Carbon Energy Corporation

Shareholder Report

March 31, 2022

Carbon Energy Corporation
March 31, 2022

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion includes forward-looking statements about our business, financial condition and results of operations, including discussions about management's expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions, and you should not construe these statements either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors may cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse.

Carbon Energy Corporation (the "Company") is an independent exploration and production company engaged in the acquisition, development and production of oil and natural gas properties in the Ventura Basin of California through our majority-owned subsidiary, Carbon California Company, LLC ("Carbon California"). The Company owns 53.92% of the voting and profits interests of Carbon California which is consolidated for financial reporting purposes as a majority-owned subsidiary. Prudential Capital Energy Partners, L.P. or its affiliates (collectively, "PCEP") owns the remaining 46.08% of the voting and profits interests in Carbon California.

Appalachia Divestiture

On May 26, 2020, Carbon Energy Corporation, together with Nytis Exploration (USA) Inc. and certain of the Company's other direct and wholly owned subsidiaries, sold all of the issued and outstanding membership interests of Carbon Appalachia Company LLC and Nytis Exploration Company LLC to Diversified Gas & Oil Corporation ("DGO") for a purchase price of $125.0 million, which included a contingent payment of up to $15.0 million (the "Appalachia Divestiture").

As a result of the Appalachia Divestiture, we received net cash proceeds of $101.4 million and repaid in full Carbon's Appalachian credit facility of $72.3 million. A portion of the proceeds were required to be placed in escrow pending satisfaction of various actions or passage of time associated with indemnification and representations made by the Company. The outstanding amount of escrow funds is discussed further in Liquidity and Capital Resources below.

The contingent payment was to be calculated and paid yearly on January 5th of each of 2021, 2022 and 2023 based on the average monthly settlement of the Nymex natural gas future price versus fixed benchmark prices and volumes for calendar years 2020, 2021 and 2022. Based on the average of the 2020 twelve-month settlement of the Nymex natural gas price versus the 2020 benchmark price, no payment was made on January 5, 2021. In July of 2021, DGO agreed to an assignment of the Contingent Payment to a third party, and the third party agreed to pay us $10.2 million in cash for such assignment.

Yorktown Energy Partners XI, LP, as the holder of all the Company's Series B convertible preferred stock, waived its right to be paid a liquidating distribution of approximately $5.6 million in connection with the closing of the Appalachia Divestiture until the payment in full of the Old Ironsides Notes or the earlier termination or cancellation of the Old Ironsides Notes, at which point the Yorktown liquidating distribution became immediately due and payable by the Company.

Carbon Land Holdings, LLC was formed to hold certain Appalachian surface property ownership retained by the Company. The few remaining properties are being marketed for sale and are not of material value.

In connection with the Appalachia Divestiture, a holder of preferential rights related to transfer of certain leases included in the divested assets made several allegations of improper transfer of the leases from the Company to DGO, as the seller and buyer, respectively. In May 2022, a trial occurred related to these allegations and the Company was found to be liable relating to one of the allegations and DGO was found to be liable of the balance of the allegations. A final judgment is pending. Both parties intend to appeal the outcome of the trial. The Company is not able to reasonably estimate its liability, if any, at this time. Depending on the outcome of the final judgment and appeals process, receipt of some or all of the escrow funds may be affected.

Reverse Stock Split

On October 22, 2020, shareholders owning a majority of the Company's outstanding shares of common stock voted to amend the Company's Certificate of Incorporation to reverse split the outstanding shares of the Company's common stock on a 4-for-1 basis. The reverse stock split became effective January 5, 2021.

At the effective date, a stockholder owning fewer than four shares immediately prior to the effective date was entitled to a fraction of a share of common stock and was paid cash in lieu of such fraction of a share, on the basis of $1.00 for each share of common stock held by the stockholder immediately prior to effective date.

The reverse stock split enabled the Company to eliminate the costs of being a reporting public company. After giving effect to the reverse stock split, the Company is no longer subject to the reporting requirements under the Exchange Act, including requirements under the Sarbanes-Oxley Act of 2002.

