



Carbon Energy Corporation

Shareholder Report

September 30, 2022

Carbon Energy Corporation
September 30, 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 Nyttis 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 Nyttis 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. In December 2021, Yorktown Energy Partners XI, LP waived its right to be paid the liquidating distribution related to the closing of the Appalachia Divestiture.

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 a total of nine allegations related to the 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 September 30, 2022, there were 2,089,739 common shares outstanding. Investor information is available on the Company's website at www.carbonenergycorp.com under "Investor Relations."

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 increase production, cash flow and reserves.

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 perunit data)	Three Months Ended		Change	% Change
	September 30, 2022 (unaudited)	June 30, 2022 (unaudited)		
Revenue:				
Oil sales	\$9,812	\$11,643	(\$1,831)	(16%)
Natural gas liquids	504	893	(389)	(44%)
Natural gas sales	1,433	1,238	195	16%
Total sales	\$11,748	\$13,773	(2,025)	15%
Commodity derivative gain (loss)	6,398	(2,363)	8,761	137%
Total Revenue	\$18,146	\$11,410	\$6,736	59%
Expenses:				
Lease operating expenses	\$3,599	\$2,545	\$1,054	(41%)
Transportation costs	1,339	1,499	(160)	11%
Production and property taxes	387	270	117	(43%)
General and administrative	1,399	1,502	(103)	7%
Depreciation of property, plant and equipment	685	692	(7)	1%
Accretion of asset retirement obligations	170	164	6	(4%)
Loss on settlement of asset retirement obligations	30	70	(40)	57%
Total Expenses	\$7,608	\$6,743	\$865	(13%)
Operating income	\$10,538	\$4,667	\$5,871	56%
Other income and (expense):				
Interest expense	(\$1,301)	(\$1,226)	(\$75)	6%
Total other income and (expense)	(\$1,301)	(\$1,126)	(\$175)	13%
Income before income taxes	\$9,236	\$3,442	\$5,794	168%
Net income before non-controlling interest	\$9,236	\$3,442	\$5,794	168%
Net income attributable to non-controlling interests*	\$4,339	\$1,743	\$2,596	149%
Net income attributable to controlling interests before preferred shares	\$4,897	\$1,699	\$3,198	188%
Net income attributable to preferred shares – preferred return	\$75	\$75	-	n/a
Net income attributable to common shares	\$4,822	\$1,624	\$3,198	197%
Adjusted EBITDA**	\$2,242	\$3,764	\$1,534	(41%)

*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

	Three Months Ended September 30, 2022	Three Months Ended June 30, 2022	Change	% Change
(in thousands, except production and per unit data)				
Capital Expenditures				
Drilling and Development	\$444	\$602	(\$158)	
Operations Information:				
Oil production	101,422	105,001	(3,579)	(8%)
Natural gas production (Mcf)	155,009	168,048	(13,039)	(3%)
Natural gas liquids production (Bbl)	11,339	17,549	(6,210)	(35%)
Combined production (Mboe)	138,596	150,558	(11,962)	(8%)
Average prices before effects of hedges:				
Oil (per Bbl)	\$96.74	\$110.88	(\$14.14)	(13%)
Natural gas (per Mcf)	\$9.24	\$7.37	\$1.87	25%
Natural gas liquids (per Bbl)	\$44.43	\$50.86	(\$6.43)	(13%)
Combined (per Mboe)	\$84.76	\$91.48	(\$6.72)	(7%)
Average prices after effects of hedges*:				
Oil (per Bbl)	\$69.31	\$88.37	(\$19.06)	(22%)
Natural gas (per Mcf)	\$9.24	\$7.37	\$1.87	25%
Natural gas liquids (per Bbl)	\$44.43	\$50.86	(\$6.43)	(13%)
Combined (per Mboe)	\$64.69	\$75.78	(\$11.09)	(15%)
Average costs (per Mboe):				
Lease operating expenses	\$25.97	\$16.90	9.07	(16%)
Transportation costs	\$9.66	\$9.95	(\$.29)	3%
Production and property taxes	\$2.79	\$1.79	\$1.00	(56%)
Cash-based general and administrative expenses	\$10.09	\$9.84	\$0.25	(3%)
Depreciation, depletion and amortization	\$4.94	\$4.60	\$0.34	(7%)

*Includes effect of settled commodity derivative gains and losses

Management Discussion and Analysis

The following discussion and analysis relates to items that have affected our results of operations for the three months ended September 30, 2022 and June 30, 2022.

