

**Arkose Energy Corp.**  
**Consolidated Statements of Operations**

	Q2 2022	Q1 2022	Year Ending 2021
Revenue			
Oil and gas sales	\$ 166,130	\$ 220,093	\$ 545,272
Cryptocurrency mining revenue	-	-	76,503
Total revenue	<u>166,130</u>	<u>220,093</u>	<u>621,774</u>
Operating expenses			
Production costs	208,950	172,751	1,105,071
Cost of mining revenue	-	-	3,200
Depreciation, depletion and amortization	7,667	7,667	205,337
General and administrative expense	90,412	126,747	397,399
Accretion expense (benefit) of asset retirement obligation	13,071	13,071	52,284
Impairment of oil and gas properties	57,750	57,750	231,000
Total operating expenses	<u>377,850</u>	<u>377,986</u>	<u>1,994,291</u>
Loss from operations	<u>(211,720)</u>	<u>(157,893)</u>	<u>(1,372,517)</u>
Other (income) expense			
Interest expense	18,663	18,663	74,650
(Gain) loss on exchange of warrants for common stock	-	-	(42,427)
Total other (income) expense	<u>18,663</u>	<u>18,663</u>	<u>32,223</u>
Loss before Income taxes	(230,383)	(176,556)	(1,404,740)
Provision for income taxes	<u>2,060</u>	<u>-</u>	<u>-</u>
<b>Net Loss</b>	<u><u>\$ (232,443)</u></u>	<u><u>\$ (176,556)</u></u>	<u><u>\$ (1,404,740)</u></u>
Net loss per share:			
Net loss per share of common stock, basic and diluted	\$ (0.0043)	\$ (0.00326)	\$ (0.02593)
Weighted average share of common stock outstanding, basic and diluted	54,206,020	54,178,020	54,178,020

**Arkose Energy Corp.**  
**Consolidated Statements of Cash Flows**

	Q1 2022	Q1 2022	Year Ending 2021
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (230,383)	\$ (176,556)	\$ (1,404,740)
Adjustments to reconcile net loss to net cash from operations:			
Accretion expense	13,071	13,071	13,071
Depreciation, depletion and amortization	7,667	7,667	51,334
Impairment of oil and gas properties	57,750	57,750	231,000
Paid-in-kind interest	-	-	19,025
Stock based compensation	-	-	69,300
(Gain) or loss on warrant exercise	-	-	-
Change in:			
Production revenue receivable	-	-	-
Intercompany Loans	411,766	76,885	-
Accounts payable and accrued liabilities	-	-	5,450
Payable to related party	-	-	(167,397)
Cryptocurrencies - mining , net of mining pool operating fees	-	-	(39,730)
<b>Net cash from (used in) operating activities</b>	<u>490,254</u>	<u>155,373</u>	<u>182,052</u>
<b>Cash Flows From Investing Activities</b>			
Investment in property and equipment	-	47,000	7,677
<b>Net cash from (used in) investing activities</b>	<u>-</u>	<u>47,000</u>	<u>7,677</u>
<b>Cashflows Flows From Financing Activities</b>			
Proceeds from common stock subscriptions	-	-	-
Proceeds from common stock issuance	-	-	-
Proceeds from Warrant Exercise	-	-	-
<b>Net cash from financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in cash and cash equivalents</b>	\$ 259,871	\$ (68,183)	\$ (1,215,011)
<b>Beginning of period cash</b>	(22,889)	45,294	39,318
<b>Cash and cash equivalents end of period</b>	<u>\$ 236,982</u>	<u>\$ (22,889)</u>	<u>\$ (1,175,693)</u>
<b>Non-Cash Investing and financing activities</b>			
Oil and gas properties acquired with debt	-	-	-
Oil and gas Properties acquired common stock	-	-	-
Oil and gas properties acquired with preferred stock	-	-	-

**Arkose Energy Corp.  
Consolidated Balance Sheets**

	Q2 2022	Q1 2022	Year Ending 2021
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 236,982	\$ 22,889	\$ 47,955
Cryptocurrencies	-	-	-
Production revenue receivable	-	-	-
Total current assets	<u>236,982</u>	<u>22,889</u>	<u>47,955</u>
Oil and gas properties - proved, net	4,628,240	4,628,240	4,857,160
Property and equipment, net	<u>335,515</u>	<u>343,182</u>	<u>305,337</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,200,736</u></u>	<u><u>\$ 4,994,311</u></u>	<u><u>\$ 5,210,452</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 581,727	\$ 54,807	\$ 55,307
Payable to related party	577,431	577,431	577,431
Stock subscriptions	-	-	-
Note payable	<u>754,252</u>	<u>791,578</u>	<u>772,915</u>
Total current liabilities	<u>1,913,411</u>	<u>1,423,817</u>	<u>1,405,653</u>
Long term liabilities:			
Asset retirement obligation	1,676,045	1,733,795	1,791,545
Warrant liability	<u>173,543</u>	<u>173,543</u>	<u>173,543</u>
<b>Total Liabilities</b>	<u><u>\$ 3,762,999</u></u>	<u><u>\$ 3,331,155</u></u>	<u><u>\$ 3,370,741</u></u>
Series B Redeemable convertible preferred stock, at redemption value, par value \$100; 200,000 and no shares authorized as of December 31, 2020 and December 31, 2019 and 65,000 and no shares issued and outstanding as of December 31, 2020 and December 31, 2019	6,500,000	6,500,000	6,500,000
Stockholders' equity (deficit)			
Preferred stock, par value \$0.001, 20,000,000 shares authorized			
Series A, par value \$0.001, none issued and outstanding	-	-	-
Series E, par value \$0.001, 1,000,000 issued and outstanding	1,000	1,000	1,000
Common stock, par value \$0.001 per share; 480,000,000 authorized;			
54,206,020 issued and outstanding June 30, 2021	54,206	-	-
54,178,020 issued and outstanding December 31, 2021	-	54,178	54,178
47,178,020 issued and outstanding September 30, 2021			
46,198,020 issued and outstanding June 30, 2021			
46,198,020 issued and outstanding March 31, 2021			
33,589,543 issued and outstanding at December 31, 2020			
12,108,543 issued and outstanding at December 31, 2019			
441,543 issued and outstanding at December 31, 2018			
Additional paid-in capital	9,693,560	9,686,563	9,686,563
Accumulated deficit	<u>(14,811,029)</u>	<u>(14,578,586)</u>	<u>(14,402,030)</u>
Total stockholders' equity (deficit):	<u>1,437,737</u>	<u>1,663,155</u>	<u>1,839,711</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 5,200,736</u></u>	<u><u>\$ 4,994,311</u></u>	<u><u>\$ 5,210,452</u></u>

