

ASCENT RESOURCES UTICA HOLDINGS, LLC

Condensed Consolidated Financial Statements (Unaudited)

As of September 30, 2023 and December 31, 2022

and for the Three and Nine Months Ended September 30, 2023 and 2022

ASCENT RESOURCES UTICA HOLDINGS, LLC
TABLE OF CONTENTS

Glossary of Commonly Used Terms	<u>2</u>
Unaudited Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets	<u>4</u>
Condensed Consolidated Statements of Operations	<u>5</u>
Condensed Consolidated Statements of Member's Equity	<u>6</u>
Condensed Consolidated Statements of Cash Flows	<u>7</u>
Notes to Unaudited Condensed Consolidated Financial Statements	
Note 1. Basis of Presentation and Summary of Significant Accounting Policies	<u>8</u>
Note 2. Revenue from Contracts with Customers	<u>8</u>
Note 3. Acquisition	<u>9</u>
Note 4. Property and Equipment	<u>9</u>
Note 5. Debt	<u>10</u>
Note 6. Derivative Instruments	<u>12</u>
Note 7. Fair Value Measurements	<u>16</u>
Note 8. Long-Term Incentive Compensation	<u>18</u>
Note 9. Related Party Transactions	<u>20</u>
Note 10. Leases	<u>21</u>
Note 11. Commitments and Contingencies	<u>22</u>
Note 12. Other Current Liabilities	<u>23</u>
Management's Discussion and Analysis of Financial Condition and Results of Operations	
Business Overview	<u>24</u>
Results of Operations for the Three Months Ended September 30, 2023 and 2022	<u>26</u>
Results of Operations for the Nine Months Ended September 30, 2023 and 2022	<u>29</u>
Liquidity and Capital Resources	<u>32</u>
Quantitative and Qualitative Disclosures About Market Risk	<u>36</u>

GLOSSARY OF COMMONLY USED TERMS

The following are abbreviations and definitions of certain terms used in this document:

"2025 Second Lien Term Loans" means our second lien term loans due November 2025.

"2026 Notes" means our 7.00% senior unsecured notes due November 2026.

"2027 Notes" means our 9.00% senior unsecured notes due November 2027.

"2028 Notes" means our 8.25% senior unsecured notes due December 2028.

"2029 Notes" means our 5.875% senior unsecured notes due June 2029.

"bbl(s)" means barrel(s) as used in reference to crude oil, condensate or NGL. One barrel equals 42 U.S. gallons liquid volume.

"bbls/d" means barrels of crude oil, condensate or NGL per day.

"bcf" means billion cubic feet of natural gas.

"bcfe" means billion cubic feet of natural gas equivalent with one barrel of oil, condensate or NGL converted to six thousand cubic feet of natural gas.

"bcfe/d" means billion cubic feet of natural gas equivalent per day.

"btu" means British thermal units, a measure of heating value.

"Credit Facility" means our senior secured revolving credit facility entered into on April 5, 2017, and related agreements, due June 30, 2027, which will accelerate to August 2, 2026 if an amount greater than or equal to \$150.0 million of the 2026 Notes is outstanding as of that date.

"DD&A" means depreciation, depletion and amortization.

"GAAP" means U.S. generally accepted accounting principles.

"gross" means:

- In relation to our interest in production and reserves, our interest (operating and non-operating) before deduction of royalty and overriding royalty interests;
- In relation to our wells, the total number of wells in which we own an interest before the deduction of outside working interests, royalty interests and overriding royalty interests; and
- In relation to our interest in a property, the total area in acres of properties in which we own an interest.

"LIBOR" means London Interbank Offered Rate.

"mbbls" means thousand barrels of crude oil, condensate or NGL.

"mbbls/d" means thousand barrels of crude oil, condensate or NGL per day.

"mcf" means thousand cubic feet of natural gas.

"mcfe" means thousand cubic feet of natural gas equivalent with one barrel of oil, condensate or NGL converted to six thousand cubic feet of natural gas.

"mmbtu" means million British thermal units.

"mmbtu/d" means million British thermal units per day.

"mmcf" means million cubic feet of natural gas.

“*mmcf/d*” means million cubic feet of natural gas per day.

“*mmcfe*” means million cubic feet of natural gas equivalent with one barrel of oil, condensate or NGL converted to six thousand cubic feet of natural gas.

“*mmcfe/d*” means million cubic feet of natural gas equivalent per day.

“*net*” means:

- In relation to our interest in production and reserves, our interest (operating and non-operating) after the deduction of royalty and overriding royalty interests;
- In relation to our wells, the total number of wells obtained by aggregating our working interest after the deduction of royalty and overriding royalty interests in each of its gross wells;
- In relation to our interest in a property, the total area in acres in which we own an interest multiplied by our working interest in the area after the deduction of royalty and overriding royalty interests; and
- In relation to our interest in leasehold acreage, our gross acres after the deduction of royalty and overriding royalty interests.

“*NGL*” means natural gas liquids.

“*NYMEX*” means the New York Mercantile Exchange.

“*operator*” means the individual or company responsible for the exploration, development and/or production of an oil or gas well or lease.

“*proved reserves*” means, as defined by the SEC, the quantities of natural gas, oil and NGL, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs under existing economic conditions, operating methods and government regulations.

“*reserves*” means estimated remaining quantities of natural gas and oil and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market, and all permits and financing required to implement the project.

“*royalty interest*” means an interest in a natural gas and oil lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage.

“*Senior Notes*” means our 2026 Notes, 2027 Notes, 2028 Notes and 2029 Notes.

“*SOFR*” means Secured Overnight Financing Rate.

“*unproved properties*” means properties with no proved reserves.

“*working interest*” means an interest in a natural gas and oil lease that gives the owners of the interest the right to drill for and produce natural gas, oil and NGL on the leased acreage and requires the owners of the interest to pay their share of the costs of drilling, completions and production operations.

“*WTI*” means West Texas Intermediate.

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(\$ in thousands)</i>	September 30, 2023	December 31, 2022
Current Assets:		
Cash and cash equivalents	\$ 4,415	\$ 3,894
Accounts receivable – natural gas, oil and NGL sales ^(a)	234,079	530,385
Accounts receivable – joint interest and other	44,791	35,340
Short-term derivative assets	103,204	14,061
Other current assets	6,818	12,597
Total Current Assets	393,307	596,277
Property and Equipment:		
Natural gas and oil properties, based on successful efforts accounting	11,336,438	10,558,533
Other property and equipment	41,139	39,641
Less: accumulated depreciation, depletion and amortization	(4,441,944)	(3,900,730)
Property and Equipment, net	6,935,633	6,697,444
Other Assets:		
Long-term derivative assets	21,280	6,081
Other long-term assets	45,030	44,117
Total Assets	\$ 7,395,250	\$ 7,343,919
Current Liabilities:		
Accounts payable	\$ 75,890	\$ 77,753
Accrued interest	45,938	50,375
Short-term derivative liabilities	69,317	684,204
Other current liabilities ^(b)	517,215	771,062
Total Current Liabilities	708,360	1,583,394
Long-Term Liabilities:		
Long-term debt, net	2,509,692	2,475,222
Long-term derivative liabilities	39,551	495,464
Other long-term liabilities	121,969	113,061
Total Long-Term Liabilities	2,671,212	3,083,747
Commitments and contingencies (Note 11)		
Member's Equity	4,015,678	2,676,778
Total Liabilities and Member's Equity	\$ 7,395,250	\$ 7,343,919

(a) Including related party amounts of \$10.1 million and \$12.4 million as of September 30, 2023 and December 31, 2022, respectively.

