Series A Units committed to fund up to \$500,000,000 over a five-year period, of which \$495.4 million is from certain investment funds sponsored by Warburg Pincus LLC ("Warburg"). Upon expiration of the five-year commitment in December of 2019, members elected to extend the commitment for one year. The commitment was not extended at December 31, 2020 due to the pending merger with Earthstone Energy, LLC. The Company conducts oil and gas operations through its indirect wholly-owned subsidiary, Independence Resources Management, LLC ("IRM").

The business and affairs of the Company are managed and controlled by its board of directors. The board of directors is comprised of two management representatives, two Warburg representatives, one independent director appointed by management and two independent directors appointed by Warburg. In addition, Warburg has the right to appoint a fourth independent director.

NOTE 2 – Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in preparing the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and expenses during the reporting period. The Company's most significant estimates relate to proved oil and natural gas reserves and related future cash flows. Specifically, proved reserves estimates are a key input to the Company's depletion rate for oil and gas properties and the related estimates of future cash flows are used in impairment tests of oil and gas properties. In addition, estimates are used in determining accruals of oil and gas sales revenue, capital expenditures and operating costs, and asset retirement obligations. Because there are numerous uncertainties inherent in the estimation process, actual results could differ from these estimates.

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

Revenue Recognition

On January 1, 2019, the Company adopted ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”) using the modified retrospective approach, which only applies to contracts that were not completed as of the date of initial application. The adoption did not require an adjustment to opening retained earnings for the cumulative effect adjustment and does not have a material impact on the Company’s reported net income (loss), cash flows from operations or statement of members’ equity.

The Company enters into contracts with customers (“purchasers”) to sell its oil and gas production. Oil and gas sales revenue on these contracts are recognized when production is sold to a purchaser at a fixed or determinable price, delivery has occurred, control has transferred, and collectability of the revenue is probable. Revenue accruals are recorded monthly based on estimated production delivered to purchasers at the expected price to be received. Variances between estimates and the actual amounts received are recorded in the month payment is received. Proceeds are received from the purchasers one to two months after production. The Company’s contracts with purchasers are further described below.

Oil Sales. Under the Company’s oil sales contracts, it delivers oil to the purchaser at specified delivery points and collects an agreed upon index price, net of differentials and other fees. At the delivery point, control transfers to the purchaser and the Company recognizes oil sales revenue for the net amount it expects to receive.

Natural Gas. Under the Company’s natural gas contracts, it delivers gas to a midstream processing entity at specified delivery points at or near the battery facilities or the inlet of the midstream processing entity’s system. The midstream processing entity gathers, processes and then sells the extracted natural gas liquids and residue gas and remits a percentage of the sales proceeds to the Company. Proceeds received from the sale of natural gas liquids are included in gas sales revenues. At the delivery point, control transfers to the midstream processing entity and the Company recognizes natural gas revenue for the net amount it expects to receive.

Financial Instruments

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged between willing parties. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reported at cost or carrying value, which approximates fair value due to the short maturity of these instruments. The carrying value of amounts outstanding under the Company’s revolving credit facility approximate fair value due to its floating interest rate structure. Commodity derivative instruments are reported at fair value.

Cash and Cash Equivalents

The Company considers all highly liquid, short-term investments with original maturities of three months or less to be cash and cash equivalents. Balances held by the Company at its banks can exceed Federal Deposit Insurance Corporation (“FDIC”) insurance coverage and, as a result, there is a concentration of credit risk related to the amounts of deposit in excess of FDIC insurance coverage.

Accounts Receivable and Concentration of Credit Risk

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

The Company's accounts receivable are primarily from purchasers of oil and natural gas production. This industry concentration has the potential to impact the Company's overall exposure to credit risk, either positively or negatively, in that its customers may be similarly affected by changes in economic, industry or other conditions. The Company's management believes its purchasers currently pose acceptable credit risk. Full performance is anticipated, and the Company has no past due receivables from any of its purchasers.

Inventory

Inventory includes tubing and other lease and well equipment which the Company plans to utilize in its ongoing operations, which is carried at cost. Scrap and inventory held for sale is carried at the lower of cost or market value less cost to sell.

Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value on a recurring basis. Non-financial assets and liabilities including assets acquired and liabilities assumed in an acquisition of oil and gas properties, impairments of oil and gas properties and the initial recognition of asset retirement obligations are measured at fair value on a nonrecurring basis.

Fair value is defined 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 (exit price). A three-tier hierarchy is utilized to prioritize and define the observable inputs used in determining fair value. Level 1 inputs represent unadjusted quoted prices for identical assets and liabilities in active markets. Level 2 inputs represent quoted market prices for similar assets and liabilities in active markets, quoted market prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data. Level 3 inputs are generally not readily observable from objective sources and include internally developed assumptions and future cash flow models.

The primary use of fair value estimates by the Company is associated with the recurring valuation of its commodity derivative instruments and the valuation of oil and gas properties when, and if, an impairment loss is indicated. The Company's commodity derivatives are non-exchange traded and classified as Level 2, while equity-based compensation and oil and gas property valuations are classified as Level 3.

Derivative Instruments and Hedging Activities

The Company utilizes commodity derivative instruments to reduce its exposure to fluctuations in oil prices and location-specific pricing differentials. The Company does not enter into commodity derivative instruments for speculative or trading purposes and currently utilizes a combination of fixed price swaps, basis swaps and collars. Although the Company's use of commodity derivative instruments is intended to protect a portion of its cash flows from downward oil price movements, certain hedging strategies, specifically the use of swaps and collars, limit the Company's ability to realize the full benefit of future price increases.

The Company's derivative contracts are recorded in the consolidated balance sheet as either an asset or liability measured at fair value with changes in fair value recognized currently in the consolidated statement of operations as unrealized gains and losses in the period of change. The fair value of derivative instruments is reported net by counterparty in the consolidated balance sheet when a

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

contractual right of offset exists. Realized gains and losses on contracts related to the current period are reported separately in the consolidated statement of operations. The Company uses an independent pricing service to value its derivative instruments and corroborates those valuations by comparison to counterparty quotations. Fair value measurements for oil and natural gas derivatives are derived by utilizing forward commodity prices based on quoted market prices. In addition, values are based on, among other variables, futures prices, volatility and time-to-maturity. The Company's derivative contracts are not designated as hedging instruments for accounting purposes.

Derivative instruments used to hedge oil prices expose the Company to market and credit risks and, at times, may be concentrated with certain counterparties or groups of counterparties. Currently, the Company has derivative instruments in place only with members of its bank lending group and no margin obligations exist. Counterparty creditworthiness is subject to periodic review, and the Company's management believes its counterparties currently pose acceptable credit risk. Full performance is anticipated, and the Company has no past due receivables from any of its counterparties.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for its oil and gas producing activities, as further described below.

Proved Properties. All leasehold and development costs of proved properties are capitalized and amortized on a unit-of-production basis over the remaining life of proved reserves and proved developed reserves, respectively.

Maintenance and repairs are expensed as incurred while major tangible equipment costs are capitalized to the associated property and equipment accounts. Production costs incurred to operate and maintain wells and related equipment and facilities, including lifting the oil and gas to the surface and gathering, treating, processing and storing are expensed.

The Company evaluates proved properties for impairment whenever changes in facts and circumstances indicate a possible deterioration in the future cash flows expected to be generated by an asset group. If, upon review, the sum of the undiscounted pretax cash flows are less than the carrying amount of the asset group, the carrying amount is written down to estimated fair value. Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, generally on a field-by-field basis. The fair value of assets is determined based on the present values of expected future cash flows using discount rates commensurate with the risks involved. There were no proved property impairments in 2020. The Company recorded impairment expense on proved properties of \$56.6 million for the year ended December 31, 2019.

Unproved Properties. The costs incurred to acquire unproved leasehold are capitalized and excluded from amortization until evaluated. Once proved reserves are established, the costs are transferred to proved oil and gas properties and included in the amortization base.

The Company reviews its unproved properties for impairment indicators at least annually or more often as circumstances dictate. When determining whether impairment has occurred, unproved properties are assessed on either a property-by-property basis or grouped by major prospect area when property costs are not individually significant. Unproved property impairments are charged to exploration expense in the consolidated statement of operations. There were no unproved property

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

impairments in 2020. The Company recorded impairment expense of \$27.2 million for the year ended December 31, 2019 related to its unproved properties.

Exploration Costs. Exploratory drilling costs are capitalized when incurred pending the determination of whether a well has found proved reserves that are economically viable. The determination is based on a process that relies on interpretations of available geological, geophysical, and engineering data. If a well is determined to be unsuccessful, the capitalized drilling costs are charged to exploration expense (dry hole costs) in the period such determination is made.