**Arkose Energy Corp**  
**Statement of Stockholders Equity (Deficit)**

	Common stock shares	Common stock amount	Preferred stock amount	Additional paid-in capital	Accumulated deficit	Total
Balance , December 31, 2018	<u>441,543</u>	<u>\$ 442</u>	<u>\$ 1,000</u>	<u>\$ 3,023,040</u>	<u>\$ (2,649,277)</u>	<u>\$ 375,205</u>
Issuance of common stock for acquisition of oil and gas properties	11,667,000	\$ 11,667	\$ -	\$ 2,385,762	-	\$ 2,397,429
Net loss	-	\$ -	\$ -	\$ -	\$ (2,615,035)	\$ (2,615,035)
Balance, December 31, 2019	<u>12,108,543</u>	<u>\$ 12,109</u>	<u>\$ 1,000</u>	<u>\$ 5,408,802</u>	<u>\$ (5,264,312)</u>	<u>\$ 157,599</u>
Issuance of common stock for acquisition of oil and gas properties	20,833,000	\$ 20,833	\$ -	\$ 2,929,667	-	\$ 2,950,500
Issuance of redeemable convertible preferred stock for acquisition of oil and gas properties	-	\$ -	\$ 6,500,000	\$ -	-	\$ 6,500,000
Share-based compensation	1,148,000	\$ 1,148	\$ -	\$ 297,332	-	\$ 298,480
Net loss	-	\$ -	\$ -	\$ -	\$ (7,732,978)	\$ (7,732,978)
Balance, December 31, 2020	<u>34,089,543</u>	<u>\$ 34,090</u>	<u>\$ 6,501,000</u>	<u>\$ 8,635,802</u>	<u>\$ (12,997,289)</u>	<u>\$ 2,173,602</u>
Issuance of common stock for mining operations	9,600,000	\$ 9,600	\$ -	\$ 733,400	\$ -	\$ 743,000
Issuance of common stock for contingent liabilities for contingent liabilities	2,999,477	\$ 2,999	\$ -	\$ -	\$ -	2,999
Share-based compensation	9,000	\$ 9	\$ -	\$ 8,991	\$ -	9,000
Net loss	-	\$ -	\$ -	\$ -	\$ (485,380)	(485,380)
Balance, March 31, 2021	<u>46,698,020</u>	<u>\$ 46,698</u>	<u>\$ 6,501,000</u>	<u>\$ 9,378,193</u>	<u>\$ (13,482,669)</u>	<u>\$ 2,443,221</u>
Net loss	-	\$ -	\$ -	\$ -	\$ (316,199)	(316,199)
Balance, June 30, 2021	<u>46,698,020</u>	<u>\$ 46,698</u>	<u>\$ 6,501,000</u>	<u>\$ 9,378,193</u>	<u>\$ (13,798,868)</u>	<u>\$ 2,127,022</u>
Issuance of common stock for warrant exercise	980,000	\$ 980	\$ -	\$ 244,020	\$ -	\$ 245,000
Net loss	-	\$ -	\$ -	\$ -	\$ (123,750)	(123,750)
Balance, September 30, 2021	<u>47,678,020</u>	<u>\$ 47,678</u>	<u>\$ 6,501,000</u>	<u>\$ 9,622,213</u>	<u>\$ (13,922,619)</u>	<u>\$ 2,248,272</u>
Share-based compensation	6,500,000	\$ 6,500	\$ -	\$ 64,350	\$ -	\$ 70,850
Net loss	-	\$ -	\$ -	\$ -	\$ (479,411)	(479,411)
Balance, December 31, 2021	<u>54,178,020</u>	<u>\$ 54,178</u>	<u>\$ 6,501,000</u>	<u>\$ 9,686,563</u>	<u>\$ (14,402,030)</u>	<u>\$ 1,839,711</u>
Net loss	-	\$ -	\$ -	\$ -	\$ (176,556)	\$ (176,556)
Balance, March 31, 2022	<u>54,178,020</u>	<u>\$ 54,178</u>	<u>\$ 6,501,000</u>	<u>\$ 9,686,563</u>	<u>\$ (14,578,586)</u>	<u>\$ 1,663,155</u>
Issuance of common stock	28,000	\$ 28	\$ -	\$ 6,997	\$ -	\$ 7,025
Net loss	-	\$ -	\$ -	\$ -	\$ (232,443)	\$ (232,443)
Balance, June 30, 2022	<u>54,206,020</u>	<u>\$ 54,206</u>	<u>\$ 6,501,000</u>	<u>\$ 9,693,560</u>	<u>\$ (14,811,029)</u>	<u>\$ 1,437,737</u>