(b) Including related party amounts of \$104.9 million and \$98.0 million as of September 30, 2023 and December 31, 2022, respectively.

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(\$ in thousands)</i>				
Revenues:				
Natural gas	\$ 388,727	\$ 1,625,516	\$ 1,334,008	\$ 3,653,047
Oil	61,336	52,715	188,495	184,684
NGL ^(a)	52,685	54,759	136,062	192,314
Commodity derivative gain (loss)	69,253	(1,100,991)	1,339,884	(3,680,972)
Total Revenues	572,001	631,999	2,998,449	349,073
Operating Expenses:				
Lease operating expenses	31,252	26,826	95,219	74,019
Gathering, processing and transportation expenses ^(b)	253,479	258,868	721,563	734,943
Taxes other than income	11,784	12,728	35,918	34,150
Exploration expenses	1,862	15,365	6,654	45,789
General and administrative expenses	17,852	26,535	52,824	53,635
Depreciation, depletion and amortization	186,486	192,484	545,202	494,534
Total Operating Expenses	502,715	532,806	1,457,380	1,437,070
Income (Loss) from Operations	69,286	99,193	1,541,069	(1,087,997)
Other Income (Expense):				
Interest expense, net	(50,043)	(57,553)	(153,196)	(152,305)
Change in fair value of contingent payment right	(3,760)	3,656	(1,919)	(1,347)
Losses on purchases or exchanges of debt	—	—	(26,900)	—
Other income	1,172	1,244	12,083	2,029
Total Other Expense	(52,631)	(52,653)	(169,932)	(151,623)
Net Income (Loss)	<u>\$ 16,655</u>	<u>\$ 46,540</u>	<u>\$ 1,371,137</u>	<u>\$ (1,239,620)</u>

- (a) Including related party amounts of \$12.7 million, \$19.2 million, \$33.3 million and \$75.4 million for the three and nine months ended September 30, 2023 and 2022, respectively.
- (b) Including related party amounts of \$173.6 million, \$171.4 million, \$496.7 million and \$483.4 million for the three and nine months ended September 30, 2023 and 2022, respectively.

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<i>(\$ in thousands)</i>				
Balance, Beginning of Period	\$ 4,010,527	\$ 1,011,545	\$ 2,676,778	\$ 2,296,808
Contributions from Member	999	8,914	2,689	13,965
Distribution to Member	(12,503)	—	(34,926)	(4,154)
Net income (loss)	16,655	46,540	1,371,137	(1,239,620)
Balance, End of Period	<u>\$ 4,015,678</u>	<u>\$ 1,066,999</u>	<u>\$ 4,015,678</u>	<u>\$ 1,066,999</u>

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
<i>(\$ in thousands)</i>	2023	2022
Cash Flows from Operating Activities:		
Net income (loss)	\$ 1,371,137	\$ (1,239,620)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	545,202	494,534
(Gain) loss on commodity derivatives	(1,339,884)	3,680,972
Settlements of commodity derivatives	164,380	(1,528,811)
Impairment of unproved natural gas and oil properties	4,791	44,118
Non-cash interest expense	15,854	11,541
Long-term incentive compensation	1,212	13,965
Change in fair value of contingent payment right	1,919	1,347
Losses on purchases or exchanges of debt	26,038	—
Other	228	78
Changes in operating assets and liabilities	93,265	(177,753)
Net Cash Provided by Operating Activities	884,142	1,300,371
Cash Flows from Investing Activities:		
Natural gas and oil capital expenditures	(789,795)	(735,687)
Cash paid for acquisition	—	(250,882)
Additions to other property and equipment	(2,151)	(1,537)
Net Cash Used in Investing Activities	(791,946)	(988,106)
Cash Flows from Financing Activities:		
Proceeds from Credit Facility borrowings	1,820,000	3,520,000
Repayment of Credit Facility borrowings	(1,445,000)	(3,210,000)
Proceeds from issuance of long-term debt	210,000	—
Repayment of long-term debt	(549,822)	—
Cash paid for debt issuance and amendment costs	(11,219)	(16,852)
Cash paid for debt prepayment costs	(27,491)	—
Cash paid for settlements of commodity derivatives	(53,530)	(297,911)
Cash paid to restructure commodity derivatives	—	(300,000)
Cash paid to Member for long-term incentive Cash Awards	(17,856)	—
Cash paid to Member for equity distribution	(12,503)	—
Other	(4,254)	(5,052)
Net Cash Used in Financing Activities	(91,675)	(309,815)
Net Increase in Cash and Cash Equivalents	521	2,450
Cash and Cash Equivalents, Beginning of Period	3,894	5,674
Cash and Cash Equivalents, End of Period	\$ 4,415	\$ 8,124
Supplemental disclosures of cash flow information:		
Interest paid, net of capitalized interest	\$ 146,067	\$ 129,514
Supplemental disclosures of significant non-cash investing and financing activities:		
Increase (decrease) in accrued capital expenditures	\$ (1,060)	\$ 1,493
Contributions from Member	\$ 2,689	\$ 13,965

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Ascent Resources Utica Holdings, LLC (“ARUH”), together with its wholly-owned subsidiaries (collectively, “we,” “our” or “us”), is engaged in the acquisition, exploration, development, production and operation of natural gas and oil properties located in the Utica Shale in Ohio (the “Utica Shale”). ARUH is a wholly-owned subsidiary of Ascent Resources Operating, LLC (our “Member”), which is an indirect, wholly-owned subsidiary of Ascent Resources, LLC (our “Parent”). Together, The Energy & Minerals Group (“EMG”) and First Reserve Corporation (“First Reserve”) own a majority interest in our Parent.

Our accompanying unaudited condensed consolidated financial statements and notes were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, and intercompany accounts and balances have been eliminated. Accordingly, certain information and disclosures normally included in complete consolidated financial statements prepared in accordance with GAAP have been omitted. The unaudited condensed consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2022.

The unaudited condensed consolidated financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods. All such adjustments are of a normal recurring nature. The results for any interim period are not necessarily indicative of the expected results for the entire year.

Reclassifications

Certain immaterial reclassifications have been made to our September 30, 2022 condensed consolidated financial statements to conform to the presentation used for the September 30, 2023 condensed consolidated financial statements.

Adopted and Recently Issued Accounting Pronouncements

No accounting standards were issued or adopted during the nine months ended September 30, 2023 that had a material impact on our condensed consolidated financial statements.

Subsequent Events

As of November 8, 2023, the date the condensed consolidated financial statements were issued, we completed our evaluation of material subsequent events for disclosure, and no items were noted.

2. Revenue from Contracts with Customers

Our revenues are derived from the sale of natural gas, oil and NGL and are recognized when production is sold to a customer at a fixed or determinable price, delivery has occurred, control has transferred and collection of the revenue is probable. We typically receive payment for natural gas, oil and NGL sales within 30 days of the month of delivery. Under our natural gas, oil and NGL sales contracts, we generally consider the delivery of each mmbtu or bbl to be a separate performance obligation that is satisfied upon delivery. A significant number of our sales contracts are short-term in nature, generally through evergreen contracts with terms of one year or less, and our sales contracts with a term greater than one year have no material long-term fixed consideration.