As of March 31, 2022, there were 2,089,739 common shares outstanding. The Company's common stock trades on the Pink Non-Current platform of the OTC Markets Group under the symbol CRBO.

Operational Highlights

During 2022, we have concentrated our efforts on the development by Carbon California of our producing oil properties. Our field development activities have consisted principally of return to production and recompletion projects. We have focused on operating efficiencies, reduction of operating expenses, optimization of natural gas gathering and compression facilities to create greater flexibility in transporting our production to markets with more favorable pricing, and the identification of development project opportunities to provide more efficient and lower-cost operations.

Results of Operations

The following table sets forth, for the periods presented, selected historical unaudited condensed consolidated statements of operations and production data:

(in thousands, except production and per unit data)	Three Months Ended March 31, 2022 (unaudited)	Three Months Ended December 31, 2021 (unaudited)	Change	% Change
Revenue:				
Natural gas sales	$1,027	$778	$249	32%
Natural gas liquids	693	604	89	15%
Oil sales	10,155	7,958	2,197	28%
Total sales	$11,875	$9,339	2,536	27%
Commodity derivative loss	(11,976)	(1,036)	(10,940)	(1,056%)
Total Revenue	($101)	$8,304	($8,405)	
Expenses:				
Lease operating expenses	$2,900	$2,981	($81)	3%
Transportation costs	1,479	2,153	(674)	31%
Production and property taxes	257	251	6	(2%)
General and administrative	1,313	1,523	(210)	14%
Depreciation of property, plant and equipment	754	721	33	(5%)
Accretion of asset retirement obligations	163	168	(5)	3%
(Gain) loss on Appalachia Divestiture	-	(147)	147	
Loss on settlement of asset retirement obligations	365	366	(1)	
Total Expenses	$7,232	$8,016	($784)	10%
Operating income	($7,333)	$288	($7,621)	
Other income and (expense):				
Interest expense	($1,151)	($1,119)	(32)	(3%)
Gain on debt extinguishment	2,283	-	2,283	
Gain on sale of properties	24	43	(19)	(44%)
Total other income and (expense)	$1,156	($1,076)	$2,232	
Income (loss) before income taxes	($6,178)	($788)	($5,390)	(684%)
Net income (loss) before non-controlling interest	($6,178)	($788)	($5,390)	(684%)
Net income (loss) attributable to non-controlling interests*	($4,335)	$132	($4,467)	
Net income (loss) attributable to controlling interests before preferred shares	($1,843)	($920)	($923)	(100%)
Net income attributable to preferred shares – preferred return	$75	$75	-	
Net income (loss) attributable to common shares	($1,918)	($995)	($923)	(93%)
Adjusted EBITDA**	$2,583	$1,245	$1,338	107%

*Net income (loss) attributable to non-controlling interests represents Prudential's share of income (losses) in Carbon California Company, LLC

**Adjusted EBITDA is defined as Net income (loss) before non-controlling interest adjusted for Interest Income, Interest Expense, Depreciation, Impairment of PP&E, Non-cash stock based comp, Accretion, Hedging unrealized gain/loss, Loss on sale of equity investment

(in thousands, except production and per unit data)	Three Months Ended March 31, 2022	Three Months Ended December 31, 2021	Change	% Change
Capital Expenditures				
Drilling and Development	$386	$329	$57	17%
Operations Information:				
Natural gas production (Mcf)	151,767	124,480	27,287	22%
Oil production (Bbl)	106,933	102,619	4,314	4%
Natural gas liquids production (Bbl)	12,798	11,810	988	8%
Combined production (Mboe)	145,026	135,176	9,850	7%
Average prices before effects of hedges:				
Natural gas (per Mcf)	$6.77	$6.25	$0.52	8%
Oil (per Bbl)	$94.96	$77.55	$17.41	22%
Natural gas liquids (per Bbl)	$54.16	$51.12	$3.04	6%
Combined (per Mboe)	$81.88	$69.09	$12.79	19%
Average prices after effects of hedges*:				
Natural gas (per Mcf)	$6.77	$6.25	$0.52	8%
Oil (per Bbl)	$74.96	$69.07	$5.89	9%
Natural gas liquids (per Bbl)	$54.16	$51.12	$3.04	6%
Combined (per Mboe)	$67.14	$62.66	$4.48	7%
Average costs (per Mboe):				
Lease operating expenses	$20.00	$22.05	($2.05)	9%
Transportation costs	$10.20	$15.93	($5.73)	36%
Production and property taxes	$1.77	$1.86	($0.09)	5%
Cash-based general and administrative expenses	$9.06	$11.21	($2.15)	19%
Depreciation, depletion and amortization	$5.20	$5.34	($0.14)	3%