**ARKOSE ENERGY CORP.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Description of Business**

Arkose Energy Corp. (“Arkose” or the “Company”), incorporated in the state of Nevada, operates as an independent oil and natural gas exploration and production company, and focuses on the acquisition and development of undervalued producing properties in the United States, located in Brown, Coleman, Gonzales, Harris, Hutchinson, Jim Wells, Madison, Matagorda, Palo Pinto, Parker, Runnels, Sabine, Wilson and Wise Counties, Texas. The Company also participates in cryptocurrency mining operations in North America to mine for bitcoin by deploying special cryptocurrency mining computers (“miners”) to solve complex cryptographic algorithms to the support the bitcoin blockchain in exchange for cryptocurrency rewards.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements of the Company are stated in U.S. dollars and have been prepared by management in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”). The preparation of these financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, related disclosure of contingent assets and liabilities, proved oil and natural gas reserves and the related disclosures in the accompanying financial statements. Actual results could differ from those estimates. Significant estimates with regard to these financial statements include the estimate of proved oil and natural gas reserve quantities and the related present value of estimated future net cash flows.

***Subsequent Events***

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued and has disclosed certain subsequent events in these consolidated financial statements, as appropriate.

***Principles of Consolidation***

The consolidated financial statements of the Company include the consolidated accounts of all its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

***Use of estimates in Preparation of Financial Statements***

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. The Company evaluates its estimates and assumptions on a regular basis. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of the Company’s financial statements. The most significant estimates with regard to these financial statements relate to the future development and abandonment costs, estimates related to certain oil and natural gas revenues and operating expenses, and the estimates of proved oil and natural gas reserve quantities that are used to calculate depletion and impairment of proved oil and natural gas properties.

The Company's cash and cash equivalents amounted to \$236,982 as of June 30, 2022. The Company maintains its cash in bank deposit accounts, which, at times, could exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss.

### ***Cryptocurrencies***

Cryptocurrencies, (including bitcoin and bitcoin cash) are included in current assets in the accompanying consolidated balance sheets. Cryptocurrencies purchased are recorded at cost and cryptocurrencies awarded to the Company through its mining activities are accounted for in connection with the Company's revenue recognition policy disclosed below.

Cryptocurrencies held are accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the cryptocurrency at the time its fair value is being measured. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

Purchases of cryptocurrencies by the Company are included within investing activities in the accompanying consolidated statements of cash flows, while cryptocurrencies awarded to the Company through its mining activities are included within operating activities on the accompanying consolidated statements of cash flows. The sales of cryptocurrencies are included within investing activities in the accompanying consolidated statements of cash flows and any realized gains or losses from such sales are included in other income (expense) in the consolidated statements of operations. The Company accounts for its gains or losses in accordance with the first in first out (FIFO) method of accounting.

### ***Oil and Natural Gas Properties***

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs incurred in the acquisition, exploration and development of oil and natural gas reserves are initially capitalized into cost centers on a country-by-country basis and are amortized as reserves are produced, subject to a limitation that the capitalized costs not exceed the value of those reserves. Capitalized costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition, exploration, and development activities. The U.S. is the Company's only cost center.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated net proved reserves, as determined by independent petroleum engineers.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether an impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property is added to costs subject to depletion calculations.

In applying the full cost method of accounting, the Company performs an annual ceiling test on the cost center properties whereby the net cost of oil and natural gas properties, net of related deferred income taxes ("net cost"), is limited to the sum of the estimated future net revenues from the Company's proved reserves using prices that are the 12-month unweighted arithmetic average of the first-day-of-the-month price for oil and natural gas prices held constant, discounted at 10%, and the lower of cost or fair value of unproved properties, adjusted for related income tax effects ("ceiling"). If the net cost exceeds the ceiling, an impairment loss is recognized for the amount by which the net cost exceeds the ceiling and is shown as a reduction in oil and natural gas properties and as additional

depletion expense. Proceeds from a sale of oil and natural gas properties will be applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion or amortization.

The Company's estimate of proved reserves is based on the quantities of oil, condensate, natural gas and NGLs that engineering and geological analysis demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters. As discussed below, the estimate of the Company's proved reserves as of December 31, 2021, 2020 and 2019 have been prepared and presented in accordance with current rules and accounting standards promulgated by the Securities and Exchange Commission (the "SEC"). These rules require SEC reporting companies to prepare their reserve estimates using reserve definitions and pricing based on a 12-month unweighted arithmetic average of the first-day-of-the-month price.

Reserves and their relation to estimated future net cash flows impact the Company's depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserve estimates. The Company prepares its reserve estimates and the projected cash flows derived from these reserve estimates in accordance with SEC guidelines. The accuracy of the Company's reserve estimates is a function of many factors, including the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgments of the individuals preparing the estimates, all of which could deviate significantly from actual results. As such, reserve estimates may materially vary from the ultimate quantities of oil, condensate, natural gas and NGLs eventually recovered.

### ***Asset Retirement Obligation***

Asset retirement costs and liabilities associated with future site restoration and abandonment of tangible long-lived assets are initially measured at fair value which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. The fair value is recognized in the financial statements as the present value of expected future cash expenditures for site restoration and abandonment. Subsequent to the initial measurement, the effect of the passage of time on the liability for the asset retirement obligation (accretion expense) and the amortization of the asset retirement cost, through depreciation, depletion, and amortization, are recognized in the results of operations.

### ***Furniture and Equipment***

Furniture and equipment are recorded at historical cost and are depreciated on a straight-line basis over their estimated useful lives, which range from three to seven years.

Cryptocurrency mining equipment is recorded within furniture and equipment on the consolidated balance sheet. Cryptocurrency mining equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, generally two years.