Under our natural gas sales contracts, we deliver natural gas to the customer at a delivery point specified under the sales contracts, utilizing third parties to gather, compress, process and transport our natural gas. Our sales contracts provide that we generally receive revenue for the sale of our natural gas based on a specific index price adjusted for pricing differentials. We transfer control of the natural gas at the delivery point and recognize revenue based on the contract price. The costs incurred to gather, compress, process and transport the natural gas prior to the point when control is transferred to the customer are recorded on the condensed consolidated statements of operations as gathering, processing and transportation expenses.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NGL, which are extracted from natural gas through processing, are either sold by us directly or to the processor under processing contracts. For NGL sold by us directly, the sales contracts provide that the product is delivered to the customer at an agreed upon delivery point and that we generally receive revenue for the sale of our NGL based on a specific index price adjusted for pricing differentials. We transfer control of the product to the customer at the delivery point and recognize revenue based on the contract price. The costs to process and transport NGL to the delivery points are recorded on the condensed consolidated statements of operations as gathering, processing and transportation expenses. For NGL sold to the processor, control is transferred by us to the processor at the tailgate of the processing plant, and revenue is recognized based on the price received from the processor.

Under our oil sales contracts, oil is sold to the customer from storage tanks near the wellhead, and we receive revenue for the sale of our oil based on a specific index price adjusted for pricing differentials. We transfer control of the product to the customer at the storage tanks and recognize revenue based on the contract price.

Our revenues from the sale of natural gas, oil and NGL are each presented separately on our condensed consolidated statements of operations. We believe that the disaggregation of revenue into these three major product types appropriately depicts the accounting guidance for revenue recognition.

Under our sales contracts, customers are invoiced after our performance obligations have been satisfied, generally when control of the product has been transferred to the customer, at which point payment is unconditional. Accordingly, we have no contract assets or contract liabilities associated with our revenues from contracts with customers. As of September 30, 2023 and December 31, 2022, receivables from contracts with customers were \$234.1 million and \$530.4 million, respectively, and were reported in accounts receivable – natural gas, oil and NGL sales on the condensed consolidated balance sheets.

3. Acquisition

On August 5, 2022, we acquired assets in Ohio for a total purchase price of \$270.0 million, or \$250.9 million after closing purchase price adjustments. The transaction was financed with a combination of cash on hand and borrowings under our Credit Facility. The assets acquired were primarily producing properties which included approximately 57 net producing wells and 22,300 net acres. The transaction was accounted for as an asset acquisition.

4. Property and Equipment

Net property and equipment included the following as of the dates indicated:

<i>(\$ in thousands)</i>	September 30, 2023	December 31, 2022
Proved natural gas and oil properties	\$ 10,747,097	\$ 9,884,342
Unproved natural gas and oil properties	589,341	674,191
Other property and equipment	41,139	39,641
Total Property and Equipment	11,377,577	10,598,174
Accumulated depreciation, depletion and amortization	(4,441,944)	(3,900,730)
Property and Equipment, net	<u>\$ 6,935,633</u>	<u>\$ 6,697,444</u>

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Debt

Our long-term debt consisted of the following as of the dates indicated:

<i>(\$ in thousands)</i>	September 30, 2023	December 31, 2022
Credit Facility ^(a)	\$ 745,000	\$ 370,000
Second lien term loans due November 2025 ^(b)	—	549,822
7.00% senior notes due November 2026	597,000	597,000
9.00% senior notes due November 2027	348,294	348,294
8.25% senior notes due December 2028	512,637	300,000
5.875% senior notes due June 2029	400,000	400,000
Unamortized debt discounts and issuance costs	(93,239)	(89,894)
Total Long-Term Debt, net	<u>\$ 2,509,692</u>	<u>\$ 2,475,222</u>

(a) The interest rate was 7.43% and 6.47% as of September 30, 2023 and December 31, 2022, respectively.

(b) We prepaid the outstanding principal amount in May 2023. See below for discussion regarding the transaction. The interest rate was 12.94% as of December 31, 2022.

Credit Facility

Our \$3.0 billion Credit Facility matures on June 30, 2027, and as of September 30, 2023, it had an elected commitment of \$2.0 billion, of which \$250.0 million is authorized for letters of credit. The maturity date will accelerate to August 2, 2026 if an amount greater than or equal to \$150.0 million of our 2026 Notes is outstanding as of that date. Our Credit Facility is secured by liens on substantially all of our assets, including our natural gas and oil properties. The borrowing base under our Credit Facility is subject to a semiannual redetermination on or about April 1 and October 1 of each year primarily based on the estimated value and future net cash flows of our proved natural gas, oil and NGL reserves and the value of our commodity hedge positions as determined by lenders under our Credit Facility at their discretion. Additionally, we may request an interim redetermination of the borrowing base in certain circumstances, including acquisitions of proved reserves in excess of certain thresholds. As of September 30, 2023, we had \$745.0 million of borrowings outstanding and \$168.4 million of letters of credit issued under our Credit Facility.

Under our Credit Facility, we may borrow either term benchmark loans or alternate base rate loans, and as of September 30, 2023, all of the borrowings under our Credit Facility were term benchmark loans. Term benchmark loans bear interest at a rate per annum equal to SOFR plus 0.10%, plus an applicable margin ranging from 1.75% to 2.75% per annum based on Credit Facility utilization. Principal amounts borrowed are payable on the maturity date and may be repaid prior to the maturity date without any premium or penalty. Interest is payable at the end of the applicable interest period. We were subject to an interest rate of 7.43% per annum as of September 30, 2023.

Under our Credit Facility, we are subject to commitment fees payable to the administrative agent for the unutilized portion of our available elected commitment, the rate of which ranges from 0.375% to 0.50% based on Credit Facility utilization. Additionally, we are subject to letter of credit participation fees payable to the administrative agent which escalate based on applicable margins, ranging from 1.75% to 2.75% per annum, in accordance with our Credit Facility utilization. We are also subject to a letter of credit fronting fee that is payable to the issuing bank at a rate of 0.125% per annum of the balance of outstanding letters of credit issued.

We had \$17.6 million and \$21.2 million in unamortized debt issuance and amendment costs associated with our Credit Facility as of September 30, 2023 and December 31, 2022, respectively, which are presented as part of other long-term assets on the condensed consolidated balance sheets.

Second Lien Term Loans

Our 2025 Second Lien Term Loans had a maturity date of November 1, 2025, and interest was payable quarterly at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor. In May 2023, we prepaid the outstanding aggregate principal amount of our 2025 Second Lien Term Loans at a price of 105.00% for \$577.3 million, plus accrued

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and unpaid interest (the “2025 Prepayment”) utilizing borrowings from our Credit Facility. Subsequently, we issued an additional \$212.6 million in aggregate principal amount of our existing 2028 Notes (the “2028 Add-On Notes”) to certain holders of our 2025 Second Lien Term Loans and used the \$210.0 million of proceeds to partially repay borrowings under our Credit Facility. This resulted in \$210.0 million of the 2025 Prepayment being accounted for as a debt modification with no gain or loss recognized. The remaining portion of the 2025 Prepayment was treated as an extinguishment of debt, resulting in a loss on purchase of debt of \$26.9 million which included a proportionate amount of the prepayment premium, unamortized discounts and debt issuance costs.