*Includes effect of settled commodity derivative gains and losses

The following discussion and analysis relates to items that have affected our results of operations for the three months ended March 31, 2022 and December 31, 2021.

Natural gas, natural gas liquids, and oil sales – Sales of natural gas, natural gas liquids and oil increased approximately $2.5 million, for the three months ended March 31, 2022 compared to the three months ended December 31, 2022, due to an increase in oil, natural gas, and NGL price as well as an increase in production of approximately 7% on a BOE basis.

Commodity derivative gain (loss) – We do not designate our commodity derivatives as cash flow hedges; therefore, they do not receive hedge accounting treatment and all mark-to-market gains or losses, as well as settlement gains or losses on the derivative instruments, are currently recognized in our results of operations. The unrealized gains and losses represent the changes in the fair value of these contracts as oil and natural gas futures prices fluctuate relative to the fixed price we will receive from these contracts. For the three months ended March 31, 2022 and December 31, 2021, we had hedging losses of approximately $12.0 million and $1.0 million per quarter, respectively. Our unrealized derivative gain or loss is primarily due to fair market value adjustments caused by market prices being lower or higher than our contracted hedged prices.

Lease operating expenses – Lease operating expenses decreased by $81,000, or 2.7%, for the three months ended March 31, 2022 as compared to the three months ended December 31, 2021, primarily due to a decrease in related workover expenses.

Gathering and transportation costs– Transportation costs decreased by $674,000 for the three months ended March 31, 2022 as compared to the three months ended December 31, 2021, primarily due to an upward revision in costs in Q4 2021 of approximately $855,000 related to 2020 actual expense.

Production and property taxes – Production and property taxes were comparable for the three months ended March 31, 2022 as compared to the three months ended December 31, 2021, increasing slightly by $6,000.

General and administrative ("G&A") – G&A decreased by approximately $210,000 for the three months ended March 31, 2022 as compared to the three months ended December 31, 2021 primarily due to the annual incentive plan payment made to California operating personnel during the fourth quarter. After accounting for this one-time fourth quarter event, G&A costs were comparable during the fourth quarter of 2021 and first quarter of 2022.

Depreciation, depletion and amortization ("DD&A") – DD&A increased by $33,000 for the three months ended March 31, 2022 as compared to the three months ended December 31, 2021 primarily due to a decrease in production.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash flows from operations. We may use other sources of capital, including the issuance of debt or equity securities or joint ventures to fund operations, acquisitions or maintain financial flexibility. Access to additional capital in the current environment is limited and the terms of any available capital may not be acceptable to the Company.

As of March 31, 2022, Carbon California's liquidity was $2.4 million, consisting of unrestricted cash on hand. As of March 31, 2022, the borrowing base on the Senior Notes was $40.0 million with $33.7 million drawn and outstanding. Effective September 30, 2021 through maturity on May 15, 2023, our senior lender may, but is not obligated, to make advances under the Senior Notes. Additionally, Carbon California's bond underwriter requires cash collateral in the form of letter(s) of credit, which accounts for $3.3 million of restricted cash as of March 31, 2022.