Geological and geophysical (“G&G”) costs and delay rentals are expensed as incurred.

The following table summarizes exploration expense reported in the consolidated statement of operations during 2020 and 2019.

(in thousands)	2020	2019
G&G costs	\$ —	\$ 46
Impairments - unproved property	—	27,226
Total	<u>\$ —</u>	<u>\$ 27,272</u>

Sales of Oil and Gas Properties. Gains and losses on the sale of an entire oil and gas field are reflected in earnings. The sale of a partial interest in a proved property or field is treated as a reduction of its carrying amount, with no gain or loss recognized, unless such reduction significantly alters the relationship between capitalized costs and proved reserves or the unit-of-production depletion rate.

Asset Retirement Obligations

Asset retirement obligations (“ARO”) represent the future costs to abandon long-lived, tangible assets such as oil and gas wells, service assets and other facilities. The fair value of an ARO liability is recorded in the period in which the liability is incurred (or assumed, in the case of an acquisition) and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value, and the capitalized cost is depreciated over the useful life of the related asset. Fair value used in the initial recognition of an asset retirement obligation is determined based on the present value of expected future abandonment costs.

The following table summarizes changes in ARO liabilities during 2020 and 2019.

(in thousands)	2020	2019
Balance, January 1	\$ 17,305	\$ 16,099
Liabilities incurred - drilling and facilities	—	16
Accretion expense	1,277	1,190
Balance, December 31	<u>\$ 18,582</u>	<u>\$ 17,305</u>

Furniture, Fixtures and Other Property and Equipment

Independence Resources Holdings, LLC
Notes to Consolidated Financial Statements

Costs associated with office furniture and equipment, leasehold improvements, computer software and other property are recorded at cost and depreciated using the straight-line method over their estimated useful lives which range from three to twenty years.

Debt Issuance Costs

Direct costs associated with issuing debt under the Company's revolving credit facility are presented as a reduction of the carrying amount of debt and amortized over the remaining term of the facility on a straight-line basis. Unamortized debt issuance costs were \$479 thousand and \$697 thousand at December 31, 2020 and 2019, respectively. Commitment fees, which are based on a percentage of the unused line of credit, are expensed as incurred.

Income Taxes

The Company is treated as a flow-through entity for U.S. federal income tax purposes with each member separately including their share of the Company's income (loss) in their respective tax returns. However, the Company's wholly-owned subsidiary, Independence Resources Manager, LLC ("Manager") has elected to be treated as a corporation for U.S. federal income tax purposes and will pay federal and state income tax on its taxable income. In addition, the Company is subject to the Texas Margin Tax.

The Company recognizes deferred tax assets and liabilities associated with its tax-paying subsidiaries for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the financial statements in the period that includes the legislative enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods. Realization of deferred tax assets is dependent on generating sufficient taxable income in future years.

Equity-based Compensation

Compensation expense for equity-based awards is recognized in the Company's financial statements over the awards' vesting periods based on their grant date fair value. Compensation expense for cash settled, equity-based awards (liability awards) that do not vest, but require performance targets to be met and award recipients to be employed to receive benefits (performance conditions), is recognized when it is probable that such performance conditions will be achieved. See Note 8 for further discussion regarding equity-based compensation.

NOTE 3 – Long-Term Debt

The Company maintained a secured, revolving credit facility, which was fully satisfied on January 7, 2021, led by Wells Fargo Bank, N.A., as administrative agent, that provided the Company with up to \$500 million for loans and letters of credit (the "Credit Facility"). Available capacity under the Credit Facility fluctuated based on the value of the Company's proved reserves. The borrowing base under the Credit Facility was redetermined on May 1 and November 1 each year. Additionally, both the Company and the lenders were able to request interim borrowing base redeterminations between semi-annual determinations. Borrowings under the Credit Facility were secured by at least 85% of the value of proved reserves associated with the Company's oil and gas properties. The Credit Facility matures on December

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31, 2021 and, as such, all outstanding borrowing were classified as current as of December 31, 2020 and repaid in full on January 7, 2021. A letter of credit was issued May 8, 2020 for \$2 million as collateral for surety bonds issued for the Company's plugging and abandonment liabilities for the Sugg Ranch asset. The bond was released October 28, 2020.

The Credit Facility was amended on February 4, 2020 (the "February Amendment"), reducing the borrowing base from \$220 million to \$200 million, with a maximum availability of \$195 million until the Company completed the following:

- Receipt of \$20 million in additional capital contributions from members
- Redetermination of the borrowing base as of March 1, 2020

Pursuant to the February Amendment, \$13.9 million of outstanding borrowings were repaid in February 2020 and the capital contribution of \$20 million was received in March 2020.

In connection with the March 1, 2020 redetermination, the Credit Facility was amended on March 16, 2020, to reaffirm the \$200 million borrowing base, limited to maximum availability of \$195 million until the May 1, 2020 scheduled redetermination.

On June 30, 2020, in connection with the May 1 scheduled redetermination, the Company's borrowing base was reduced to \$178.3 million. Additional repayment terms were also implemented which included a borrowing base reduction schedule in the amount of \$3.0 million per month for the periods of July to November 2020. Additionally, provisions were established which directed the Company to apply 100% of cash in excess of \$5 million, as determined on the fifteenth day of each calendar month, to prepay outstanding loans. Any such prepayment was considered a reduction of the Company's borrowing base.

The Credit Facility was amended again on December 23, 2020 (the "December Amendment"). Among other things, the December Amendment postponed the November 1 2020 borrowing base redetermination until February 1, 2021, scheduled automatic borrowing base reductions of \$4.0 million and \$3.0 million as of January 1 and February 1, 2021, respectively, and required that all prepayments and repayments of outstanding borrowings be considered reductions to the borrowing base. Scheduled repayments of outstanding borrowings have been included as current liabilities in the Consolidated Balance Sheets, with \$3 million remaining to be paid as of December 31, 2020.

As of December 31, 2020, the Company's borrowing base, which was equal to outstanding borrowings at that time, was \$134.6 million. The Company made \$74.3 million in debt repayments during the year ended December 31, 2020.

Borrowings under the Credit Facility bore interest at a rate equal to the sum of (a) a quoted LIBOR rate plus (b) a margin, currently set at 4.25%. For the year ended December 31, 2020 and 2019, the weighted average interest rate on outstanding borrowings was 5.0% and 6.0%, respectively. In addition, the Company pays a quarterly commitment fee of 0.5% per annum on the unused portion of the commitments.

The Credit Facility contained customary financial and other covenants that place restrictions and limits on, among other things, the incurrence of debt, liens, distributions, consolidations and mergers, asset dispositions, certain investments and acquisitions, and certain transactions with affiliates.

Financial covenants under the Credit Facility required the Company to, among other things:

Independence Resources Holdings, LLC
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- Maintain a ratio of total debt to EBITDAX (as defined in the credit facility) of 3.5 to 1.0; and,
- Maintain a ratio of current assets (including available borrowing capacity under the Credit Facility) to current liabilities of at least 1.0 to 1.0.

As of December 31, 2020, the Company was in compliance with all covenants under the Credit Facility.

NOTE 4 – Derivative Instruments

To manage its exposure to fluctuations in oil prices, the Company has entered into commodity derivative instruments as summarized in the following table as of December 31, 2020.

	2021			
	Q1	Q2	Q3	Q4
Oil Swaps - NYMEX WTI				
Avg. Swap Price - \$/Bbl	\$ 41.16	\$ 41.09	\$ 41.03	\$ 40.97
Hedge Volume - Bbls/day	3,254	2,915	2,676	2,483
	2021			
	Q1	Q2	Q3	Q4
Oil Basis Swaps - WTI Midland/Cushing				
Avg. Swap Price - \$/Bbl	\$ 0.33	\$ 0.33	\$ 0.32	\$ 0.32
Hedge Volume - Bbls/day	3,254	2,915	2,676	2,483
	2021			
	Q1	Q2	Q3	Q4
Oil Swaps - WTI CMA Roll				
Avg. Swap Price - \$/Bbl	\$ (0.26)	\$ (0.26)	\$ (0.26)	\$ (0.27)
Hedge Volume - Bbls/day	3,254	2,915	2,676	2,483

The unrealized losses associated with these derivative instruments of \$1.1 million and \$15.4 million during 2020 and 2019, respectively, are reported as unrealized loss – commodity derivatives in the consolidated statements of operations.

NOTE 5 – Income Taxes

The components of the Company's income tax (expense) benefit are as follows.