Senior Notes

2026 Notes. Our 2026 Notes mature on November 1, 2026, and interest is payable on May 1 and November 1 of each year. We may redeem at any point some or all of the 2026 Notes at redemption prices ranging from 101.167% to 100.00%, plus accrued and unpaid interest up to, but excluding, the redemption date. Upon the occurrence of a change of control (as defined in the indenture that governs the 2026 Notes), we are required to offer to repurchase all or any part of the 2026 Notes at a price of 101.00%, plus accrued and unpaid interest.

2027 Notes. Our 2027 Notes mature on November 1, 2027, and interest is payable on May 1 and November 1 of each year. Unless and until a Triggering Event (as defined below) has occurred and we have paid all consideration payable in respect thereof, we may redeem some or all of the 2027 Notes (i) at any time prior to November 1, 2026, subject to a make-whole premium (as defined in the indenture that governs the 2027 Notes) and (ii) on or after November 1, 2026, at a redemption price equal to 100.00% of the principal amount of 2027 Notes to be redeemed, in each case plus accrued and unpaid interest up to, but excluding, the redemption date and subject to the issuance of a CVR (defined below). If a Triggering Event has occurred and we have paid all consideration payable in respect thereof, we may redeem some or all of the 2027 Notes at redemption prices ranging from 104.50% to 100.00%, in each case plus accrued and unpaid interest up to, but excluding, the redemption date. Upon the occurrence of a change of control (as defined in the indenture that governs the 2027 Notes), we are required to offer to repurchase all or any part of the 2027 Notes at a price of 101.00%, plus accrued and unpaid interest.

The 2027 Notes also contain a contingent payment right which entitles the holders to receive a fixed amount of cash or equity equal to 45% of the then-outstanding aggregate principal amount of 2027 Notes, if certain additional consideration triggering events (each a “Triggering Event”) occur. Triggering Event is defined to include a qualified public offering, a qualified merger or consolidation that results in our Parent’s equity holders receiving an equity interest that is listed or quoted on any national securities exchange, or a change of control. The amount paid to holders of the 2027 Notes in connection with the contingent payment right is dependent upon the timing of the first occurrence of such a Triggering Event. The contingent payment right is required to be bifurcated and accounted for at fair value, and the estimated fair value was \$90.4 million and \$88.5 million as of September 30, 2023 and December 31, 2022, respectively, and is presented as part of other long-term liabilities on the condensed consolidated balance sheets. See Note 7, *Contingent Payment Right*, for further discussion of the contingent payment right valuation. In certain instances, the contingent payment right may be replaced by a contingent value right (“CVR”), which entitles the holder of the CVR to the same fixed amount of consideration upon a Triggering Event despite no longer holding the associated 2027 Notes. However, if any of the 2027 Notes are voluntarily sold to us prior to a Triggering Event through means of open market transactions or other negotiated transactions, the associated contingent payment right will expire.

2028 Notes. Our 2028 Notes mature on December 31, 2028, and interest is payable on February 1 and August 1 of each year. We may redeem some or all of the 2028 Notes at redemption prices ranging from 104.125% to 100.00% at any time on or after February 1, 2024, plus accrued and unpaid interest up to, but excluding, the redemption date. At any time prior to February 1, 2024, we may redeem some or all of the 2028 Notes at a price of 100.00% plus a make-whole premium (as defined in the indenture that governs the 2028 Notes), and we may redeem up to 40% of the aggregate principal amount of 2028 Notes at a price of 108.25% with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Upon the occurrence of a change of control (as defined in the indenture that governs the 2028 Notes), we are required to offer to repurchase all or any part of the 2028 Notes at a price of 101.00%, plus accrued and unpaid interest. In May 2023, we issued the 2028 Add-On Notes, discussed above. These notes have the same terms and form a single series with our existing 2028 Notes.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2029 Notes. Our 2029 Notes mature on June 30, 2029, and interest is payable on March 1 and September 1 of each year. We may redeem some or all of the 2029 Notes at redemption prices ranging from 102.938% to 100.00% at any time on or after September 1, 2024, plus accrued and unpaid interest up to, but excluding, the redemption date. At any time prior to September 1, 2024, we may redeem some or all of the 2029 Notes at a price of 100.00% plus a make-whole premium (as defined in the indenture that governs the 2029 Notes), and we may redeem up to 40% of the aggregate principal amount of 2029 Notes at a price of 105.875% with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Upon the occurrence of a change of control (as defined in the indenture that governs the 2029 Notes), we are required to offer to repurchase all or any part of the 2029 Notes at a price of 101.00%, plus accrued and unpaid interest.

The outstanding Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured debt, and the outstanding Senior Notes will rank senior in right of payment to all of our future subordinated debt. The outstanding Senior Notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such indebtedness. Our obligations under the outstanding Senior Notes are fully and unconditionally guaranteed, jointly and severally, by our current material subsidiaries and will be so guaranteed by any of our future material subsidiaries.

Debt Covenants

The agreements governing our debt contain restrictive covenants including, but not limited to, restrictions on our ability to incur additional indebtedness, create certain liens on assets, make certain investments or restricted payments, make loans to others, make certain payments, consolidate or merge, hedge hydrocarbons, enter into transactions with affiliates, dispose of assets or engage in certain other transactions without the prior consent of the lenders. Our Credit Facility also requires us to maintain the following two financial ratios: (i) a consolidated leverage ratio, which requires us to maintain a consolidated funded indebtedness to consolidated EBITDAX ratio for the aggregate of the last four consecutive quarters (as defined by the Credit Facility) of not more than 3.50 to 1.00 for each fiscal quarter and (ii) a modified current ratio (as defined by the Credit Facility), which requires us to maintain consolidated current assets to consolidated current liabilities of not less than 1.00 to 1.00 as of the end of each fiscal quarter. We were in compliance with all applicable debt covenants as of September 30, 2023.

6. Derivative Instruments

We use derivative instruments to mitigate our exposure to fluctuations in future commodity prices and floating interest rates in order to protect our anticipated operating cash flow against significant market movements or volatility. We do not use derivative instruments for speculative or trading purposes. We utilize the following types of derivative instruments:

- *Swaps.* We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.
- *Call Options.* We sell call options in exchange for a premium, which establish the maximum price we will receive for contracted commodity volumes. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the difference to the counterparty. From time to time, we may sell future call options to obtain more favorable strike prices on swap or collar contracts.
- *Collars.* These instruments contain a fixed floor price (“put”) and ceiling price (“call”). If the market price exceeds the call strike price, we pay the difference between the market price and the strike price of the sold call to the counterparty. If the market price falls below the put strike price, we receive the difference between the market price and the strike price of the purchased put from the counterparty. If the market price is between the put and the call strike prices, no payments are due to or from either party.
- *Three-Way Collars.* Three-way collars consist of a traditional collar and our sale of an additional put option in exchange for more favorable strike prices on purchased put or sold call options.
- *Basis Swaps.* Our natural gas production is sold at various delivery points that at times may have material spreads or volatility relative to NYMEX. Therefore, we periodically use basis swaps to fix the differential between

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

product prices at the following market locations relative to NYMEX: Chicago (Citygate), Dawn (Ontario), MichCon, Rex Zone 3, Eastern Gas South, TCO, Tetco M-2 and Trunkline Zone 1A. Under these instruments, we receive the fixed price differential and pay the floating market price differential to the counterparty for the contracted volumes.