### ***Revenue Recognition***

#### ***Oil and natural gas revenues***

The Company uses the sales method of accounting for the sale of its oil, condensate, natural gas and NGLs and records revenues from the sale of such products when delivery to the customer has occurred and title has transferred. This recording of revenues occurs when oil, condensate, natural gas or NGLs have been delivered to a pipeline or a tank lifting has occurred. The Company's NGLs are sold as part of the wet gas subject to an incremental NGLs pricing formula based upon a percentage of NGLs extracted from the Company's wet gas production. Under the sales method, revenues are recorded based on the Company's net revenue interest, as delivered. When actual natural gas sales volumes exceed our delivered share of sales volumes, an over-produced imbalance occurs. To the extent an over-produced imbalance exceeds our share of the remaining estimated proved natural gas reserves for a given property, the Company records a liability. The Company had no material gas imbalances at June 30, 2022, March 31, 2022, December 31, 2021, and December 31, 2020.

The Company records its share of revenues based on production volumes and contracted sales prices. The sales price for oil, condensate, natural gas and NGLs are adjusted for transportation cost and other related deductions. The transportation costs and other deductions are based on contractual or historical data and do not require significant judgment. Subsequently, these deductions and transportation costs are adjusted to reflect actual charges based on third party documents once received by the Company.

The Company calculates and pays royalties on oil, condensate, natural gas and NGLs in accordance with the particular contractual provisions of the lease. Royalty liabilities are recorded in conjunction with the cash receipts for oil, condensate, natural gas and NGLs revenues and are included in revenue payable on the Company's consolidated balance sheet.

#### *Cryptocurrency mining revenues*

The Company has entered into digital asset mining pools by executing contracts, as amended from time to time, with the mining pool operators to provide computing power to the mining pool. The contracts are terminable at any time by either party and the Company's enforceable right to compensation only begins when the Company provides computing power to the mining pool operator. In exchange for providing computing power, the Company is entitled to a fractional share of the fixed cryptocurrency award the mining pool operator receives (less digital asset transaction fees to the mining pool operator which are recorded as a component of cost of revenues), for successfully adding a block to the blockchain. The terms of the agreement provides that neither party can dispute settlement terms after thirty-five days following settlement. The Company's fractional share is based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm.

Providing computing power in digital asset transaction verification services is an output of the Company's ordinary activities. The provision of providing such computing power is the only performance obligation in the Company's contracts with mining pool operators. The transaction consideration the Company receives, if any, is noncash consideration, which the Company measures at fair value on the date received, which is not materially different than the fair value at contract inception or the time the Company has earned the award from the pools. The consideration is all variable. Because it is not probable that a significant reversal of cumulative revenue will not occur, the consideration is constrained until the mining pool operator successfully places a block (by being the first to solve an algorithm) and the Company receives confirmation of the consideration it will receive, at which time revenue is recognized. There is no significant financing component in these transactions.

Fair value of the cryptocurrency award received is determined using the quoted price of the related cryptocurrency at the time of receipt. There is currently no specific definitive guidance under GAAP or alternative accounting framework for the accounting for cryptocurrencies recognized as revenue or held, and management has exercised significant judgment in determining the appropriate accounting treatment. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies, which could have an effect on the Company's consolidated financial position and results from operations.

Cryptocurrency mining direct costs consist primarily of direct costs of earning bitcoin related to mining operations, including mining pool fees, electric power costs, other utilities, labor, insurance whether incurred directly from self-mining operations or reimbursed, including any revenue sharing arrangements under co-location agreements, but excluding depreciation and amortization, which are separately stated in the Company's consolidated statements of operations.

#### ***Deferred Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss, and tax credit carry-forwards. 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. At June 30, 2022, December 31, 2021, 2020 and 2019, no such deferred tax assets or liabilities existed. Numerous assumptions are inherent in the estimation of future taxable income, including assumptions about matters that are dependent on future events



such as future operating conditions, particularly related to prevailing oil, condensate, natural gas and NGLs prices, and future financial conditions. The estimates or assumptions used in determining future taxable income are consistent with those used in internal budgets and forecasts. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date.

### ***Earnings or Loss per Share***

Basic earnings or loss per share is computed by dividing net income (loss) available to common stockholders, net of accumulated paid and unpaid dividends, by the weighted average number of shares of common stock outstanding. Diluted earnings or loss per share is computed by dividing net income (loss) available to common stockholders, net of accumulated and unpaid dividends, by the weighted average number of shares of common stock outstanding plus the incremental effect of the assumed issuance of common stock for all potentially dilutive securities. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common stock are exercised or converted to common stock. The treasury stock method is used to determine the dilutive effect.

### ***Co-participation Operations***

The majority of the Company's oil and natural gas exploration activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

### ***Industry Segment and Geographic Information***

The Company operates in one industry segment, which is the exploration, development and production of oil and natural gas. The Company's current operational activities and the Company's consolidated revenues are generated from markets exclusively in the U.S., and the Company has no long-lived assets located outside the U.S.

### ***Related Parties***

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. All transactions with related parties are recorded at fair value of the goods or services exchanged.

### ***Stock Based Compensation***

The Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 718 ("ASC 718"), "Compensation – Stock Compensation," prescribes accounting and reporting standards for all share-based payment transactions in which employee services are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options, and other equity instruments such as employee stock ownership plans and stock appreciation rights. Share-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the consolidated financial statements based on their fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of ASC 505-50, "Equity – Based Payments to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The fair value of the share-based payment transaction is determined at the earlier of performance commitment date or performance completion date.