(in thousands)	2020	2019
Current state income tax expense	\$ (318)	\$ —
Deferred state income tax (expense) benefit	(22)	575
Total income tax (expense) benefit	<u>\$ (340)</u>	<u>\$ 575</u>

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The Company is treated as a flow-through entity for U.S. federal income tax purposes and is, therefore, not subject to federal taxation. State income taxes are associated with the Texas Margin Tax which is calculated based upon the Company's Texas oil and gas revenues less cost of goods sold, as defined. Unlike federal income taxes, the Texas Margin Tax is levied upon and payable by the Company.

Deferred income taxes represent the estimated future tax consequences of temporary differences between the carrying amounts of assets and liabilities in the Company's financial statements and tax returns, primarily oil and gas properties and commodity derivative instruments.

Uncertain Tax Positions

FASB ASC Topic 740, Income Taxes ("ASC 740") prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of income tax positions taken or expected to be taken in an income tax return. For those benefits to be recognized, an income tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As of December 31, 2020, the Company had no material uncertain tax positions. The Company's uncertain tax positions may change in the next twelve months; however, the Company does not expect any possible change to have a significant impact on its results of operations or financial position.

NOTE 6 – Commitments and Contingencies

Contractual Obligations. The following table summarizes the amount and timing of minimum future payments that the Company is obligated to make under long-term operating agreements in place as of December 31, 2020.

(in thousands)	<u>2021</u>	<u>Total</u>
Operating leases	\$ 125	\$ 125

Rental expense attributable to operating leases was \$201 thousand and \$325 thousand for the years ended December 31, 2020 and 2019, respectively.

On November 1, 2020, the Company notified Lone Star College of its intent to elect early termination of its office lease at 11450 Compaq Center Drive West, Suite 470 (Bldg. 10), Houston, Texas 77070. This accelerated the contract termination from its original term ending on April 30, 2023 to the term ending on May 31, 2021. There were no fees for such acceleration.

Litigation. Management believes that the Company is in material compliance with all applicable federal, state and local laws as of December 31, 2020. From time to time, the Company may be involved in disputes or legal actions arising in the ordinary course of business. No provision has been made in the consolidated financial statements for loss contingencies associated with litigation, claims and assessments as of December 31, 2020 nor 2019.

Environmental and Regulatory. As of December 31, 2020, there were no known environmental or other regulatory matters related to the Company's operations that are reasonably expected to result in a material liability to the Company.

NOTE 7 – Members' Equity

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Member Interests. The member interests have been divided into Series A Units, which obligate members to make capital contributions to the Company, and Incentive Units, which do not have a capital commitment. As of December 31, 2020, the Company had issued 32,400,000 Series A Units for capital contributions of \$324,000,000, as well as 2,643,275 Series B Units, 1,467,650 Series C Units and 1,636,500 Series D Units issued to management, employees and independent directors for no consideration. The Series B, C and D Units are contingent upon continued employment with the Company.

Distributions and Allocation of Net Income (Loss). Under the terms of the LLC Agreement, distributions are allocated among the members, in general, as follows:

- First, 100% to the Series A Units until such holders have received cumulative distributions equal to their aggregate capital contributions plus a cumulative preferred return of 7% compounded quarterly on outstanding capital contributions (such preferred return increasing to 9% for the eighth year and 12% thereafter);
- Second, 88.57% to the Series A Units and 11.43% to the Series B Units until the Series A Unit holders have received an additional \$5.00/unit;
- Third, 82.67% to the Series A Units, 10.67% to the Series B Units and 6.66% to the Series C Units until the Series A Unit holders have received an additional \$10.00/unit;
- Thereafter, 77.5% to the Series A Units, 10.0% to the Series B Units, 6.25% to the Series C Units and 6.25% to the Series D Units.

Cumulative net income (loss) in the Consolidated Statements of Operations is allocated in accordance with the distribution provisions described above assuming that assets are realized and liabilities settled at their carrying amounts as of the balance sheet date. The annual allocation of net income (loss) is the difference between the cumulative allocation at the beginning and end of the reporting period. Under this approach, cumulative losses are allocated to the Series A Units and cumulative earnings are allocated either entirely to the Series A Units or between the Series A Units and the Series B, C and D Units in proportion to their entitled share of liquidated earnings.

Capital Commitments. The holders of Series A Units had made capital commitments of \$500 million of which \$324 million has been contributed as of December 31, 2020. The remaining commitment of \$176 million was terminated as of December 31, 2020.

NOTE 8 – Equity-based Compensation

Incentive Units. The Company issues Incentive Units, which act as profits sharing interests. Incentive Units are considered to be equity-based compensation to the recipients and compensation expense is recognized over the vesting period of the awards based on their grant-date fair values.

The Incentive Units vest over six years – 10% on the date of grant and 15% on each subsequent anniversary date. Compensation expense is recognized on a straight-line basis over the requisite service (vesting) period, subject to minimum expense recognition equal to the cumulatively vested portion of each award. Unvested awards are forfeited to the Company upon termination of employment and are accounted for as they occur.

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The grant-date fair value of each class of Incentive Unit was estimated by an independent valuation firm using the option-pricing method with a Monte-Carlo simulation, which incorporates various assumptions about expected probability-weighted outcomes and resulting distributions to Incentive Unit holders, risk-free interest rates and expected price volatility (based on a group of peer companies). In addition, the values are discounted further for lack of marketability.

The following table summarizes Incentive Unit activity during 2020 and 2019.

(in thousands)	Incentive Units	Avg. Grant-Date Fair Value
Nonvested at January 1, 2019	4,703,025	\$ 1.66
Vested	(1,677,405)	1.80
Forfeited	(1,342,500)	1.69
Nonvested at December 31, 2019	1,683,120	\$ 1.49
Vested	(374,055)	1.34
Forfeited	(129,990)	1.28
Nonvested at December 31, 2020	1,179,075	\$ 1.55

At December 31, 2020, the Company had \$0.5 million of unrecognized compensation cost related to non-vested Incentive Units that is expected to be recognized in earnings over a weighted average period of 1.0 years.

Long-Term Incentive Plan. In May 2016, the Company established the Independence Resources Holdings, LLC Long-Term Incentive Plan (the “Plan”) for the benefit of those IRM employees who have not been granted Incentive Units. The Plan is designed to attract and retain employees and to motivate those employees to contribute to the long-term success of the Company. Awards issued under the Plan (“Shadow Units”) serve as a substitute for Incentive Units and are intended to be cash settled. The Plan is unfunded.

Under the terms of the Plan, each participant receives Shadow Units that mimic – or “shadow” – distributions made to Incentive Unit holders, if any, although such Shadow Units do not provide participants with any rights of ownership to the Company’s assets or equity interests. Shadow Unit awards do not vest and are automatically forfeited without payment upon termination of employment. Consequently, award recipients must be employed by IRM when future performance conditions are met – i.e., the Company makes distributions to Incentive Unit holders – in order to receive cash payments under the Plan. As of December 31, 2020, the Company had issued 499,750 Shadow Units to employees.

Shadow Units are considered to be a liability award with performance conditions under the provisions of ASC 718 and, as such, compensation expense will be recognized when it is probable that distributions will be made to Incentive Unit holders and will be measured using the intrinsic-value method. No compensation expense was recognized for the years ended December 31, 2020 and 2019.

NOTE 9 – Subsequent Events

On January 7, 2021, Earthstone Energy, Inc. (“ESTE”), Earthstone Energy Holdings, LLC (“EEH”), the Company and Independence Resources Manager, LLC (“IRM”) consummated a transaction contemplated in a Purchase and Sale Agreement dated December 17, 2020 (the “Transaction”). Upon closing the Transaction on January 7, 2021, among other things, EEH acquired all of the issued and outstanding

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limited liability company interests in certain wholly owned subsidiaries of the Company and IRM for aggregate consideration consisting of the following: (i) an aggregate amount of cash from EEH equal to approximately \$131.2 million and (ii) 12,719,594 shares of ESTE's Class A common stock, \$0.001 par value per share, issued to the Company. The cash proceeds were used to pay down all outstanding borrowings under the Credit Facility.

The Company has evaluated its activities from December 31, 2020 through April 30, 2021 for material subsequent events that could require potential recognition or disclosure in the financial statements.

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NOTE 10. Supplemental Information On Oil And Gas Exploration And Production Activities (Unaudited)

Costs Incurred Related to Oil and Gas Activities

Capitalized costs include the cost of properties, equipment, and facilities for oil and natural gas producing activities. Capitalized costs for proved properties include costs for oil and natural gas leaseholds where proved reserves have been identified, development wells, and related equipment and facilities, including development wells in progress. Capitalized costs for unproved properties include costs for acquiring oil and natural gas leaseholds where no proved reserves have been identified, including costs of exploratory wells that are in the process of drilling or in active completion, and costs of exploratory wells suspended or waiting on completion.