- *Interest Rate Swaps.* Interest rate swaps are used to fix interest rates on existing or anticipated floating rate indebtedness. The purpose of these instruments is to manage our existing or anticipated exposure to unfavorable interest rate changes. We pay a fixed interest rate and receive a floating interest rate from the counterparty.

All derivative instruments are recognized at their current fair value as either assets or liabilities on the condensed consolidated balance sheets. Changes in the fair value are recorded in earnings as we have not elected hedge accounting for any of our derivative instruments.

The following table sets forth the average volumes per day associated with our outstanding natural gas derivative instruments as of September 30, 2023, the contracted weighted average natural gas prices, the contracted weighted average basis swap spreads and the estimated fair values:

		Weighted Average Prices (\$/mmbtu)				
	Average Volume	Swap	Sold Call	Purchased Put	Sold Put	Fair Value
	(mmbtu/d)	Strike Price	Strike Price	Strike Price	Strike Price	(\$ in thousands)
Natural gas:						
Swaps:						\$ 43,679
Remaining in 2023	1,282,000	\$ 3.19				
2024	1,040,000	\$ 3.44				
2025	620,000	\$ 3.91				
2026	430,000	\$ 4.09				
Collars:						101,221
Remaining in 2023	190,000		\$ 5.33	\$ 3.17		
2024	340,000		\$ 6.22	\$ 3.58		
2025	400,000		\$ 5.88	\$ 3.52		
2026	180,000		\$ 5.27	\$ 3.85		
Three-way collars:						12,571
2024	30,000		\$ 6.39	\$ 4.25	\$ 3.00	
2025	70,000		\$ 5.42	\$ 4.04	\$ 2.79	
2026	70,000		\$ 5.65	\$ 4.04	\$ 2.79	
Call options:						(124,830)
Remaining in 2023	370,000		\$ 2.89			
2024	375,000		\$ 2.84			
2025	40,000		\$ 4.08			
Basis swaps:						2,774
Remaining in 2023	1,039,000	\$ (0.46)				
2024	1,007,000	\$ (0.41)				
2025	444,000	\$ (0.33)				
2026	10,000	\$ (0.18)				
Total Estimated Fair Value						\$ 35,415

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table sets forth the average volumes per day associated with our outstanding oil derivative instruments as of September 30, 2023, the contracted weighted average oil prices and the estimated fair values:

		Weighted Average Prices (\$/bbl)		
		Average Volume (bbls/d)	Swap Strike Price	Fair Value (\$ in thousands)
Oil:				
Swaps:				\$ (28,122)
Remaining in 2023	6,000	\$	72.30	
2024	10,000	\$	75.39	
2025	2,000	\$	71.80	
Total Estimated Fair Value				\$ (28,122)

The following table sets forth the average volumes per day associated with our outstanding NGL derivative instruments as of September 30, 2023, the contracted weighted average NGL prices and the estimated fair values:

	Average Volume (bbls/d)	Weighted Average Prices (\$/bbl)		Fair Value (\$ in thousands)
		Swap		
		Strike Price		
NGL:				
Swaps - Propane:				\$ 3,826
Remaining in 2023	4,000	\$ 37.07		
2024	3,000	\$ 33.60		
Total Estimated Fair Value				\$ 3,826

The following table sets forth the notional amounts associated with our outstanding interest rate derivative instruments as of September 30, 2023, the contracted fixed rate to be paid, the contracted floating rate to be received and the estimated fair value:

<i>(\$ in thousands)</i>	<u>Notional Amount</u>	<u>Fixed Rate</u>	<u>Floating Rate</u>	<u>Fair Value</u>
Interest Rate:				
Swaps:				\$ 4,497
Remaining in 2023	\$ 300,000	3.1685 %	1-month SOFR	
2024	\$ 200,000	3.7695 %	1-month SOFR	
Total Estimated Fair Value				<u><u>\$ 4,497</u></u>

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables summarize the fair value of our derivative instruments on a gross basis, the effects of netting assets and liabilities for which the right of offset exists based on master netting agreements and the net amount presented on our condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022:

<i>(\$ in thousands)</i>		September 30, 2023		
		Fair Value, Gross	Amounts Netted on Balance Sheet	Fair Value, Net
Condensed Consolidated Balance Sheet Presentation				
Short-term derivative assets:				
Commodity derivatives		\$ 261,522	\$ (162,323)	\$ 99,199
Interest rate derivatives		11,842	(7,837)	4,005
Total short-term derivative assets		<u>\$ 273,364</u>	<u>\$ (170,160)</u>	<u>\$ 103,204</u>
Long-term derivative assets:				
Commodity derivatives		\$ 290,185	\$ (269,397)	\$ 20,788
Interest rate derivatives		2,297	(1,805)	492
Total long-term derivative assets		<u>\$ 292,482</u>	<u>\$ (271,202)</u>	<u>\$ 21,280</u>
Short-term derivative liabilities:				
Commodity derivatives		\$ 231,640	\$ (162,323)	\$ 69,317
Interest rate derivatives		7,837	(7,837)	—
Total short-term derivative liabilities		<u>\$ 239,477</u>	<u>\$ (170,160)</u>	<u>\$ 69,317</u>
Long-term derivative liabilities:				
Commodity derivatives		\$ 308,948	\$ (269,397)	\$ 39,551
Interest rate derivatives		1,805	(1,805)	—
Total long-term derivative liabilities		<u>\$ 310,753</u>	<u>\$ (271,202)</u>	<u>\$ 39,551</u>
<i>(\$ in thousands)</i>		December 31, 2022		
		Fair Value, Gross	Amounts Netted on Balance Sheet	Fair Value, Net
Condensed Consolidated Balance Sheet Presentation				
Short-term derivative assets:				
Commodity derivatives		\$ 112,161	\$ (102,959)	\$ 9,202
Interest rate derivatives		4,859	—	4,859
Total short-term derivative assets		<u>\$ 117,020</u>	<u>\$ (102,959)</u>	<u>\$ 14,061</u>
Long-term derivative assets:				
Commodity derivatives		\$ 234,322	\$ (228,241)	\$ 6,081
Total long-term derivative assets		<u>\$ 234,322</u>	<u>\$ (228,241)</u>	<u>\$ 6,081</u>
Short-term derivative liabilities:				
Commodity derivatives		\$ 787,163	\$ (102,959)	\$ 684,204
Total short-term derivative liabilities		<u>\$ 787,163</u>	<u>\$ (102,959)</u>	<u>\$ 684,204</u>
Long-term derivative liabilities:				
Commodity derivatives		\$ 723,705	\$ (228,241)	\$ 495,464
Total long-term derivative liabilities		<u>\$ 723,705</u>	<u>\$ (228,241)</u>	<u>\$ 495,464</u>

The following table summarizes the effects of derivative instruments on the condensed consolidated statements of operations for the periods indicated:

<i>(\$ in thousands)</i>		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
Condensed Consolidated Statements of Operations Presentation		2023	2022	2023	2022
Commodity derivatives	Commodity derivative gain (loss)	\$ 69,253	\$ (1,100,991)	\$ 1,339,884	\$ (3,680,972)
Interest rate derivatives	Interest expense, net	\$ 212	\$ 1,734	\$ 3,701	\$ 4,961

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Credit Risk

By using derivative instruments, we are also exposed to credit risk associated with our hedge counterparties. To minimize such risk, we enter into derivative contracts with multiple counterparties, reducing our exposure to any individual counterparty. In addition, we only enter into derivative contracts with counterparties that we determine are creditworthy, and such creditworthiness is subject to periodic review. Any non-performance risk is considered in the valuation of our derivative instruments, but to date it has not had a material impact on the values of our derivatives.