As of March 31, 2022, the Company had approximately $4.0 million in escrowed funds associated with the Appalachia Divestiture, of which approximately $2.9 million is included in restricted cash and the remaining $1.1 million is included in other non-current assets due to the anticipated timing of release. Approximately $1.2 million of these funds relate to employment-related obligations that are included in Accounts payable and accrued liabilities. The remaining $2.8 million escrow amounts will be released to the Company upon satisfaction of certain indemnification obligations and release requirements over the 36 months following the closing of the Appalachia Divestiture.

Ongoing activities of Carbon Energy will be funded by management fees paid to the Company by Carbon California and by any proceeds released from escrow.

The recent increase in oil and natural gas prices, Carbon California's relationship with its Senior Lender and its demonstrated ability to make operating and financial adjustments to a changing operating environment allow management to believe the Company is able to meet its financial obligations for the forthcoming 12-month period.

Senior Notes

Carbon California's Senior Notes are provided by Prudential. The maximum principal amount available under the Senior Notes is based upon the borrowing base attributable to Carbon California's oil and gas reserves which is determined at least semi-annually. As of March 31, 2022, the borrowing base of the Senior Notes was $40.0 million of which $33.7 million was outstanding. Effective September 30, 2021 through maturity on May 15, 2023, our senior lender may, but is not obligated, to make advances under the Senior Notes.

As of March 31, 2022, the effective borrowing rate for the Senior Notes was 6.63%. In addition, the Senior Notes include an annual administrative fee of $75,000.

The Senior Notes are secured by the assets of Carbon California and require Carbon California, as of January 1 and July 1 of each year, to hedge its forecast production for the following 12, 24 and 36 months at a rate of 75%, 65% and 50%, respectively.

Carbon California may at any time repay the Senior Notes, in whole or in part, without penalty. Beginning in the first quarter of 2022 and through maturity on May 15, 2023, quarterly principal payments of $1.0 million are required. The Company is not a guarantor of Senior Notes.

Subordinated Notes

On February 15, 2017, Carbon California entered into a Securities Purchase Agreement with PCEP for the issuance and sale of Subordinated Notes of $10.0 million due February 15, 2024, bearing interest of 12.0% per annum (the "the 2017 Subordinated Notes"). PC EP also received 1,425 Class A Units, representing a 5.0% profit sharing percentage in Carbon California.

On May 1, 2018, Carbon California entered into an agreement with PCEP for the issuance and sale of $3.0 million in subordinated notes due February 15, 2024, bearing interest of 12.0% per annum (the "2018 Subordinated Notes"). PCEP also received 585 Class A Units, representing a 2.0% profit sharing percentage in Carbon California.

The 2017 and 2018 Subordinated Notes (collectively, the "Subordinated Notes") require Carbon California, as of January 1 and July 1 of each year, to hedge its anticipated production at such time for the following 12, 24 and 36 months at a rate of 67.5%, 58.5% and 45.0%, respectively.

As of February 17, 2020, prepayment of the Subordinated Notes is not subject to a prepayment fee. Historically, the interest payable on the Subordinated Notes was able to be paid in kind at the election of Carbon California. An election to pay in kind results in the paid-in-kind interest to be added to the principal balance of the Subordinated Notes. The incremental principal as a result of the paid-in-kind interest bears an interest rate of 12%. During the three months ended March 31, 2022 Carbon California paid-in-kind interest of $480,000. The Company is not a guarantor of the Subordinated Notes.

Restrictions and Covenants

The Senior Notes and the Subordinated Notes contain affirmative and negative covenants that, among other things, limit Carbon California's ability to (i) incur additional debt; (ii) incur additional liens; (iii) sell, transfer or dispose of assets; (iv) merge or consolidate, windup, dissolve or liquidate; (v) make dividends and distributions on, or repurchases of, equity; (vi) make certain investments; (vii) enter into certain transactions with our affiliates; (viii) enter into sales-leaseback transactions; (ix) make optional or voluntary payments of debt; (x) change the nature of our business; (xi) change our fiscal year to make changes to the accounting treatment or reporting practices; (xii) amend constituent documents; and (xiii) enter into certain hedging transactions.