The Company's oil and natural gas activities for December 31, 2020 and 2019 were entirely within the United States of America. Costs incurred in oil and natural gas producing activities were as follows (*in thousands*):

	Years Ended December 31,	
	2020	2019
Acquisition cost:		
Proved	\$ —	\$ 87
Unproved	—	—
Exploration costs:		
Geological and geophysical	—	46
Development costs	22,544	53,272
Total additions	<u>\$ 22,544</u>	<u>\$ 53,405</u>

Unproved property impairments are charged to exploration expense in the consolidated statement of operations. The Company recorded impairment expense of \$27.2 million for the year ended December 31, 2019 which is included in Accumulated impairment to Unproved properties in the Capitalized Costs section below. No such impairment was recorded for the year ended December 31, 2020.

During the year ended December 31, 2019, the Company had \$0.01 million in estimated costs of future abandonment related to new wells drilled or acquired. No such estimated costs were incurred in 2020.

During the years ended December 31, 2020 and 2019, the Company had no capitalized exploratory well costs, nor costs related to share-based compensation, general corporate overhead or similar activities.

Capitalized Costs

Capitalized costs, impairment, and depreciation, depletion and amortization relating to the Company's oil and natural gas properties producing activities, all of which are conducted within the continental United States as of December 31, 2020 and 2019, are summarized below (*in thousands*):

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	December 31,	
	2020	2019
Oil and gas properties, successful efforts method:		
Proved properties	\$ 605,553	\$ 550,424
Accumulated impairment to proved properties	(56,675)	(56,675)
Proved properties, net of accumulated impairments	548,878	493,749
Unproved properties	83,415	116,000
Accumulated impairment to Unproved properties	(27,272)	(27,272)
Unproved properties, net of accumulated impairments	56,143	88,728
Total oil and gas properties, net of accumulated impairments	605,021	582,477
Accumulated depreciation, depletion and amortization	(183,447)	(137,830)
Net oil and gas properties	<u>\$ 421,574</u>	<u>\$ 444,647</u>

Oil and Natural Gas Reserves

Users of this information should be aware that the process of estimating quantities of “proved” and “proved developed” oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosures.

Proved reserves represent estimated quantities of oil, natural gas and natural gas liquids that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions in effect when the estimates were made. Proved developed reserves represent estimated quantities expected to be recovered through wells and equipment in place and under operating methods used when the estimates were made.

The estimates of proved reserves shown herein for the years ended December 31, 2020 and 2019 have been prepared by the Company. Proved reserves were estimated in accordance with guidelines established by the SEC, which require that reserve estimates be prepared under existing economic and operating conditions based upon the 12-month unweighted average of the first-day-of-the-month prices.

The Company’s reserves were estimated by its principal internal reservoir engineer. The Company’s principal reservoir engineer has over 20 years of experience in the upstream oil and gas industry, including more than 10 years as a petroleum reserves evaluator and manager. Further professional qualifications of our principal reservoir engineer include a degree in petroleum engineering, extensive experience in asset evaluation, planning, business development and management. In addition, the principal engineer is a participant in professional industry groups and has been a member of the Society of Petroleum Engineers for over 20 years.

The reserve information in these Consolidated Financial Statements represents only estimates. There are a number of uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the Company’s control, such as commodity pricing. Reserve engineering is a subjective process

Independence Resources Holdings, LLC
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of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. As a result, estimates by different engineers may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may lead to revising the original estimate. Accordingly, initial reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. The meaningfulness of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Except to the extent the Company acquires additional properties containing proved reserves or conducts successful exploration and development activities or both, the Company's proved reserves will decline as reserves are produced.

The following table illustrates the Company's estimated net proved reserves, including changes, and proved developed and proved undeveloped reserves for the periods indicated. The oil prices as of December 31, 2020 and 2019 are based on the respective 12-month unweighted average of the first of the month prices of the West Texas Intermediate ("WTI") spot prices, adjusted for regional market differentials, resulting in \$38.35 per barrel and \$54.15 per barrel, respectively. The natural gas prices as of December 31, 2020 and 2019 are based on the respective 12-month unweighted average of the first of month prices of the Henry Hub spot price, adjusted for regional market differentials, resulting in \$1.75 per MMBtu and \$2.58 per MMBtu, respectively. Natural gas liquids are made up of ethane, propane, isobutane, normal butane and natural gasoline, each of which have different uses and different pricing characteristics. All prices are held constant in accordance with SEC guidelines.

A summary of the Company's changes in quantities of proved oil and natural gas reserves for the years ended December 31, 2020 and 2019 are as follows:

	Oil (MMbbl)	Natural Gas (MMcft)	Total (MBOE)
Balance - December 31, 2018	39,134	85,324	53,355
Extensions and discoveries	7,317	11,919	9,304
Production	(1,697)	(3,775)	(2,326)
Revision to previous estimates	(9,416)	(17,025)	(12,253)
Balance - December 31, 2019	35,338	76,443	48,080
Extensions and discoveries	799	1,260	1,009
Production	(1,993)	(4,769)	(2,788)
Revision to previous estimates	(438)	7,591	826
Balance - December 31, 2020	33,706	80,525	47,127
Proved developed reserves:			
December 31, 2018	13,610	45,109	21,128
December 31, 2019	13,548	42,277	20,595
December 31, 2020	13,713	49,157	21,906
Proved undeveloped reserves:			
December 31, 2018	25,524	40,215	32,227
December 31, 2019	21,790	34,166	27,484
December 31, 2020	19,993	31,368	25,221

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Notable changes in proved reserves for the year ended December 31, 2020 included the following:

- *Extensions and discoveries.* Extensions and discoveries in 2020 of 1.0 MMBOE were the result of successful drilling results and well performance primarily related to the Midland Basin.
- *Revision to previous estimates.* Upward revisions in 2020 of prior reserves of 0.8 MMBOE were primarily due to improved recoveries in certain recently drilled horizontal wells.

Notable changes in proved reserves for the year ended December 31, 2019 included the following:

- *Extensions and discoveries.* Extensions and discoveries in 2019 of 9.3 MMBOE were the result of successful drilling results and well performance primarily related to the Midland Basin.
- *Revision to previous estimates.* Downward revisions in 2019 of prior reserves of 12.3 MMBOE were primarily due to reduced commodity prices.

For wells classified as proved developed producing where sufficient production history existed, reserves were based on individual well performance evaluation and production decline curve extrapolation techniques. For undeveloped locations and wells that lack sufficient production history, reserves were based on analogy to producing wells within the same area exhibiting similar geologic and reservoir characteristics. Well spacing was determined from drainage patterns derived from a combination of performance-based recoveries and analogous producing wells for each area or field. PUD locations were limited to areas of uniformly high-quality reservoir properties, between existing commercial producers where the reservoir can, with reasonable certainty, be judged to be continuous with existing producers and contain economically producible oil and natural gas on the basis of available geoscience and engineering data.

Changes in PUD reserves for the years ended December 31, 2020 and 2019 were as follows (*in MBOE*):

Proved undeveloped reserves at December 31, 2018	32,226
Conversions to developed	(3,314)
Revision to previous estimates	(1,428)
	27,484
Proved undeveloped reserves at December 31, 2019	27,484
Conversions to developed	(2,762)
Revision to previous estimates	499
	25,221
Proved undeveloped reserves at December 31, 2020	25,221

2020 Changes in Proved Undeveloped Reserves

Conversions to developed. In the Company's year-end 2019 plan to develop its PUDs within five years, the Company estimated that \$28.1 million of capital would be expended in 2020 for the conversion of 11 gross / 9.6 net PUDs to add 3.4 MMBOE, as compared to \$22.5 million actually spent to convert both 9 gross / 8.6 net PUDs adding 2.8 MMBOE to developed, as well as 3 gross / 2.9 net from unproved drilling locations adding 1.0 MMBOE to developed.

Revision to previous estimates. Revisions of 0.5 MMBOE were primarily due to improved recoveries in certain recently drilled horizontal wells.

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2019 Changes in Proved Undeveloped Reserves

Conversions to developed. In the Company's year-end 2018 plan to develop its PUDs within five years, the Company estimated that \$46.5 million of capital would be expended in 2019 for the conversion of 12 gross / 10.7 net PUDs to add 6.5 MMBOE, as compared to \$31.3 million actually spent to convert 4 gross / 4.0 net PUDs adding 3.3 MMBOE to developed, as well as \$31.9 million actually spent to convert 6 gross / 6.0 net from unproved drilling locations adding 3.4 MMBOE to developed.