7. Fair Value Measurements

We use a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.

Level 3 – Unobservable inputs that reflect our own assumptions.

Fair Value on a Recurring Basis

The following tables summarize the valuation of financial instruments by pricing levels that were accounted for at fair value on a recurring basis as of September 30, 2023 and December 31, 2022. There were no transfers in or out of our Level 3 fair value measurements.

(\$ in thousands)	Fair value measurements at September 30, 2023:			
	Level 1	Level 2	Level 3	Total
Assets:				
Commodity derivatives	\$ —	\$ 119,987	\$ —	\$ 119,987
Interest rate derivatives	—	4,497	—	4,497
Total	<u>\$ —</u>	<u>\$ 124,484</u>	<u>\$ —</u>	<u>\$ 124,484</u>
Liabilities:				
Commodity derivatives	\$ —	\$ 108,868	\$ —	\$ 108,868
Contingent payment right	—	—	90,444	90,444
Total	<u>\$ —</u>	<u>\$ 108,868</u>	<u>\$ 90,444</u>	<u>\$ 199,312</u>

	Fair value measurements at December 31, 2022:				
<i>(\$ in thousands)</i>	Level 1	Level 2	Level 3	Total	
Assets:					
Commodity derivatives	\$ —	\$ 15,283	\$ —	\$ 15,283	
Interest rate derivatives	—	4,859	—	4,859	
Total	<u>\$ —</u>	<u>\$ 20,142</u>	<u>\$ —</u>	<u>\$ 20,142</u>	
Liabilities:					
Commodity derivatives	\$ —	\$ 1,179,668	\$ —	\$ 1,179,668	
Contingent payment right	—	—	88,525	88,525	
Total	<u>\$ —</u>	<u>\$ 1,179,668</u>	<u>\$ 88,525</u>	<u>\$ 1,268,193</u>	

Derivatives. We estimate the fair value of our commodity and interest rate derivatives using models that utilize market-based parameters and are therefore classified as Level 2 fair value measurements. The fair value of our commodity swaps, collars and options are based on standard industry income approach models that use significant observable inputs

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

including, but not limited to, forward curves, discount rates, nonperformance risk and volatilities. We estimate the fair value of our interest rate swaps using a discounted cash flow model utilizing the contracted notional amounts, active market-quoted SOFR yield curves and the applicable credit-adjusted risk-free rate yield curve. See Note 6 for further information regarding our derivative instruments.

Contingent Payment Right. The 2027 Notes contain a contingent payment right which entitles the holders to receive a fixed amount of cash or equity equal to 45% of the then-outstanding aggregate principal amount of 2027 Notes, if a Triggering Event occurs. See Note 5, *2027 Notes*, for further information regarding the contingent payment right. The contingent payment right is required to be bifurcated and accounted for as a liability at fair value. The fair value of the contingent payment right is based on unobservable inputs and is therefore classified as Level 3.

The fair value of the contingent payment right was determined using a “with” and “without” analysis, which compares the value of the 2027 Notes including the contingent payment right to the value of an otherwise identical bond that omits the contingent payment right feature by comparing the discounted cash flows. The significant unobservable inputs used to estimate the fair value of the contingent payment right include the probability of a Triggering Event occurring prior to maturity and the discount rate used in the discounted cash flow analysis. Changes in these inputs impact the fair value measurement of the contingent payment right. For example, an increase or decrease in the probability of a Triggering Event occurring would increase or decrease, respectively, the fair value of the contingent payment right. Additionally, an increase or decrease in the discount rate would decrease or increase, respectively, the fair value of the contingent payment right.

The following table presents quantitative information about Level 3 inputs used in the fair value measurement of the contingent payment right:

	September 30, 2023	December 31, 2022
Probability of a Triggering Event prior to maturity	70%	75%
Discount rate	9.1%	11.1%

The contingent payment right is presented as part of other long-term liabilities on the condensed consolidated balance sheets. Changes in its fair value are presented as a change in fair value of the contingent payment right on the condensed consolidated statements of operations. The following table presents a reconciliation of changes in the fair value of the contingent payment right:

	September 30, 2023	December 31, 2022
<i>(\$ in thousands)</i>		
Balance, beginning of period	\$ 88,525	\$ 85,223
Change in fair value	1,919	3,302
Balance, end of period	<u>\$ 90,444</u>	<u>\$ 88,525</u>

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Fair Value of Debt

The carrying amounts and estimated fair values of our debt instruments as of September 30, 2023 and December 31, 2022 are shown in the table below. The fair values were estimated using Level 2 market data inputs. See Note 5 for further information regarding our debt.

	September 30, 2023		December 31, 2022	
	Carrying Value ^(a)	Fair Value	Carrying Value ^(a)	Fair Value
<i>(\$ in thousands)</i>				
Credit Facility ^(b)	\$ 745,000	\$ 745,000	\$ 370,000	\$ 370,000
2025 Second Lien Term Loans ^(c)	—	—	534,945	586,248
2026 Notes	590,013	583,350	588,542	584,010
2027 Notes	298,130	440,867	291,569	424,296
2028 Notes	481,713	507,938	295,879	297,160
2029 Notes	394,836	359,339	394,287	357,958
Total	\$ 2,509,692	\$ 2,636,494	\$ 2,475,222	\$ 2,619,672

- (a) Carrying values for our 2025 Second Lien Term Loans and Senior Notes are presented net of unamortized debt issuance costs and debt discounts or premiums.
- (b) The carrying value of borrowings under our Credit Facility approximates fair value as the interest rate is based on prevailing market rates.
- (c) We prepaid the outstanding principal amount in May 2023. See Note 5 for information regarding the 2025 Prepayment.

8. Long-Term Incentive Compensation

In July 2020, our Parent established a long-term incentive plan (the “Plan”) in order to further our growth and success. Under the Plan, the board of managers of our Parent may grant restricted stock units (“RSUs”) and rights to receive cash award payments (“Cash Awards”) to certain of our employees and certain managers of the board of our Parent. The RSUs contain distribution equivalent rights, which entitle participants to cash distributions on unvested RSUs if and to the extent holders of common units receive cash distributions from our Parent. In September 2023, our Parent distributed its first distribution of \$12.5 million to its unitholders, a portion of which was distributed to holders of unvested RSUs. In conjunction with the distribution, our Parent also effected a reverse stock split of its outstanding units at a ratio of 1-for-100 (1:100) (the “Reverse Stock Split”).

Under the Plan, as adjusted for the Reverse Stock Split, 3.6 million common units of our Parent were reserved for issuance, and as of September 30, 2023, 769,110 remained available for future grants. Our long-term incentive compensation associated with the Plan was \$1.0 million, \$8.9 million, \$2.7 million and \$14.0 million for the three and nine months ended September 30, 2023 and 2022, respectively, and is presented as part of our general and administrative expenses on the condensed consolidated statements of operations. We account for forfeitures during the period in which they occur by reversing the expense previously recognized for such awards.