In July 2020, Carbon California amended the Senior Notes and both the 2017 and 2018 Subordinated Notes to amend the total leverage ratio, senior leverage ratio and interest coverage ratio and to provide a waiver for non-compliance with Senior Notes EBITDA ratio as of March 31, 2020. Amendment to the Senior Notes restricted additional borrowings under the Senior Notes through December 31, 2020. Additionally, the interest payable under the Subordinated Notes, beginning May 15, 2020, would be paid in kind and added to the outstanding principal amount of each note through December 31, 2020.

In December 2020, Carbon California amended the Senior Revolving Notes and both the 2017 and 2018 Subordinated Notes to amend the total leverage ratio and senior leverage ratio, effective September 30, 2020 through December 31, 2021. Additionally, the Senior Revolving Notes were amended to require a $250,000 principal reduction each quarter beginning in the first quarter of 2021 until maturity in February 2022 and restricted additional borrowings under the Senior Notes through December 31, 2021.

In November 2021, Carbon California amended the Senior Notes and both the 2017 and 2018 Subordinated Notes to amend the total leverage ratio and senior leverage ratio and to provide a waiver for non-compliance with Senior Notes EBITDA ratios as of

September 30, 2021. Additionally, the Senior Revolving Notes were amended to require A) a $1.5 million principal reduction during the fourth quarter of 2021 and B) a $1.0 million principal reduction during each quarter of 2022 and C) an increase of 0.5% interest rate on borrowings. The amendment also calls for a payment of excess cash flows, as defined, upon completion of the 2022 audited financial statements in the first quarter of 2023. The amendment provides for an eighteen-month extension of the Senior Notes, with a maturity date of May 15, 2023. Through maturity our senior lender may, but is not obligated, to make advances under the Senior Notes.

In March 2022, Carbon California amended the Senior Revolving Notes to allow for payment of the March 31, 2022 principal reduction payment in the amount of $1 million to be paid no later than April 30, 2022, which Carbon California timely paid in April 2022.

Historically, Carbon California has been able to successfully obtain necessary waivers and amendments to Senior loan terms and covenants. At the time of maturity of the Senior Notes, Carbon California believes it will either renew or replace the Senior Notes.

Risk and Uncertainties

Financial results may continue to be uncertain. The changing macroeconomic and commodity price environment and uncertainty surrounding the extent of the impact of these events may result in continued direct and indirect negative impacts to the Company's results of operations, liquidity, and cash flows. Estimates used in these consolidated financial statements are uncertain, and actual results may differ materially from amounts previously estimated.

Paycheck Protection Program Loans

In May 2020, the Company received a Paycheck Protection Program loan (the "PPP Loan") of approximately $1.3 million. In February 2021, the Company received a second PPP loan (the "Round Two PPP Loan") of approximately $1.4 million. The PPP loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for documented eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The PPP Loan and Round Two PPP Loan are evidenced by the PPP Note, which contains provisions regarding events of default relating to, among other things, payment defaults and breaches of representations and warranties, and bears interest at 1.0% per annum. No payments of principal or interest are due during the respective deferral period.

The Company has used the proceeds from both loans for purposes consistent with the PPP. The Company applied for and received full forgiveness of the PPP Loan in August of 2021. The Company applied for and received full forgiveness of the Round Two PPP Loan in January of 2022.

Old Ironsides Notes

On December 31, 2018, in connection with our acquisition of all of the Class A Units of Carbon Appalachia from Old Ironside Fund II-A Portfolio Holding Company, LLC, and Old Ironside Fund II-B Portfolio Holding Company, LLC, we delivered unsecured promissory notes in the aggregate original principal amount of approximately $25.1 million to Old Ironsides (the "Old Ironsides Notes"). The Old Ironsides Notes bear interest at 10.0% per annum and have a term of five years, the first three of which require interest-only payments beginning with the quarter ending March 31, 2019. Beginning January 1, 2022, the then current outstanding principal balance and interest is to be paid in 24 equal monthly payments. The Old Ironsides Notes require mandatory payments upon the occurrence of certain subsequent events related to the Appalachian Divesture. Principal payments of $2.0 million were made on February 1, 2019, $10.5 million on May 26, 2020, $3.2 million on October 2, 2020 and $0.5 million on April 23, 2021.