Revision to previous estimates. Revisions of 1.4 MMBOE were primarily due to reduced commodity prices.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The following Standardized Measure of Discounted Future Net Cash Flows (Standardized Measure) has been developed utilizing FASB ASC Topic 932, *Extractives Activities – Oil and Gas* ("ASC 932") procedures and based on oil and natural gas reserve and production volumes estimated by the Company's third-party petroleum engineering firm. It can be used for some comparisons, but should not be the only method used to evaluate the Company or its performance. Further, the information in the following table may not represent realistic assessments of future cash flows, nor should the Standardized Measure be viewed as representative of the current value of the Company.

The Company believes that the following factors should be taken into account when reviewing the following information:

- Future costs and commodity prices will probably differ from those required to be used in these calculations;
- Due to future market conditions and governmental regulations, actual rates of production in future years may vary significantly from the rate of production assumed in the calculations;
- A 10% discount rate may not be reasonable as a measure of the relative risk inherent in realizing future net oil and natural gas revenues; and
- Future net revenues may be subject to different rates of income taxation.

At December 31, 2020 and 2019, as specified by the SEC, the prices for oil and natural gas used in this calculation were the unweighted 12-month average of the first day of the month prices, except for volumes subject to fixed price contracts. Prices used to estimate reserves are included in *Oil and Natural Gas Reserves* above. Future production costs include per-well overhead expenses allowed under joint operating agreements, abandonment costs (net of salvage value), and a non-cancelable fixed cost agreement to reserve pipeline capacity for gathering and processing. Estimates of future income taxes are computed using current statutory income tax rates including consideration for estimated future statutory depletion and tax credits. The resulting net cash flows are reduced to present value amounts by applying a 10% discount factor.

The Standardized Measure is as follows (*in thousands*):

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	December 31,	
	2020	2019
Future cash inflows	\$ 1,433,588	\$ 2,087,317
Future production costs	(491,740)	(533,837)
Future development costs	(250,836)	(307,277)
Future income tax expense	(1,582)	(3,271)
Future net cash flows	689,430	1,242,932
10% annual discount for estimated timing of cash flows	(426,942)	(718,637)
Standardized measure of discounted future net cash flows	<u>\$ 262,488</u>	<u>\$ 524,295</u>

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The following is a summary of the changes in the Standardized Measure for the Company's proved oil and natural gas reserves during each of the years in the two-year period ended December 31, 2020 (*in thousands*):

	December 31,	
	2020	2019
Beginning of year	\$ 524,295	\$ 669,759
Sales of oil and gas produced, net of production costs	(58,897)	(76,006)
Net changes in prices and production costs	(289,277)	(139,178)
Extensions, discoveries, and improved recoveries	11,589	105,979
Changes in income taxes, net	1,689	57
Previously estimated development costs incurred during the period	22,544	53,405
Net changes in future development costs	52,970	29,232
Revisions of previous quantity estimates	(39,673)	(177,387)
Accretion of discount	27,134	37,740
Changes in timing of estimated cash flows and other	10,114	20,694
End of year	<u>\$ 262,488</u>	<u>\$ 524,295</u>

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
FOR EARTHSTONE ENERGY, INC.**

On July 20, 2021, Earthstone Energy, Inc. (“Earthstone” or the “Company”), Earthstone Energy Holdings, LLC, a subsidiary of the Company (“EEH” and collectively with Earthstone, the “Buyer”), Tracker Resource Development III, LLC (“Tracker”), and TRD III Royalty Holdings (TX), LP (“RoyaltyCo” and collectively with Tracker, the “Seller”) consummated the transactions contemplated in the Purchase and Sale Agreement dated March 31, 2021 by and among Earthstone, EEH and the Seller (the “Tracker Agreement”) that was previously reported on Form 8-K. Also, on July 20, 2021, Earthstone, EEH, SEG-TRD LLC (“SEG-I”), and SEG-TRD II LLC (“SEG-II” and collectively with SEG-I, “Sequel”), consummated the transactions contemplated in the Purchase and Sale Agreement dated March 31, 2021 by and among Earthstone, EEH and Sequel (the “Sequel Agreement” and collectively with the Tracker Agreement, the “Purchase Agreements”) that was previously reported on Form 8-K.

Pursuant to the Tracker Agreement, EEH acquired (the “Tracker Acquisition”) interests in oil and gas leases and related property of Tracker located in Irion County, Texas, for a purchase price (the “Tracker Purchase Price”) of \$22.5 million in cash (which included a \$2.96 million cash deposit previously paid by the Buyer upon the execution of the Tracker Agreement and held in escrow in accordance with the terms of the Tracker Agreement), and 4.7 million shares (the “Tracker Shares”) of Class A common stock, \$0.001 par value per share of Earthstone (the “Class A Common Stock”). The cash portion of the Tracker Purchase Price is net of preliminary and customary purchase price adjustments and remains subject to final post-closing settlement between the Buyer and the Seller.

Pursuant to the Sequel Agreement, EEH acquired (the “Sequel Acquisition” and with the Tracker Acquisition, the “Transaction”) certain well-bore interests and related equipment held by Sequel that were part of a joint development agreement between Tracker and Sequel involving portions of the acreage covered by the Tracker Agreement for a purchase price (the “Sequel Purchase Price”) of \$45.3 million in cash (which included a \$5.2 million cash deposit previously paid by the Buyer upon the execution of the Sequel Agreement and held in escrow in accordance with the terms of the Sequel Agreement) and 1.5 million shares (the “Sequel Shares” and with the Tracker Shares, the “Transaction Shares”) of Class A Common Stock. The cash portion of the Sequel Purchase Price is net of preliminary and customary purchase price adjustments and remains subject to final post-closing settlement between the Buyer and the Sequel.

The Tracker Acquisition and the Sequel Acquisition will be accounted for as asset acquisitions in accordance with Accounting Standards Codification Topic 805, Business Combinations (referred to as “ASC 805”). The fair value of the consideration paid by us and allocation of that amount to the underlying Tracker Assets and Sequel Assets acquired, on a relative fair value basis, will be recorded on our books as of the date of the closing of the Tracker Acquisition and the Sequel Acquisition. Additionally, costs directly related to the Transaction will be capitalized as a component of the purchase price. The operating results of Tracker and Sequel will be consolidated in our financial statements beginning on the date of the closing of the Tracker Acquisition and the Sequel Acquisition, respectively. The pro forma financial statements have been prepared to reflect the transaction accounting adjustments to Earthstone’s historical condensed consolidated financial information in order to account for the Transaction and will include the assumption of liabilities for acquisition-related expenses and the recognition of the estimated tax impact of the pro forma adjustments.

As previously disclosed in its Current Report on Form 8-K filed on January 13, 2021 with the SEC, on January 7, 2021, Earthstone completed the acquisition (the “IRM Acquisition”) of all of the issued and outstanding limited liability company interests in Independence and certain wholly owned subsidiaries as contemplated in a purchase and sale agreement dated December 17, 2020. On February 24, 2021, Earthstone filed a Current Report on Form 8-K/A for the purpose of providing unaudited pro forma condensed combined financial statements giving effect to the IRM Acquisition, as required by Item 9.01(b) of Form 8-K. The IRM Acquisition was accounted for as a business combination using the acquisition method of accounting, with Earthstone identified as the acquirer.

The unaudited pro forma condensed combined balance sheet as of March 31, 2021 gives effect to the Transaction as if it had been completed on March 31, 2021. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020 and the three months ended March 31, 2021 give effect to IRM Acquisition and the Transaction (collectively, the “Acquisitions”) as if they had been completed on January 1, 2020. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma condensed combined financial statements. As of the date of issuance of the unaudited pro forma condensed combined financial information, Earthstone has not completed the detailed valuation study necessary to arrive at the required final estimates of the fair value of the assets to be acquired and liabilities assumed.

The unaudited pro forma condensed combined balance sheet does not purport to represent what Earthstone’s financial position would have been had the Transaction actually been consummated on March 31, 2021. The unaudited pro forma condensed combined statements of operations do not purport to represent what Earthstone’s results of operations would have been had the

Acquisitions actually been consummated on January 1, 2020. The unaudited pro forma condensed combined financial information is not indicative of Earthstone's future financial position or results of operations and does not reflect future events that may occur after the Acquisitions, including, but not limited to, the anticipated realization of ongoing savings from operating efficiencies, or offsetting unforeseen incremental costs.

The unaudited pro forma condensed combined balance sheet as of March 31, 2021 has been derived from and should be read in conjunction with:

- the unaudited historical condensed consolidated balance sheet of Earthstone as of March 31, 2021 included in its Quarterly Report on Form 10-Q for quarter ended March 31, 2021; and
- the unaudited historical condensed consolidated balance sheet of Tracker as of March 31, 2021 included in this Current Report as Exhibit 99.4.

The unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2021 has been derived from:

- the unaudited historical condensed consolidated statement of operations of Earthstone for the three months ended March 31, 2021 included in its Quarterly Report on Form 10-Q for quarter ended March 31, 2021;
- the unaudited historical condensed consolidated statement of operations of Independence for the period January 1, 2021 through January 7, 2021, based on the allocated number of days from the entire month's results;
- the unaudited historical condensed consolidated statement of operations of Tracker for the three months ended March 31, 2021 included in this Current Report as Exhibit 99.4; and
- the unaudited historical statements of revenues and direct expenses of Sequel for the three months ended March 31, 2021 included in this Current Report as Exhibit 99.5.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 has been derived from:

- the audited historical consolidated statement of operations of Earthstone for the year ended December 31, 2020 included in its 2020 Annual Report on Form 10-K for the year ended December 31, 2020;
 - the audited historical consolidated statement of operations of Independence for the year ended December 31, 2020 included in this Current Report as Exhibit 99.6;
 - the audited historical consolidated statement of operations of Tracker for the year ended December 31, 2020 included in this Current Report as Exhibit 99.3; and
 - the audited historical statements of revenues and direct expenses of Sequel for the year ended December 31, 2020 included in this Current Report as Exhibit 99.5.
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EARTHSTONE ENERGY, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2021
(In thousands, except share and per share amounts)

ASSETS	Earthstone Historical	Tracker Historical	Transaction Accounting Adjustments	Notes	Earthstone Pro Forma as Adjusted
Current assets:					
Cash	\$ 1,447	\$ 4,677	\$ (4,677)	(a)	\$ 1,447
Accounts receivable:					
Oil and natural gas revenues	33,134	3,086	(3,086)	(a)	33,134
Joint interest billings and other, net of allowance	6,497	—	—		6,497
Inventory	—	195	(195)	(a)	—
Derivative asset	196	—	—		196
Prepaid expenses and other current assets	3,204	112	(112)	(a)	3,204
Total current assets	<u>44,478</u>	<u>8,070</u>	<u>(8,070)</u>		<u>44,478</u>
Oil and gas properties, successful efforts method:					
Proved properties	1,253,689	127,083	(56,743)	(b)	1,386,100
			60,868	(c)	
			1,203	(d)	
Unproved properties	233,767	4,900	(4,900)	(b)	233,767
Land (surface rights)	5,382	—	—		5,382
Total oil and gas properties	<u>1,492,838</u>	<u>131,983</u>	<u>428</u>		<u>1,625,249</u>
Accumulated depreciation, depletion and amortization	(315,460)	(65,601)	65,601	(b)	(315,460)
Net oil and gas properties	<u>1,177,378</u>	<u>66,382</u>	<u>66,029</u>		<u>1,309,789</u>
Other noncurrent assets:					
Office and other equipment, net of accumulated depreciation	1,249	14	(14)	(a)	1,249
Derivative asset	1,495	—	—		1,495
Operating lease right-of-use assets	2,289	—	—		2,289
Other noncurrent assets	2,064	171	(171)	(a)	2,064
TOTAL ASSETS	<u>\$ 1,228,953</u>	<u>\$ 74,637</u>	<u>\$ 57,774</u>		<u>\$ 1,361,364</u>
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ 16,891	\$ 393	\$ (393)	(a)	\$ 16,891
Revenues and royalties payable	25,522	2,204	(2,204)	(a)	25,522
Accrued expenses	18,688	293	(293)	(a)	19,891
			1,203	(d)	
Asset retirement obligation	568	118	(118)	(e)	568

Derivative liability	25,063	1,876	(1,876)	(a)	25,063
Advances	2,246	33	(33)	(a)	2,246
Operating lease liabilities	777	—	—		777
Finance lease liabilities	54	—	—		54
Other current liabilities	912	1,922	(1,922)	(a)	912
Current portion of long-term debt	—	18,000	(18,000)	(f)	—
Total current liabilities	90,721	24,839	(23,636)		91,924
Noncurrent liabilities:					
Long-term debt	223,424	5,063	(5,063)	(f)	291,226
			67,802	(f)	
Deferred tax liability	14,189	—	—		14,189
Asset retirement obligation	13,448	3,242	(1,650)	(e)	15,040
Derivative liability	2,566	—	—		2,566
Operating lease liabilities	1,674	—	—		1,674
Finance lease liabilities	—	—	—		—
Other noncurrent liabilities	854	—	—		854
Total noncurrent liabilities	256,155	8,305	61,089		325,549
Equity:					
Members' Equity	—	41,493	(41,493)	(g)	—
Preferred stock	—	—	—		—
Class A common stock	44	—	6	(h)	50
Class B common stock	34	—	—		34
Additional paid-in capital	624,916	—	61,808	(h)	686,724
Accumulated deficit	(201,091)	—	—		(201,091)
Total Earthstone Energy, Inc. stockholders' equity	423,903	41,493	20,321		485,717
Noncontrolling interest	458,174	—	—		458,174
Total equity	882,077	41,493	20,321		943,891
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,228,953	\$ 74,637	\$ 57,774		\$ 1,361,364

EARTHSTONE ENERGY, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In thousands, except share and per share amounts)

	Earthstone Historical	Independence Historical (1/1/21 - 1/7/21)	Tracker Historical	Sequel Historical	Transaction Accounting Adjustments	Notes	Earthstone Pro Forma Combined
REVENUES							
Oil and natural gas revenues	\$ 75,572	\$ 1,696	\$ 7,532	\$ 9,379	\$ —		\$ 94,179
Loss on sale of oil and gas properties	—	—	(49)	—	49	(i)	—
Unrealized loss - commodity derivatives	—	(1,861)	—	—	1,861	(i)	—
Total revenues	75,572	(165)	7,483	9,379	1,910		94,179
OPERATING COSTS AND EXPENSES							
Lease operating expense	10,849	423	903	1,085	—		13,260
Production and ad valorem taxes	5,027	135	472	845	—		6,479
Depreciation, depletion, amortization and accretion	24,697	578	3,694	—	590	(j)	29,559
General and administrative expense	8,380	185	938	—	29	(i)	9,532
Equity-based compensation	—	29	—	—	(29)	(i)	—
Transaction costs	2,106	—	—	—	—		2,106
Exploration expense	—	—	11	—	—		11
Total operating costs and expenses	51,059	1,350	6,018	1,930	590		60,947
(Loss) gain on sale of oil and gas properties	—	—	—	—	(49)	(i)	(49)
Income (loss) from operations	24,513	(1,515)	1,465	7,449	1,271		33,183
OTHER INCOME (EXPENSE)							
Interest expense, net	(2,217)	(127)	(302)	—	(239)	(k)	(2,946)
					(61)	(l)	
(Loss) gain on derivative contracts, net	(33,263)	—	(1,388)	—	(1,861)	(i)	(36,512)
Loss on disposal of asset	—	—	(16)	—	—		(16)
Other income (expense), net	103	—	1	—	—		104
Total other income (expense)	(35,377)	(127)	(1,705)	—	(2,161)		(39,370)
(Loss) income before income taxes	(10,864)	(1,642)	(240)	7,449	(890)		(6,187)
Income tax benefit (expense)	308	10	—	—	(141)	(m)	177
Net (loss) income	\$ (10,556)	\$ (1,632)	\$ (240)	\$ 7,449	\$ (1,031)		\$ (6,010)
Less: Net loss attributable to noncontrolling interests	(4,723)	—	(17)	—	2,281	(n)	(2,459)

Net (loss) income attributable to common stockholders	\$	(5,833)	\$	(1,632)	\$	(223)	\$	7,449	\$	(3,312)	\$	(3,551)
Net income (loss) per common share:												
Basic	\$	(0.14)							\$	(0.07)		
Diluted	\$	(0.14)							\$	(0.07)		
Weighted average common shares outstanding:												
Basic		42,778,916							6,200,000		48,978,916	
Diluted		42,778,916							6,200,000		48,978,916	

EARTHSTONE ENERGY, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In thousands, except share and per share amounts)