## Financial Instruments

The Company generally uses a Black-Scholes model, as applicable, to value financial instruments at inception and subsequent valuation dates when needed. The classification of financial instruments, including whether such instruments should be recorded as liabilities or as equity, is determined in accordance with accounting guidance and the fair value of such instruments is re-measured at the end of each reporting period. The Black-Scholes model is used to estimate the fair value of the financial liabilities.

### 3. Cryptocurrencies

The following table presents additional information about cryptocurrencies:

	<u>June 30, 2022</u>
<b>Beginning balance</b>	<b>\$ -</b>
Revenue recognized from cryptocurrencies mined	-
Mining pool operating fees	-
Proceeds from sale of cryptocurrencies	-
Purchase of miner equipment with cryptocurrencies	-
Realized gain on sale/exchange of cryptocurrencies	-
Impairment of cryptocurrencies	-
Cryptocurrencies received from sale of equipment	-
<b>Ending balance</b>	<b>\$ -</b>

### 4. Property, Plant and Equipment

#### *Oil and Natural Gas Properties*

The Company operates as an independent oil and natural gas exploration and production company and focuses on the acquisition and development of undervalued producing properties in the United States, located in Brown, Coleman, Gonzales, Harris, Hutchinson, Jim Wells, Madison, Matagorda, Palo Pinto, Parker, Runnels, Sabine, Wilson and Wise Counties, Texas.

At June 30, 2022, the Company's mineral lease interests were comprised of approximately 24,000 gross acres of leased acreage within the Panhandle of Texas. Within this acreage, the Company held interests in 167 gross (153.5 net) wells. Additionally, the Company leased approximately 6,100 gross acres in Parker and Wise Counties, Texas and held working interests in 60 gross (48 net) wells on such acres that carry a 58.5% net revenue interest at December 31, 2021. The company also owns and operates mineral interest in Runnels and Matagorda County Texas.

The amount capitalized as oil and natural gas properties was incurred for the purchase and development of various properties in the U.S., specifically the state of Texas. The Company's total property, plant and equipment as of June 30, 2022, and December 31, 2021, consists of the following:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	<u>(in thousands)</u>	
Oil and natural gas properties, full cost method of accounting:		
Unproved properties	\$ -	\$ -
Proved properties	10,688	10,688
Total oil and natural gas properties	380	341
Furniture and equipment		
Total property and equipment		
Impairment of proved natural gas and oil properties	(6,060)	(5,831)
Accumulated depreciation, depletion and amortization	(45)	(36)
Total accumulated depreciation, depletion, and amortization		
Total property and equipment, net	<u>\$ 4,964</u>	<u>\$ 5,162</u>

**Year ended December 31, 2019, activity:**

On April 1, 2019, the Company entered into an Agreement and Assignment of Oil, Gas and Mineral Lease with a privately held limited liability company that is considered a related party (the “Assignor”) (the “2019 Lease Assignment”). Under the 2019 Lease Assignment, the Assignor assigned a 100% working interest (~82% net revenue interest) in certain oil and gas leases covering 2,300 acres and 33 wells located in Runnels County, Texas. As consideration for the assignment, the Company issued 11,667,000 shares of common stock to the Assignor and assumed a promissory note with a principal balance of \$602,571. See “Note 7, Note Payable”.

**Year ended December 31, 2021, activity:**

On August 1, 2020, the Company entered into an Agreement and Assignment of Oil, Gas and Mineral Lease with the Assignor (the “2020 Lease Assignment”). Under the 2020 Lease Assignment, the Assignor assigned a 100% working interest (~75% net revenue interest) in certain oil and gas leases covering 160 acres and 25 wells located in Matagorda County Texas. As consideration for the lease interests, the Company issued 5,833,000 shares of common stock to the Assignor.

On September 1, 2020, the Company acquired certain energy assets from Petroglobe Energy Holdings, LLC. The transaction includes the transfer of wells, active mineral leases, and production materials and equipment. As consideration for the transaction, the Company issued 15,000,000 shares of common stock and 65,000 of Series B redeemable preferred stock.

During the quarter ended March 31, 2021, the Company commenced development of a cryptocurrency mining enterprise and began the developmental phase of the cryptocurrency mining operation. Utilizing the Company’s existing oil and gas reserves, the Company began to increase natural gas production and acquired the necessary infrastructure, hardware, and software to establish cryptocurrency mining operations across a number of the Company’s owned gas wells. The Company expects to deploy its mining facilities and grow revenue from cryptocurrency mining operations. During the three months ended June 30, 2022, the Company spent \$0 on cryptocurrency mining infrastructure.

**Full Cost Ceiling Limitation**

The full cost method of accounting for oil and natural gas properties requires a calculation of a limitation on capitalized costs, often referred to as a full cost ceiling calculation. The ceiling is the present value of estimated future cash flow from proved oil, condensate, natural gas and NGLs reserves reduced by future operating expenses, development expenditures, abandonment costs (net of salvage) to the extent not included in oil and natural gas properties pursuant to authoritative guidance and estimated future income taxes thereon. To the extent that the Company’s capitalized costs (net of accumulated depletion and deferred taxes) exceed the ceiling, the excess must be written off to expense for such period. Once incurred, this impairment of oil and natural gas properties is not reversible at a later date even if oil and natural gas prices increase. The ceiling calculation is determined using a mandatory trailing 12-month unweighted arithmetic average of the first-day-of-the-month commodities pricing and costs in effect at the end of the period, each of which are held constant indefinitely (absent specific contracts with respect to future prices and costs) with respect to valuing future net cash flows from proved reserves for this purpose. The 12-month unweighted arithmetic average of the first-day-of-the-month commodities prices are adjusted for basis and quality differentials in determining the present value of the proved reserves. The table below sets forth relevant pricing assumptions utilized in the ceiling test computations for the respective periods noted before adjustment for basis and quality differentials:

	<b>2022</b>	
	<b>Total Impairment</b>	<b>June 30</b>
West Texas Intermediate oil price (per Bbl) <sup>(1)</sup>	\$	114.84
Impairment recorded (pre-tax) (in thousands)		6,060

(1) For the respective periods, oil and natural gas prices are calculated using the trailing 12-month unweighted arithmetic average of the first-day-of-the-month prices based on Henry Hub spot natural gas prices and West Texas Intermediate spot oil prices.