On May 25, 2020, Carbon entered into an Agreement Regarding Payoff and Release or Amendment of Notes (the "Payoff Agreement") with Old Ironsides. Pursuant to the terms of the Payoff Agreement, Carbon is required to apply certain net proceeds from the Appalachia Divestiture toward repayment of the Old Ironsides Notes. A payment of $10.5 million was paid after the closing date of the Appalachia Divestiture. A second payment of $3.2 million was paid on October 1, 2020. If the sum of the initial payment and the second payment was at least $20.0 million, the Old Ironsides Notes would be deemed paid in full. If the sum of the initial payment and the second payment was at least $18.0 million but less than $20.0 million, the Old Ironsides Notes would be amended such that the outstanding principal balance plus all accrued and unpaid interest was equal to $21.5 million (less the amount of the initial and second payments) and the Old Ironsides Notes would remain outstanding with no other change to the existing terms. A third payment was due in January 2021. If the sum of the initial payment, the second payment and the third payment was at least $18.0 million, the Old Ironsides Notes would be amended such that the outstanding principal balance plus all accrued and unpaid interest is equal to $23.0 million (less the amount of the initial, second and third payments) and the Old Ironsides Notes would remain outstanding with no other change to the existing terms. If the sum of the initial payment, the second payment and the third payment was less than $18.0 million, the payments made by Carbon as of such date would be considered mandatory prepayments and the Old Ironsides Notes would remain outstanding with a maturity date of December 31, 2023.

The Company did not make payments that met the $18.0 million threshold by January 2021. Therefore, the payments made during 2020 are considered mandatory prepayments and there were no changes to the existing terms of the Old Ironsides Notes.

On July 20, 2021, the Company assigned its rights associated with the Contingent Payment to a third party in exchange for $10.2 million in cash. The Company also entered into an agreement with Old Ironsides whereby Old Ironsides agreed to accept $10.2 million in cash immediately and fifty percent of any funds released from the indemnity escrow associated with the Appalachia Divestiture on or prior to March 31, 2022 (net of any third-party distributions or associated fees) in exchange for complete satisfaction of the Company's outstanding obligations under the Old Ironsides Notes ("Payoff Agreement").

A payment of $200,000 representing fifty percent of a partial indemnity escrow release was made to Old Ironsides in January 2022. There were no additional funds released from the indemnity escrow through March 31, 2022. Therefore, on March 31, 2022, the remaining balance of the Old Ironsides Notes in the amount of $844,000 was considered forgiven and no further obligations remain under the Old Ironsides Notes.

Commodity Derivatives

Changes in the market prices for oil and natural gas impact revenue, cash flow, profitability, access to capital and rate of growth. Carbon California employs an oil price hedging strategy to limit the effect of commodity price fluctuations on its cash flow and to comply with the requirements of our Senior and Subordinated Notes credit facilities.

As of March 31, 2022, the hedge agreements consisted of the following:

Carbon California Company

	Collars		Swaps	
Year	Brent Bbl	Weighted Average Price Range	Brent Bbl	Weighted Average Price Range
2022	199,900	$ 51.09 – 60.45	116,200	$ 62.25
2023	68,000	$ 52.00 – 91.10	180,200	$ 49.20
2024	179,900	$ 47.03 – 91.33	--	--

Carbon Energy Corporation
Consolidated BalanceSheets
(000's)