Oil, natural gas, and natural gas liquids sales – Sales of oil, natural gas, and natural gas liquids decreased approximately \$2.0 million, for the three months ended September 30, 2022 compared to the three months ended June 30, 2022, due to a decrease in oil, natural gas, and NGL price as well as a decrease in production of approximately 8% on a BOE basis. Production decreases were primarily the result of a ten-day gas plant maintenance shut down in September.

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 September 30, 2022 and June 30, 2022, we had hedging gains of approximately \$6.4 million. 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 increased by \$1.0 million, or 41%, for the three months ended September 30, 2022 as compared to the three months ended June 30, 2022, primarily due to an increase in workover expenses.

Gathering and transportation costs– Transportation costs decreased by \$160,000 for the three months ended September 30, 2022 as compared to the three months ended June 30, 2021, primarily due to a decrease in production and sales.

Production and property taxes – Production and property taxes decreased by \$30,000 in the three months ended September 30, 2022 as compared to the three months ended June 30, 2022, primarily due to an decrease in production and sales.

General and administrative (“G&A”) – G&A decreased by approximately \$103,000 for the three months ended September 30, 2022 as compared to the three months ended June 30, 2022 primarily due to the partial payment of annual incentive plan payment made to California operating personnel during the second quarter. After accounting for this second quarter event, G&A costs were comparable during the second and third quarters of 2022.

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 September 30, 2022, Carbon California’s liquidity was \$2.7 million, consisting of unrestricted cash on hand. As of September 30, 2022, the borrowing base on the Senior Notes was \$40.0 million with \$31.7 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 September 30, 2022.

As of September 30, 2022, the Company had approximately \$3.6 million in escrowed funds associated with the Appalachia Divestiture. Approximately \$800,000 of these funds relate to employment-related obligations that are included in Accounts payable and accrued liabilities. The remaining \$2.8 million escrow amounts are to 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. As discussed above in Appalachia Divestiture, receipt and timing of some or all of the remaining escrow funds may be affected by the outcome of the pending final judgment.

As a result of the delay in the release of the indemnification-related escrow funds, during the third quarter the Company advanced \$400,000 of escrow funds associated with the employment-related obligations in order to satisfy outstanding accounts payable and general corporate obligations. The Company intends to return these funds to the employment-related escrow during the first quarter of 2023 or as soon as practically possible.

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 relatively higher oil and natural gas price environment, 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 September 30, 2022, the borrowing base of the Senior Notes was \$40.0 million of which \$31.7 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 September 30, 2022, the effective borrowing rate for the Senior Notes was 8.75%. 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 the 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 "2017 Subordinated Notes"). PCEP 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. Such paid in kind election is no longer available to 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%. Cash interest payments of approximately \$490,000 were made in May and August of 2022. 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.

As of September 30, 2022, Carbon California is in compliance with its covenants on both Senior Notes and Subordinated 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 any'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.

Employee Retention Credit

The Employee Retention Credit ("ERC") under the CARES Act was enacted to encourage businesses to keep employees on their payroll. The refundable tax credit is available to an eligible employer whose business has been financially impacted by COVID-19. The Company has determined it is eligible for certain benefits for both 2021 and 2022 associated with the ERC. Receipt of benefits associated with the ERC are expected to be received in early 2023.

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 Divestiture. 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 September 30, 2022, the hedge agreements consisted of the following:

Carbon California Company

Year	Collars		Swaps	
	Brent Bbl	Weighted Average Price Range	Brent Bbl	Weighted Average Price Range
2022	48,500	\$ 52.00 – 60.00	25,600	\$ 62.74
2023	85,100	\$ 54.61 – 94.80	180,200	\$ 49.20
2024	204,300	\$ 48.58 – 92.36	--	--
2025	83,800	\$ 55.00 – 97.25	--	-



Carbon Energy Corporation
Consolidated Balance Sheets
(000's)