Time-Vested Awards

Time-Vested Restricted Stock Units. Time-Vested RSUs are accounted for as equity awards, and vesting is subject to a service condition which is generally satisfied over five years in one-year tranches. Long-term incentive compensation related to the Time-Vested RSUs is measured based on the fair value on the date of grant using appropriate valuation techniques and is recognized on a straight-line basis over the requisite service period. Time-Vested RSUs are subject to an accelerated vesting schedule upon certain events which are generally outside of the control of the participant.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A summary of Time-Vested RSU activity for the nine months ended September 30, 2023 is as follows:

<i>(in thousands, except weighted average fair value)</i>	Time-Vested RSUs^(a)	Weighted Average Grant Date Fair Value^(a)
Unvested as of December 31, 2022	985	\$ 10.91
Granted	35	\$ 22.00
Forfeited	(15)	\$ 13.71
Vested	(314)	\$ 10.55
Unvested as of September 30, 2023	691	\$ 11.59

(a) All unit and per unit information has been retroactively adjusted to reflect the Reverse Stock Split.

During the three and nine months ended September 30, 2023 and 2022, respectively, we recognized \$0.9 million, \$0.8 million, \$2.6 million and \$2.6 million of long-term incentive compensation associated with our Time-Vested RSUs. As of September 30, 2023, there was \$6.5 million of unrecognized compensation costs related to unvested Time-Vested RSUs. The unamortized compensation costs are expected to be recognized over a weighted average period of approximately 2.2 years.

Performance-Vested Awards

Performance-Vested Restricted Stock Units. Performance-Vested RSUs are accounted for as liability awards, and vesting is subject to a performance condition which is generally satisfied upon the occurrence of a qualifying liquidity event (“QLE”) as defined in the Plan. Upon each QLE, participants are generally entitled to cash payments from our Parent, or upon a QLE by which our Parent becomes a publicly held corporation, common stock in such public entity. We recognize long-term incentive compensation related to the Performance-Vested RSUs at fair value using appropriate valuation techniques on such date it becomes probable that a performance condition will be achieved and remeasure each period at fair value through the date of settlement. Performance-Vested RSUs are subject to an accelerated vesting schedule dependent upon certain events which are generally outside the control of the participant and are also subject to expiration. As of September 30, 2023 it has not become probable that a performance condition has, or will be achieved. The ultimate settlement of Performance-Vested RSUs will be partially or fully offset to the extent Cash Awards were previously paid by our Parent as part of the Plan (the “Cash Award Offset Payments”) and any corresponding Performance-Vested RSUs will be forfeited to the extent of any such previous Cash Award Offset Payments.

A summary of Performance-Vested RSU activity for the nine months ended September 30, 2023 is as follows:

<i>(in thousands, except weighted average fair value)</i>	Performance-Vested RSUs^(a)	Weighted Average Grant Date Fair Value^(a)
Unvested as of December 31, 2022	1,594	\$ 10.65
Granted	35	\$ 22.00
Forfeited	(27)	\$ 12.09
Vested	—	\$ —
Unvested as of September 30, 2023	1,602	\$ 10.88

(a) All unit and per unit information has been retroactively adjusted to reflect the Reverse Stock Split.

During the three and nine months ended September 30, 2023, we recognized \$0.1 million of compensation expense associated with the equity distribution made by our Parent to the holders of the Performance-Vested RSUs. No distributions were made during the same periods in 2022 and therefore no associated compensation expense was recorded.

Cash Awards. Under the Plan, Cash Awards are triggered and paid by our Parent upon achieving certain leverage ratios, as defined in the Plan, and are determined based on annual free cash flows, also defined in the Plan. If the leverage ratio for a calendar year is between 2.0 times to 1.75 times, or below 1.75 times, the result would be a cash payment from our Parent to participants based on 2.5% or 5.0%, respectively, of annual free cash flow. The Cash Awards will be funded by our Parent following distributions from us in future periods. Cash Awards are limited to a total of five annual payments, after which the opportunity for future Cash Awards is terminated. We account for Cash Awards in accordance

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

with ASC 710, *Compensation*, and long-term incentive compensation is accrued once determined probable and reasonably estimable. During the three and nine months ended September 30, 2022, we recognized \$8.1 million and \$11.4 million, respectively, of long-term incentive compensation associated with the Cash Awards. We have not recognized any long-term incentive compensation associated with the Cash Awards in 2023.

9. Related Party Transactions

Natural Gas Gathering, Firm Transportation, Processing and Commodity Sales Agreements

In the normal course of our business, we have entered into certain business relationships with entities in which EMG or First Reserve have control or significant influence through their equity investments. These relationships include agreements for the sale of our NGL production and the gathering, processing and transportation of our natural gas and NGL production. These amounts are disclosed as footnotes on the face of our condensed consolidated balance sheets and statements of operations.

For information regarding the credit support requirements due to certain related parties, see Note 11, *Pipeline Commitments*.

Long-Term Debt

Long-term debt held by certain related parties included the following as of the dates indicated:

<i>(\$ in thousands)</i>	September 30, 2023	December 31, 2022
2028 Notes ^(a)	\$ 9,143	\$ —
2027 Notes	258	258
2025 Second Lien Term Loans ^(a)	—	8,600
Total Related Party Long-Term Debt	<u>\$ 9,401</u>	<u>\$ 8,858</u>

- (a) As of September 30, 2023, \$9.1 million in aggregate principal amount of our 2028 Notes were held by certain related parties who had held \$8.6 million of aggregate principal amount of our 2025 Second Lien Term Loans prior to the 2025 Prepayment in May 2023. See Note 5 for information regarding the 2025 Prepayment and the 2028 Add-On Notes.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Leases

We enter into certain agreements for tangible assets, real estate and easements to support our operations. To the extent that we determine an arrangement represents a lease in accordance with ASC 842, *Leases*, we classify that lease as an operating or financing lease. The following table summarizes our ROU assets and lease liabilities on the condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022:

(\$ in thousands)		September 30, 2023	December 31, 2022
Condensed Consolidated Balance Sheet Presentation			
Operating leases:			
ROU assets, net	Other long-term assets	\$ 26,944	\$ 22,598
Short-term lease liabilities	Other current liabilities	\$ 14,690	\$ 14,230
Long-term lease liabilities	Other long-term liabilities	12,143	8,316
Total operating lease liabilities		\$ 26,833	\$ 22,546
Financing leases:			
ROU assets, net	Property and equipment, net	\$ 3,738	\$ 1,958
Short-term lease liabilities	Other current liabilities	\$ 1,492	\$ 720
Long-term lease liabilities	Other long-term liabilities	1,540	725
Total financing lease liabilities		\$ 3,032	\$ 1,445

The following table summarizes our total lease costs before amounts are recovered from our joint interest partners, where applicable, for the periods presented:

(\$ in thousands)		Three Months Ended September 30,		Nine Months Ended September 30,	
Condensed Consolidated Financial Statement Presentation		2023	2022	2023	2022
Operating lease cost:					
Operating lease cost	General and administrative expense	\$ 476	\$ 448	\$ 1,391	\$ 1,344
Operating lease cost	Gathering, processing and transportation ^(a)	5,294	3,100	14,417	8,431
Operating lease cost	Lease operating expense	24	24	72	72
Operating lease cost	Natural gas and oil properties ^(b)	10,989	7,891	33,629	23,079
Total operating lease cost		\$ 16,783	\$ 11,463	\$ 49,509	\$ 32,926
Financing lease cost:					
Amortization of ROU assets	DD&A	\$ 369	\$ 292	\$ 971	\$ 831
Interest on lease liabilities	Interest expense	30	12	68	28
Total financing lease cost		\$ 399	\$ 304	\$ 1,039	\$ 859