The Company could potentially incur additional ceiling test impairments in the future should commodities prices decline. However, it is difficult to project future impairment charges in light of numerous variables involved.

The Company's proved reserves estimates, and their estimated discounted value and standardized measure will also be impacted by changes in lease operating costs, future development costs, production, exploration and development activities. The ceiling limitation calculation is not intended to be indicative of the fair market value of the Company's proved reserves or future results.

## 5. Accounts Payable and Accrued Liabilities

The Company's accounts payable and accrued liabilities balance is comprised of costs associated with oil and gas operations and general and administrative costs and expenses.

## 6. Payable to Related Party

The Company's payable to related party balance consisted of the following as of June 30, 2022, and December 31, 2021, and December 31, 2020:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>2020</u>
	(in thousands)		
Entities controlled by an Arkose Energy Corp. Officer <sup>(A)</sup>	\$ 577	\$ 577	\$ 340

(A) A board member and officer of the Company advanced proceeds to the Company through June 30, 2022, for operation related costs, which is non-interest bearing and due on demand.

## 7. Note Payable

On May 1, 2017, the Company entered into a promissory note agreement payable to Mark Kelley (the "Payee") for the original principal amount of \$500,000 (the "Note Payable"). Per the original agreement, the Note Payable bore interest at 10% per annum and interest payments and the full principal amount were to be repaid 365 days from consummation of the Note Payable agreement, or on April 30, 2018.

On May 1, 2018, the Company and the Payee entered into a Loan Extension Agreement whereby the original maturity date of the Note Payable was amended to extend the date from April 30, 2018, to December 31, 2023. Per the Loan Extension Agreement, the accrual of interest shall continue and is amended to accrue on a month-to-month basis. Additionally, to the extent that both parties to the Loan Extension Agreement can agree on terms, both parties to the Note Payable will negotiate in good-faith to consider an equity conversion for the Note Payable balance into common stock of the Company.

At June 30, 2022, December 31, 2021, and December 31, 2020 and 2019, the Note Payable had balances of \$ 754,252, \$772,915, \$717,290 and \$649,300, respectively, for unpaid principal and interest.

## 8. Asset Retirement Obligation

A summary of the activity related to the asset retirement obligation is as follows:

	<u>For the Quarter</u> <u>Ended June 30,</u> <u>2022</u>	<u>For the Years Ended</u> <u>December 31,</u> <u>2021</u>	<u>2020</u>
	(in thousands)		
Asset retirement obligation, beginning of year	\$ 1,792	\$ 1,739	\$ 502
Liabilities incurred during period	—	—	—
Liabilities settled during period	—	—	—
Accretion expense	116	53	1,237
Revision in previous estimates and other	—	—	—
Deletions related to property disposals	—	—	—
Asset retirement obligation, end of year	\$ 1,676	\$ 1,792	\$ 1,739

## 9. Warrant Liabilities

The Company issued common stock and warrants in a private placement effective March 15, 2021. The warrants (collectively the “Warrant Instruments”) are classified as liabilities. The Warrant Instruments have been accounted for utilizing ASC 480 “Distinguishing Liabilities from Equity” and ASC 815 “Derivatives and Hedging.” The Company has incurred a liability for the estimated fair value of Warrant Instruments. The estimated fair value of the Warrant Instruments and the corresponding liability has been calculated using the Black Scholes fair value option-pricing model with key input variables provided by management, as of the date of issuance, with changes in fair value to be recorded as gains or losses on revaluation in other income (expense). On August 23, 2021, certain warrant holders exercised 980,000 of the \$0.25 strike warrants for net proceeds of \$245,000. A gain on warrant exercised was recorded of \$42,427 as of September 30, 2021. At September 30, 2021, the Company reported a warrant liability of \$174,543 for the fair value of the Warrant Instruments issued on March 15, 2021.

Warrants Issuance Date	Exercise Price	Termination Date	Outstanding Warrants December 31, 2020	Issued	Exercised	Terminated	Outstanding Warrants June 30, 2021
March 15, 2021	\$ 0.25	March 15, 2024	-	3,280,000	1,008,000	-	2,272,000
March 15, 2021	\$ 1.00	March 15, 2026	-	2,000,000	-	-	2,000,000
			-	5,280,000	1,008,000	-	4,272,000

## 10. Capital Stock

Under the Company’s Amended and Restated Articles of Incorporation, total shares of capital stock authorized and available for issuance totals 500,000,000 shares, with 480,000,000 of those being common shares (“Common Stock”) with par value of \$0.001 and 20,000,000 being preferred stock with par value of \$0.001.

### *Preferred Stock*

#### *Series A Preferred Stock*

By resolution of the board of directors of the Company pursuant to its articles of incorporation, 1,815,347 shares of the authorized and available preferred capital stock are designated as Series A Preferred Stock with par value of \$0.001 per share. Per the certificate of designation, the Series A Preferred Stock shall rank (a) *pari passu* with the Common Stock and with any other class or series of stock of the Company, specifically in respect of the right to participate in distributions or payments in the event of any liquidation, dissolution or winding up of the Company; and (b) junior to any other class or series of stock of the Company specifically in respect of the right to participate in distributions or payments in the event of any liquidation, dissolution or winding up of the Company.