	September 30, 2022	December 31, 2021
	(unaudited)	(unaudited)
ASSETS		
Current assets:		
Cash	\$ 2,784	\$ 1,561
Restricted cash	6,940	7,209
Accounts receivable:		
Revenue	3,729	2,699
Joint interest billings and other	238	152
Prepaid expenses, deposits and other current assets	<u>982</u>	<u>1,532</u>
Total current assets	14,673	13,153
Property and equipment, at cost:		
Oil & gas properties		
Proved, net	64,579	65,205
Unevaluated	1,616	1,616
Other property and equipment, net	<u>705</u>	<u>761</u>
	66,900	67,582
Right of use assets	523	912
Other noncurrent assets	<u>-</u>	<u>1,150</u>
Total non-current assets	67,423	69,644
Total assets	\$ 82,306	\$ 82,797
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,097	\$ 8,296
Asset retirement obligations	1,413	1,169
Lease liability - current	387	621
Commodity derivative liability - current	5,811	4,767
Credit facilities and notes payable - current	<u>31,735</u>	<u>6,483</u>
Total current liabilities	47,444	21,336
Non-current liabilities:		
Lease liability - noncurrent	130	268
Commodity derivative liability - noncurrent	1,454	4,478
Asset retirement obligations	8,854	8,726
Notes payable	<u>15,999</u>	<u>45,985</u>
Total non-current liabilities	26,437	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, \$.01 par value; authorized 3,100,000 shares, 2,076,154 issued and outstanding	21	21
Additional paid-in capital	89,253	89,233
Retained Earnings (Accumulated deficit)	<u>(93,508)</u>	<u>(97,198)</u>
Total Carbon stockholders' equity	(4,234)	(7,944)
Non-controlling interest	<u>12,659</u>	<u>9,949</u>
Total stockholders' equity	8,426	2,005
Total liabilities and stockholders' equity	\$ 82,306	\$ 82,797



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

Three months ended September 30,
2022 2021

	(unaudited)	(unaudited)
Revenue:		
Oil sales	\$ 9,812	\$ 7,832
Natural gas sales	1,433	828
Natural gas liquids	504	714
Commodity derivative loss	6,398	(2,156)
Total revenue	<u>18,146</u>	<u>7,219</u>
Expenses:		
Lease operating expenses	3,599	2,377
Transportation costs	1,339	1,552
Production and property taxes	387	296
General and administrative	1,399	1,664
Depreciation of property, plant and equipment	685	913
Accretion of asset retirement obligations	170	169
Gain / Loss on Appalachia Divestiture	10	(10,072)
Loss on settlement of asset retirement obligations	20	-
Total expenses	<u>7,608</u>	<u>(3,101)</u>
Operating income (loss)	<u>10,538</u>	<u>10,319</u>
Other income and (expense):		
Interest expense	(1,302)	(1,253)
Gain (loss) on asset disposal	-	52
Gain on debt extinguishment	-	4,328
Gain on sale of properties	-	330
Total other expense/income	<u>(1,302)</u>	<u>3,457</u>
Income (loss) before income taxes	<u>9,236</u>	<u>13,776</u>
Net income (loss) before non-controlling interest	<u>9,236</u>	<u>13,776</u>
Net loss attributable to non-controlling interests	4,339	182
Net income (loss) attributable to controlling interests before preferred shares	4,897	13,594
Net income attributable to preferred shares – preferred return	75	75
Net income (loss) attributable to common shares	<u>\$ 4,822</u>	<u>\$ 13,519</u>

Carbon Energy Corporation
Consolidated Statements of Cash
Flows (000's)



Nine months ended
September 30,
2022

(unaudited)

Funds provided by (used in) operating activities;		
Net (loss) income	\$	6,500
Items not involving cash:		
Depreciation, depletion and amortization		2,132
Accretion of asset retirement obligations		498
Unrealized derivative (gain) loss		(1,980)
Gain on settlement of asset retirement obligations		(122)
Stock-based compensation expense		21
PIK interest		480
Amortization of debt issuance costs		355
Gain on debt extinguishment		(2,372)
Other		(18)
Net change in:		
Accounts receivable		(1,115)
Prepaid expenses, deposits and other current assets		550
Accounts payable, accrued liabilities		(731)
Other long-term assets		(343)
Net cash provided by (used in) operating activities		<u>3,855</u>
Funds provided by (used in) investing activities:		
Development of properties and equipment		(1,432)
Net change in non-cash working capital related to investing activities		<u>132</u>
Adjusted acquisition and development of properties and equip		<u>(1,300)</u>
Net cash (used in) provided by investing activities		(1,300)
Funds provided by (used in) financing activities:		
Proceeds from note payable		(100)
Payments on note payable		<u>(3,000)</u>
Net cash used in financing activities		(3,100)
Net increase in cash and restricted cash		<u>(545)</u>
Cash and restricted cash, beginning of period		<u>8,770</u>
Cash and restricted cash, end of period		9,724
Cash		2,784
Restricted Cash		<u>6,940</u>
Cash and restricted cash, end of period	\$	<u>9,724</u>