	Earthstone Historical	Independence Historical	Tracker Historical	Sequel Historical	Transaction Accounting Adjustments	Notes	Earthstone Pro Forma Combined
REVENUES							
Oil and natural gas revenues	\$ 144,523	\$ 80,473	\$ 25,570	\$ 36,793	\$ —		\$ 287,359
Realized gain (loss) - commodity derivatives	—	28,585	—	—	(28,585)	(i)	—
Unrealized (loss) gain - commodity derivatives	—	(1,109)	—	—	1,109	(i)	—
Loss on sale of oil and gas properties	—	—	(73)	—	73	(i)	—
Other revenues	—	56	—	—	(56)	(i)	—
Total revenues	144,523	108,005	25,497	36,793	(27,459)		287,359
OPERATING COSTS AND EXPENSES							
Lease operating expense	29,131	16,473	5,378	6,960	517	(i)	58,459
Production and ad valorem taxes	9,411	5,154	1,381	3,014	—		18,960
Marketing expenses	—	—	573	—	(573)	(i)	—
Rig termination expense	426	(24)	—	—	—		402
Depreciation, depletion, amortization and accretion	96,721	47,507	18,982	—	(21,181)	(j)	142,029
Impairment expense	64,498	—	273,838	—	(273,838)	(o)	64,498
General and administrative expense	28,233	8,735	4,940	—	1,799	(i)	43,707
Equity-based compensation	—	1,799	—	—	(1,799)	(i)	—
Transaction costs	622	—	—	—	4,555	(p)	5,177
Exploration expense	298	—	130	—	—		428
Total operating costs and expenses	229,340	79,644	305,222	9,974	(290,520)		333,660
Gain (loss) on sale of oil and gas properties	204	—	—	—	(73)	(i)	131
Income (loss) from operations	(84,613)	28,361	(279,725)	26,819	262,988		(46,170)
OTHER INCOME (EXPENSE)							
Interest expense, net	(5,232)	(9,845)	(1,907)	—	(12)	(k)	(17,242)
					(246)	(l)	
Gain on derivative contracts, net	59,899	—	5,962	—	27,476	(i)	93,337
Loss on disposal of asset	—	—	(277)	—	—		(277)
Other income (expense), net	400	—	22	—	—		422
Total other income (expense)	55,067	(9,845)	3,800	—	27,218		76,240
(Loss) income before income taxes	(29,546)	18,516	(275,925)	26,819	290,206		30,070
Income tax benefit (expense)	112	(340)	—	—	(1,281)	(m)	(1,509)

Net (loss) income	\$ (29,434)	\$ 18,176	\$ (275,925)	\$ 26,819	\$ 288,925	\$ 28,561
Less: Net loss attributable to noncontrolling interests	(15,887)	—	(2,754)	—	30,580 (n)	11,939
Net (loss) income attributable to common stockholders	<u>\$ (13,547)</u>	<u>\$ 18,176</u>	<u>\$ (273,171)</u>	<u>\$ 26,819</u>	<u>\$ 258,345</u>	<u>\$ 16,622</u>
Net income (loss) per common share:						
Basic	\$ (0.45)					\$ 0.34
Diluted	\$ (0.45)					\$ 0.34
Weighted average common shares outstanding:						
Basic	29,911,625				18,919,594	48,831,219
Diluted	29,911,625				18,919,594	48,831,219

EARTHSTONE ENERGY, INC.
NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Basis of Presentation

The accompanying pro forma condensed combined financial statements were prepared in accordance with Article 11 of Regulation S-X, as amended by SEC Final Rule Release No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and based on the historical consolidated and combined financial information of Earthstone, Independence, Tracker and Sequel. The Transaction has been accounted for herein using the acquisition method of accounting (the "Acquisition Method") in accordance with ASC 805. The fair value of the consideration paid by us and allocation of that amount to the underlying Tracker Assets and Sequel Assets acquired, on a relative fair value basis, will be recorded on our books as of the date of the closing of the Tracker Acquisition and the Sequel Acquisition. Additionally, costs directly related to the Transaction will be capitalized as a component of the purchase price.

Certain transaction accounting adjustments have been made in order to show the effects of the Transaction on the combined historical financial information of Earthstone, Independence, Tracker and Sequel. The transaction accounting adjustments are preliminary and based on estimates of the purchase consideration and estimates of fair value and useful lives of the assets acquired and liabilities assumed.

The transaction accounting adjustments are described in the accompanying notes and are based on available information and certain assumptions that Earthstone believes are reasonable; however, actual results may differ from those reflected in these statements. The unaudited pro forma condensed combined statements do not purport to represent what Earthstone's financial position or results of operations would have been if the Transaction had occurred on the dates indicated above, nor are they indicative of Earthstone's future financial position or results of operations. Certain information normally included in financial statements and the accompanying notes has been condensed or omitted. These unaudited pro forma condensed combined financial statements should be read in conjunction with the historical financial statements and related notes of Earthstone, Independence, Tracker and Sequel for the periods presented.

The pro forma condensed combined balance sheet as of March 31, 2021 gives effect to the Transaction as if it had been completed on March 31, 2021. The pro forma condensed combined statements of operations for the year ended December 31, 2020 and the three months ended March 31, 2021 give effect to the Acquisitions as if they had been completed on January 1, 2020.

Note 2. Accounting Policies and Presentation

The unaudited pro forma condensed combined balance sheet as of March 31, 2021 and the unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021 and the year ended December 31, 2020 have been compiled in a manner consistent with the accounting policies adopted by Earthstone. Certain reclassifications and adjustments have been made to the historical financial information of both Independence and Tracker presented herein to conform to Earthstone's historical presentation.

Note 3. Preliminary Purchase Price Allocation

The preliminary allocation of the total purchase price in the Transaction is based upon management's estimates of and assumptions related to the fair value of assets to be acquired and liabilities to be assumed as of March 31, 2021 using currently available information. Because the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on financial position and results of operations may differ significantly from the pro forma amounts included herein.

The preliminary purchase price allocation is subject to change due to several factors, including but not limited to changes in the estimated fair value of assets acquired and liabilities assumed as of the closing date of the Transaction, which could result from changes in future oil and natural gas commodity prices, reserve estimates, interest rates, as well as other factors.

The consideration transferred, fair value of assets acquired and liabilities assumed by Earthstone are expected to be recorded as follows (in thousands, except share amounts and stock price):

		Tracker	Sequel	Total
consideration:				
Shares of Earthstone Class A Common Stock issued		4,700,000	1,500,000	6,200,000
Earthstone Class A Common Stock price as of July 20, 2021	\$	\$ 9.97	\$ 9.97	9.97
Class A Common Stock consideration		46,859	14,955	61,814
Cash consideration		22,523	45,279	67,802
Direct transaction costs ⁽²⁾		648	555	1,203
Total consideration transferred	\$	\$0,030	\$0,789	130,819
value of assets acquired:				
Oil and gas properties	\$	\$1,543	\$0,868	132,411
Amount attributable to assets acquired	\$	\$1,543	\$0,868	132,411
value of liabilities assumed:				
Accrued liabilities - ARO		1,513	79	1,592
Amount attributable to liabilities assumed	\$	\$1,513	\$ 79	1,592

(1) Represents \$1.2 million of estimated transaction costs associated with the Tracker Acquisition and the Sequel Acquisition which are expected to be capitalized in accordance with ASC 805-50.

Total consideration transferred was based on the terms of the Tracker Agreement and the Sequel Agreement, the consideration paid by Buyer at closing of the Purchase Agreements was \$67.8 million in cash (subject to final post-closing settlement) and 6.2 million shares of Class A Common Stock. The estimated purchase price is based upon the cash and the fair value of the Class A Common Stock which was determined using the closing price of \$9.97 per share on July 20, 2021 and the number of shares issued.

The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair value of oil and gas properties and asset retirement obligations were measured using the discounted cash flow technique of valuation.

Significant inputs to the valuation of oil and gas properties include estimates of: (i) reserves, (ii) future operating and development costs, (iii) future commodity prices, (iv) future plugging and abandonment costs, (v) estimated future cash flows, and (vi) a market-based weighted average cost of capital rate. These inputs require significant judgments and estimates and are the most sensitive and subject to change.

Note 4. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet and Unaudited Pro Forma Condensed Combined Statements of Operations

The following adjustments were made in the preparation of the unaudited pro forma condensed combined balance sheet as of March 31, 2021 and the unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021 and the year ended December 31, 2020:

- (a) Adjustment to remove items not acquired as part of the Transaction.
- (b) Adjustment to eliminate the historical book value and accumulated depreciation, depletion and amortization of Tracker's oil and gas properties as of March 31, 2021 and to reflect the Tracker Assets acquired, on a relative fair value basis in accordance with the Acquisition Method.
- (c) Adjustment to reflect the Sequel Assets acquired, on a relative fair value basis in accordance with the Acquisition Method.
- (d) Represents estimated nonrecurring transaction costs, including advisory, legal, regulatory, accounting, valuation and other professional fees, associated with the Tracker Acquisition and the Sequel Acquisition which are expected to be capitalized in accordance with the Acquisition Method. These transaction costs are based on preliminary estimates and the final amounts and the resulting effect on Earthstone's financial position and results of operations may differ significantly.