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of any series of preferred stock, having a priority on liquidation superior to that of the Series A Preferred Stock, the holders of shares of Series A Preferred Stock shall be entitled to participate with the Common Stock in all of the remaining assets of the Company available for distribution to its stockholders, ratably with the holders of the Common Stock in proportion to the number of shares of Common Stock held by them.

Except as otherwise required by law, each share of outstanding Series A Preferred Stock shall entitle the holder thereof to vote on each matter submitted to a vote of the stockholders of the Company and to have the number of votes equal to the number of shares of Common Stock into which such shares of Series A Preferred Stock is then convertible pursuant to the provisions at the record date for the determination of shareholders entitled to vote on such matters. Except as otherwise required by law or by designation, the holders of shares of Common Stock and Series A Preferred Stock shall vote together and not as separate classes.

If any dividend or distribution payable in cash, securities, or other property, including a dividend payable in shares of Common Stock, is declared on the Common Stock, each holder of Series A Preferred Stock on the record date for such dividend or distribution shall be entitled to receive on the date of payment or distribution the same cash, securities or other property which such holder would have received on such record date if such holder was the

holder of record of the number of shares of Common Stock into which the Series A Preferred Stock then held by such holder are then convertible. No dividend or other distribution shall be declared or paid on the Common Stock unless an equivalent dividend or distribution is declared or paid on the Series A Preferred Stock. No dividend or other distribution shall be declared or paid on the Series A Preferred Stock unless an equivalent dividend or distribution is declared or paid on the Common Stock.

Upon the occurrence of an increase in authorized Common Stock, each outstanding share of Series A Preferred Stock shall automatically be converted, without cost or any action by the holders of the Series A Preferred Stock, into the number of fully paid and non-assessable shares of Common Stock as specified by the conversion ratio in effect at the time of conversion; provided that, and only to the extent that, the Company has a sufficient number of shares authorized but unissued and unreserved Common Stock available to issue upon conversion.

At June 30, 2022, and December 31, 2021, and 2020, there were no shares issued or outstanding of Series A Preferred Stock.

### ***Series E Preferred Stock***

By resolution of the board of directors of the Company pursuant to its articles of incorporation, 1,000,000 shares of the authorized and available preferred capital stock are designated as Series E Preferred Stock with par value of \$0.001 per share. All shares of Series E Preferred Stock shall rank subordinate and junior to all of the Company's Common Stock and preferred stock, now or hereafter issued, as to distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of shares of Series E Preferred Stock shall not be entitled to participate in the distribution of the assets of the Company.

No dividend shall be declared or paid on the Series E Preferred Stock.

Except as otherwise required by law, the shares of outstanding Series E Preferred Stock shall have the right to take action by written consent or vote based on the number of votes equal to twice the number of votes of all outstanding shares of capital stock such that the holders of outstanding shares of Series E Preferred Stock shall always constitute sixty-six and two thirds ( $66 \frac{2}{3}$ ) of the voting rights of the Company and such rights may be exercised by vote or written consent based on the will of a majority of the holders of the Series E Preferred Stock. Except as otherwise required by law or by the articles of incorporation, the holders of shares of Series E Preferred Stock shall vote together and not as a separate class.

The shares of Series E Preferred Stock are not redeemable and are not entitled to any preemptive or subscription rights in respect of any securities of the Company.

At June 30, 2022, and December 31, 2021 and 2020, there were 1,000,000 shares issued and outstanding of Series E Preferred Stock.

### ***Series B Redeemable Convertible Preferred Stock***

By resolution of the board of directors of the Company and pursuant to its articles of incorporation, 200,000 shares of the authorized and available preferred capital stock are designated as Series B Redeemable Convertible Preferred Stock with par value of \$100.00 per share. The Company retains the right to redeem the shares of Series B Redeemable Convertible Preferred Stock for cash for a period concluding 24 months after the date of the subscription of the stock at a rate of \$100.00 per share. At the Company's discretion, the shares may also be purchased or redeemed at the same rate within the next five business days after the stockholder provides conversion notice.

Holders of Series B Redeemable Convertible Preferred Stock are entitled to a \$6.00 per share dividend beginning at the conclusion of the redemption period, described above. The dividend will be paid quarterly at \$1.50 per share beginning in the first full calendar quarter after the conclusion of the redemption period and then at the end of each calendar quarter thereafter. Payment in either cash or Common Stock is at the discretion of the Company. If the dividend is paid in Common Stock, it will be paid at a rate of the amount of the dividend payment owed and/or otherwise due divided by the average trailing 30 days sales and/or trading price prior to the accrual period.

Should the Company fail to exercise the redemption right prior to the expiration of the redemption period, the holders of the Series B Redeemable Convertible Preferred Stock, at their election, and upon the expiration of the redemption period, may exercise a right of conversion to fully paid and non-assessable shares of Common Stock.

The shares will be converted on a face value basis by taking the number of shares times \$100.00 divided by the average trailing 30 days sales and/or trading price prior to conversion notice. The right of conversion will carry a minimum \$1.00 per share of Common Stock floor price for the benefit of the holder that becomes void if the conversion formula yields a greater value at the time of conversion.

There are no voting rights throughout the 24-month redemption period unless and/or until the shares of Series B Redeemable Convertible Preferred Stock are convertible into shares of Common Stock. In the event of conversion to Common Stock, there are no cumulative voting rights associated with the shares of Common Stock received upon conversion.

There are no preemptive rights associated with the Series B Redeemable Convertible Preferred Stock.