		March 31, 2022		December 31, 2021
		(unaudited)		(unaudited)
ASSETS				
Current assets:				
Cash	$	2,372	$	1,561
Restricted cash		6,190		7,209
Accounts receivable:				
Revenue		4,604		2,699
Joint interest billings and other		28		152
Prepaid expenses, deposits and other current assets		1,413		1,532
Total current assets		14,607		13,153
Property and equipment, at cost:				
Oil & gas properties				
Proved, net		64,875		65,205
Unevaluted		1,616		1,616
Other property and equipment, net		740		761
		67,232		67,582
Right of use assets		754		912
Other noncurrent assets		1,150		1,150
Total non-current assets		69,135		69,644
Total assets	$	83,848	$	82,797
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	8,612	$	8,296
Asset retirement obligations		1,177		1,169
Lease liability - current		596		621
Commodity derivative liability - current		11,037		4,767
Credit facilities and notes payable - current		4,000		6,483
Total current liabilities		25,421		21,336
Non-current liabilities:				
Lease liability - noncurrent		143		268
Commodity derivative liability - noncurrent		7,176		4,478
Asset retirement obligations		8,796		8,726
Notes payable		46,581		45,985
Total non-current liabilities		62,693		59,457
Stockholders' equity:				
Preferred stock, $.01 par value; liquidation preference of $1.049, authorized 100,000 shares, 50,000 shares issued and outstanding		1		1
Common stock, $0.01 par value; authorized 3,100,000 shares, 2,076,154 issued and outstanding		21		21
Additional paid-in capital		89,240		89,233
Retained Earnings (Accumulated deficit)		(100,104)		(97,198)
Total Carbon stockholders' equity		(10,843)		(7,944)
Non-controlling interest		6,577		9,949
Total stockholders' equity		(4,266)		2,005
Total liabilities and stockholders' equity	$	83,848	$	82,797

Carbon Energy Corporation
Consolidated Statements of Operations
(000's)

	Three months ended March 31, 2022		Three months ended March 31, 2021
	(unaudited)		(unaudited)
Revenue:			
Oil sales	10,155	$	6,507
Natural gas sales	1,027		549
Natural gas liquids	693		428
Commodity derivative loss	(11,976)		(5,042)
Total revenue	(101)		2,442
Expenses:			
Lease operating expenses	2,900		2,530
Transportation costs	1,479		1,537
Production and property taxes	257		449
General and administrative	1,313		1,585
Depreciation of property, plant and equipment	754		971
Accretion of asset retirement obligations	163		160
Loss on Appalachia Divestiture	-		52
Loss on settlement of asset retirement obligations	365		408
Total expenses	7,232		7,692
Operating loss	(7,334)		(5,250)
Other income and (expense):			
Interest income	2		0
Interest expense	(1,153)		(1,542)
Gain on debt extinguishment	2,283		-
Gain on sale of properties	24		33
Total other expense/income	1,156		(1,509)
	-		-
Loss before income taxes	(6,178)		(6,759)
Net loss before non-controlling interest	(6,178)		(6,759)
Net loss attributable to non-controlling interests	(3,371)		(2,656)
Net loss attributable to controlling interests before preferred shares	(2,807)		(4,104)
Net income attributable to preferred shares – preferred return	75		75
Net loss attributable to common shares	(2,882)		(4,179)

Carbon Natural Gas Company
Consolidated Statements of Cash Flows
(000's)

	Three months ended March 31, 2022 (unaudited)
Funds provided by (used in) operating activities;	
Net (loss) income	$ (6,178)
Items not involving cash:	
Depreciation, depletion and amortization	754
Accretion of asset retirement obligations	163
Unrealized derivative (gain) loss	8,968
Stock-based compensation expense	7
PIK interest	480
Amortization of debt issuance costs	114
Gain on debt extinguishment	(2,483)
Other	(18)
Net change in:	
Accounts receivable	(1,780)
Prepaid expenses, deposits and other current assets	126
Accounts payable, accrued liabilities	289
Net cash provided by (used in) operating activities	251
Funds provided by (used in) investing activities:	
Development of properties and equipment	(386)
Net change in non-cash working capital related to investing activities	28
Adjusted acquisition and development of properties and equip	(358)
Net cash (used in) provided by investing activities	(358)
Funds provided by (used in) financing activities:	
Preferred dividends paid	(100)
Net cash used in financing activities	(100)
Net decrease in cash and restricted cash	(207)
Cash and restricted cash, beginning of period	8,770
Cash and restricted cash, end of period	8,563
Cash	2,372
Restricted Cash	6,190
Cash and restricted cash, end of period	$ 8,563