- (e) Adjustment to the historical book value of Tracker's asset retirement obligations as of March 31, 2021 to reflect liabilities incurred, on a relative fair value basis, in accordance with the Acquisition Method.
- (f) Adjustment to reflect the elimination of outstanding historical debt and record expected cash consideration to be conveyed to Tracker and Sequel of \$67.8 million borrowed under the Company's revolving credit facility.
- (g) Adjustment to reflect the elimination of Tracker's Members' Equity.
- (h) Adjustment to reflect the issuance of 4,700,000 and 1,500,000 shares of Class A Common Stock pursuant to the Purchase Agreements.
- (i) Adjustment to reflect certain reclassifications of historical line items to conform financial statement presentations.
- (j) Adjustments to reflect the depreciation, depletion and amortization expense that would have been recorded had the Acquisitions occurred on January 1, 2020 and the properties were adjusted, on a relative fair value basis, in accordance with the Acquisition Method.
- (k) Adjustments to reflect the estimated interest expense that would have been recorded in the periods presented with respect to the incremental borrowings expected to finance the cash consideration for the Acquisitions.
- (l) Adjustments to reflect the amortization of deferred financing costs related to the financing of the Acquisitions.
- (m) Adjustments to reflect the estimated incremental Income tax expense that would have been recorded in the period presented if the Acquisitions had occurred on January 1, 2020 based on the income tax rates used in calculating the tax impact of the adjustments.
- (n) Adjustments to reflect the estimated incremental Net loss (income) attributable to noncontrolling interests that would have been recorded in the period presented if the Acquisitions had occurred on January 1, 2020. The Acquisitions impacted noncontrolling interest as presented below.

	EEH Units Held By Earthstone and Lynden US	%	EEH Units Held By Others	%	Total EEH Units Outstanding
Weighted Average Units Outstanding for the Year Ended December 31, 2020	29,911,625	46.0%	35,077,712	54.0%	64,989,337
EEH Units assumed issued in connection with the IRM Acquisition on January 1, 2020	12,719,594		—		12,719,594
EEH Units assumed issued in connection with the Tracker Acquisition on January 1, 2020	4,700,000		—		4,700,000
EEH Units assumed issued in connection with the Sequel Acquisition on January 1, 2020	1,500,000		—		1,500,000
Pro Forma Weighted Average Units Outstanding for the Year Ended December 31, 2020	48,831,219	58.2%	35,077,712	41.8%	83,908,931

	EEH Units Held By Earthstone and Lynden US	%	EEH Units Held By Others	%	Total EEH Units Outstanding
Weighted Average Units Outstanding for the Three Months Ended March 31, 2021	30,907,295	47.3%	34,502,153	52.7%	65,409,448
EEH Units assumed issued in connection with the IRM Acquisition on January 1, 2020	12,719,594		—		12,719,594
EEH Units assumed issued in connection with the Tracker Acquisition on January 1, 2020	4,700,000		—		4,700,000
EEH Units assumed issued in connection with the Sequel Acquisition on January 1, 2020	1,500,000		—		1,500,000
Pro Forma Weighted Average Units Outstanding for the Three Months Ended March 31, 2021	49,826,889	59.3%	34,502,153	40.7%	84,329,042

- (o) Adjustment to reverse the Tracker asset impairment as, based on the purchase price contemplated by the Tracker Agreement, no impairment would have been recorded.
- (p) Represents estimated nonrecurring transaction costs related to the acquisition of Independence that are expected to be incurred by Earthstone, including advisory, legal, regulatory, accounting, valuation and other professional fees that are not capitalized as part of the Acquisitions. These transaction costs are based on preliminary estimates and the final amounts and the resulting effect on Earthstone's financial position and results of operations may differ significantly.

Note 5. Supplemental Unaudited Combined Oil and Natural Gas Reserves and Standardized Measure Information

The following table sets forth information with respect to the historical and combined estimated oil and natural gas reserves as of December 31, 2020 for Earthstone, Independence, Tracker and Sequel. The Earthstone reserve data presented below was derived from the independent engineering report of Cawley, Gillespie & Associates, Inc. ("CG&A"), Earthstone's independent reserve engineer. The Independence reserve information was prepared by Earthstone management. The reserve information of Tracker and Sequel was prepared by Tracker management and Sequel management, respectively. Future exploration, exploitation and development expenditures, as well as future commodity prices and service costs, will affect the quantity of reserve volumes. The reserve estimates shown below were determined using the average first day of the month price for each of the preceding 12 months for oil and natural gas for the year ended December 31, 2020 for Earthstone, Independence, Tracker and Sequel.

	As of December 31, 2020				
	Earthstone ⁽¹⁾	Independence ⁽²⁾	Tracker	Sequel	Combined
Estimated Proved Developed Reserves:					
Oil (MBbl)	18,876	13,713	1,673	1,398	35,660
Natural Gas (MMcf)	55,752	49,157	24,237	15,186	144,332
Natural Gas Liquids (MBbl)	10,123	—	4,009	2,491	16,623
Total (MBoe) ⁽³⁾	38,291	21,906	9,721	6,419	76,337
Estimated Proved Undeveloped Reserves:					
Oil (MBbl)	21,212	19,993	10,641	—	51,846
Natural Gas (MMcf)	55,450	31,368	97,386	—	184,204
Natural Gas Liquids (MBbl)	10,123	—	16,598	—	26,721
Total (MBoe) ⁽³⁾	40,577	25,221	43,470	—	109,268
Estimated Proved Reserves:					
Oil (MBbl)	40,088	33,706	12,314	1,398	87,506
Natural Gas (MMcf)	111,202	80,525	121,623	15,186	328,536
Natural Gas Liquids (MBbl)	20,246	—	20,607	2,491	43,344
Total (MBoe) ⁽³⁾	78,868	47,127	53,192	6,419	185,606

(1) As of December 31, 2020, holders of Earthstone's Class B Common Stock owned a non-controlling indirect interest of 41.5% of the estimated proved reserves, as adjusted for the impact of the Acquisitions.

(2) The historical results of Independence are presented with natural gas and natural gas liquids combined within Natural Gas (MMcf).

(3) Assumes a ratio of 6 Mcf of natural gas per Boe.

The following table sets forth summary information with respect to historical and combined oil and natural gas production for the year ended December 31, 2020 for Earthstone, Independence, Tracker and Sequel. The Earthstone oil and natural gas production data presented below was derived from Earthstone's Annual Report on Form 10-K for the year ended December 31, 2020. The Independence, Tracker and Sequel oil and natural gas production data presented below was derived from the supplemental oil and gas reserve information (unaudited) included in notes to their audited financial statements for the year ended December 31, 2020.

	Year Ended December 31, 2020				
	Earthstone ⁽¹⁾	Independence ⁽²⁾	Tracker	Sequel	Combined
Oil (MBbl)	3,180	1,993	440	665	6,278
Natural Gas (MMcf)	7,282	4,769	3,089	3,645	18,785
Natural Gas Liquids (MBbl)	1,198	—	495	589	2,282
Total (MBoe) ⁽³⁾	5,592	2,788	1,449	1,862	11,691

(1) As of December 31, 2020, holders of Earthstone's Class B Common Stock owned a non-controlling indirect interest of 41.5% of the estimated proved reserves, as adjusted for the impact of the Acquisitions.

(2) The historical results of Independence are presented with natural gas and natural gas liquids combined within Natural Gas (MMcf).

(3) Assumes a ratio of 6 Mcf of natural gas per Boe.

The following unaudited combined estimated discounted future net cash flows reflect Earthstone, Independence, Tracker and Sequel as of December 31, 2020. The unaudited combined standardized measure of discounted future net cash flows are as follows (in thousands):

	As of December 31, 2020					
	Earthstone ⁽¹⁾	Independence	Tracker	Sequel	Combined	
Future cash inflows	\$ 1,902,073	\$ 1,433,588	\$ 724,574	\$ 94,087	\$ 4,154,322	
Future production costs	(633,248)	(491,740)	(282,631)	(43,592)	(1,451,211)	
Future development costs	(285,088)	(250,836)	(239,999)	(3,226)	(779,149)	
Future income tax expense	(35,557)	(1,582)	(1,834)	(355)	(39,328)	
Future net cash flows	948,180	689,430	200,110	46,914	1,884,634	
10% annual discount for estimated timing of cash flows	(487,327)	(426,942)	(153,160)	(11,937)	(1,079,366)	
Standardized measure of discounted future net cash flows	\$ 460,853	\$ 262,488	\$ 46,950	\$ 34,977	\$ 805,268	

(1) As of December 31, 2020, holders of Earthstone's Class B Common Stock owned a non-controlling indirect interest of 41.5% of the estimated proved reserves, as adjusted for the impact of the Acquisitions.