In the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, the holder of Series B Redeemable Convertible Preferred Stock will have seniority ahead of the holders of Series A Preferred Stock, holders of the Series E Preferred Stock and holders of Common Stock on distributions, payments and claims of the Company's assets.

Shares of Series B Redeemable Convertible Preferred Stock are transferable only at the consent of the Company.

At June 30, 2022, December 31, 2021, and December 31, 2020, there were 65,000 shares issued and outstanding of Series B Redeemable Convertible Preferred Stock with redemption period that concludes 24 months subsequent to the issuance date of September 1, 2020. There were no shares of Redeemable Convertible Preferred Stock issued or outstanding at June 30, 2022.

### ***Common Stock***

The Company's board of directors is authorized to issue, from time to time by resolution, up to 480,000,000 shares of its common stock. No holders of Common Stock shall have any preemptive or other right to subscribe for any additional un-issued or treasury shares of stock or for other securities of any class, or for voting rights, warrants or options to purchase stock or for scrip, or for securities of any kind convertible into stock or carrying stock purchase warrants or privileges unless so authorized by the Company.

With respect to all matters upon which holders of stockholders are entitled to vote or to give consent, the holders of the outstanding shares of Common Stock shall be entitled to cast one (1) vote in person or by proxy for each share of Common Stock held in his/her name.

Holders of Common Stock shall be entitled to receive such cash dividends as may be declared by the Company's board of directors from time to time out of assets of funds of the Company legally available.

At June 30, 2022, and December 31, 2021, there were 54,206,020 and 54,178,020 shares of Common Stock issued and outstanding, respectively.

During the year ended December 31, 2020, the Company received additional cash funds of \$80,000 from various related party investors in exchange for a promissory note that shares of Common Stock be issued subsequent to year end at some time in 2021. The resulting liability was recorded as a stock subscription on the balance sheet.

On April 30, 2021, by resolution of the board, with an effective date of March 15, 2021, the Company issued a total of 9,600,000 shares of its Common Stock for \$0.10 per share for a total of \$960,000 to related party investors. Of the total shares issued on this date, 800,000 shares at an assumed issuance price of \$0.10 per share were issued to settle the stock subscription liability of \$80,000 recorded at December 31, 2020. Additionally, the Company also issued to the related party investors warrants to purchase within three years an additional 205,000 shares of the Company's Common Stock at an exercise price of \$0.25 per share per unit subscribed and warrants to purchase within five years an additional 125,000 shares of the Company's Common Stock at an exercise price of \$1.00 per share per unit subscribed.

### ***Share-based Compensation Expense***

Share-based compensation for employees is included in general and administrative related costs in the consolidated statement of operations. For year ending December 31, 2021, share-based compensation expense was \$11,500, 7,000,000 shares of common stock were issued for as employee and director compensation at \$1.00 a share. During the year ended December 31, 2020, 1,148,001 shares of Common Stock were issued as employee and director compensation at \$0.26 per share. For the years ended December 31, 2020, and 2019 share-based compensation was \$298,480 and \$0, respectively.

### **11. Earnings per Share**

In accordance with the provisions of current authoritative guidance, basic earnings or loss per share is computed on the basis of the weighted average number of common shares outstanding during the periods. Diluted earnings or loss per share is computed based upon the weighted average number of common shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities.

	For the three Months Ended June 30,		For the Years Ended December 31,	
	2022		2021	2020
	(in thousands, except per share and share data)			
Net loss attributable to common stockholders	\$	(177)	\$	(1,405)
			\$	(7,733 )
Weighted average shares of common stock outstanding - basic		54,206,020		54,178,020
				19,994,718
Weighted average shares of common stock outstanding - diluted		54,206,020		54,178,020
				19,994,718
Net (loss) income per share of common stock attributable to common stockholders:				
Basic	\$	(0.0043)	\$	(0.0326)
			\$	(0.3868)
Diluted	\$	(0.0043)	\$	(0.0326)
			\$	(0.3868)

### **12. Commitments and Contingencies**

#### ***Contractual Obligations***

The Note Payable has a scheduled maturity of December 31, 2023. At June 30, 2022, the Note Payable balance totaled \$754,252 and continues to accrue interest at 10% per annum, accrued and recorded monthly. At December 31, 2021, the Note Payable balance totaled \$772,915 and continues to accrue interest at 10% per annum, accrued and recorded monthly.

At December 31, 2021, the Stock Subscription obligation totaled \$80,000. The Stock Subscription obligation was settled effective March 15, 2021, with the issuance of 800,000 shares at an assumed issuance price of \$0.10 per share as described above.

#### ***Restoration, Removal and Environmental Liabilities***

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated future removal and site restoration costs. These costs are initially measured at a fair value and are recognized in the consolidated financial statements as the present value of expected future cash flows. Subsequent to the initial measurement, the effect of the passage of time on the liability for the asset retirement obligation (accretion expense) and the amortization of the asset retirement obligation cost are recognized in the results of operations. Costs attributable to these commitments and contingencies are expected to be incurred over an



extended period of time and are to be funded mainly from the Company's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any quarter or year. At June 30, 2022, the Company had total liabilities of \$1.7 million related to asset retirement obligations all of which is recorded as long-term liabilities. At December 31, 2021, the Company had total liabilities of \$1.8 million related to asset retirement obligations all of which is recorded as long-term liabilities. Due to the nature of these obligations, the Company cannot determine precisely when the payments will be made to settle these obligations. See Note 8, "Asset Retirement Obligation."

### ***Indemnifications***

Indemnifications in the ordinary course of business have been provided pursuant to provisions of purchase and sale contracts, service agreements, joint venture agreements, operating agreements, and leasing agreements. In these agreements, the Company may indemnify counterparties if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment, if any, is difficult to predict.