- (a) Includes short-term lease costs of \$1.5 million, \$1.1 million, \$3.9 million and \$3.2 million for the three and nine months ended September 30, 2023 and 2022, respectively.
- (b) Includes short-term and variable lease costs of \$11.0 million, \$1.9 million, \$29.3 million and \$5.8 million for the three and nine months ended September 30, 2023 and 2022, respectively.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Additional information for our operating and financing leases is summarized below:

<i>(\$ in thousands)</i>	Nine Months Ended September 30,			
	2023		2022	
	Operating	Financing	Operating	Financing
Cash outflows for lease liabilities:				
Operating cash flows	\$ 11,431	\$ 67	\$ 6,635	\$ 27
Investing cash flows	\$ 4,468	\$ —	\$ 17,131	\$ —
Financing cash flows	\$ —	\$ 1,164	\$ —	\$ 924
Non-cash activities:				
ROU assets obtained in exchange for lease liabilities	\$ 19,052	\$ 2,756	\$ 14,837	\$ 1,327

	September 30, 2023		December 31, 2022	
	Operating	Financing	Operating	Financing
Weighted average remaining lease term (in years)	1.9	2.4	1.7	2.2
Weighted average discount rate	5.6 %	6.3 %	3.6 %	3.9 %

The following table presents our maturity analysis as of September 30, 2023 for future lease expirations. We do not have any lease maturities after 2026.

<i>(\$ in thousands)</i>	September 30, 2023	
	Operating	Financing
Remaining in 2023	\$ 4,357	\$ 699
2024	14,860	1,211
2025	8,116	957
2026	1,218	399
Total lease payments	28,551	3,266
Less: imputed interest	(1,718)	(234)
Present value of lease liabilities	<u>\$ 26,833</u>	<u>\$ 3,032</u>

11. Commitments and Contingencies

Litigation Matters

We are periodically involved in litigation and regulatory proceedings, investigations and disputes, including matters relating to commercial transactions, operations, landowner disputes, royalty claims, property damage claims, contract actions and environmental, health and safety matters. We may also periodically be involved in disputes with our midstream counterparties, some of which are related parties as discussed in Note 9, including disputes arising due to the overlapping nature of dedication provisions, ownership and contractual interests in the Utica Shale. A liability is recognized for any contingency that is probable and reasonably estimable. We continually assess the likelihood of adverse judgments or outcomes in these matters, as well as potential ranges of possible losses, based on a careful analysis of each matter and, if necessary, with the assistance of outside legal counsel and other experts. We will continue to monitor the impact that litigation could have on us and will assess the impact of future events. Legal defense costs are accounted for in the period the costs are incurred.

We are defending against certain pending claims, have resolved a number of claims through negotiated settlements and have prevailed in various other lawsuits. Based on management's current assessment, we believe no pending or threatened lawsuit or dispute relating to our business operations is likely to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For all such claims, disputes and threatened or pending litigation, we have accrued \$2.2 million and \$2.3 million, respectively, as of September 30, 2023 and December 31, 2022, which is presented as part of other current liabilities on the condensed consolidated balance sheets. The final resolution of such matters could differ materially from management's estimates.

Environmental Matters

We are subject to existing federal, state and local laws and regulations governing environmental matters, such as the Comprehensive Environmental Response, Compensation and Liability Act and similar statutes. From time to time, we are party to various environmental and regulatory proceedings in the ordinary course of business. Management does not believe the results of these environmental proceedings, individually or in the aggregate, will have a material adverse effect on us.

Pipeline Commitments

We have entered into certain pipeline capacity commitments with various counterparties in order to facilitate the delivery of our production to market and reduce the likelihood of possible production curtailments that may arise due to limited capacity. Through these contracts, we are committed to transport minimum daily natural gas volumes at negotiated rates or pay for any deficiencies. The table below presents our undiscounted pipeline commitments that have initial or remaining non-cancelable terms in excess of one year as of September 30, 2023 and represents the gross amounts we are committed to pay; however, working interest owners and royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs.

<i>(\$ in thousands)</i>	Pipeline Commitments
Remaining in 2023	\$ 176,659
2024	684,856
2025	675,594
2026	671,768
2027	656,553
2028 and Thereafter	4,440,806
Total	<u>\$ 7,306,236</u>

To satisfy credit support requirements for these commitments, \$168.4 million in letters of credit and \$260.4 million in surety bonds were issued by us or on our behalf to certain transportation providers as of September 30, 2023. Our credit support includes support provided to certain related parties, which, as of September 30, 2023, included \$120.5 million in letters of credit and \$196.8 million in surety bonds. For information regarding certain other transactions with related parties, see Note 9.

12. Other Current Liabilities

Our other current liabilities consisted of the following as of the dates indicated:

<i>(\$ in thousands)</i>	September 30, 2023	December 31, 2022
Revenues and royalties due others	\$ 181,542	\$ 272,000
Gathering, processing and transportation expense accrual	146,152	135,421
Drilling and completion cost accrual	92,081	102,871
Taxes other than income accrual	28,492	31,556
Operating and financing leases	16,182	14,950
Lease operating expense accrual	8,535	11,826
Derivative liability	1,310	170,178
Other	42,921	32,260
Total Other Current Liabilities	<u>\$ 517,215</u>	<u>\$ 771,062</u>

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

Our Management's Discussion and Analysis of our Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited consolidated financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2022, in addition to the unaudited condensed consolidated financial statements and related notes included within this quarterly report. The following discussion and analysis contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance, all of which involve known and unknown risks, uncertainties and assumptions. These risks and uncertainties include, but are not limited to, volatility in commodity markets, uncertainties in estimating proved reserves and forecasting production results, the costs and results of our development program, the condition of capital markets and our ability to access them, rising inflation and interest rates and governmental policies aimed at transitioning towards lower carbon energy, and other factors that are outside of our control. While we cannot be certain as to the full magnitude these and other factors may have on our future financial condition, liquidity, results of operations or cash flows, we actively monitor them as they may cause actual results to differ from our historical results or current expectations. Considering these risks, uncertainties and assumptions, the forward-looking events discussed herein may not occur. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Unless otherwise indicated or the context otherwise requires, references to "we," "our" and "us" refer to Ascent Resources Utica Holdings, LLC together with its wholly-owned subsidiaries.

Business Overview

We are one of the largest private producers of natural gas in the United States and are focused on acquiring, developing and operating natural gas and oil properties located in the Utica Shale. We are a wholly-owned subsidiary of Ascent Resources Operating, LLC (our "Member") and an indirect wholly-owned subsidiary of Ascent Resources, LLC (our "Parent"). We were formed in 2013 by our private equity sponsors, primarily The Energy & Minerals Group and First Reserve Corporation, to utilize our technical expertise to acquire and exploit assets in the Utica Shale. Our asset base is concentrated in southern Ohio, where we target primarily the Point Pleasant interval of the Utica Shale, one of the premier North American shale plays. Our largely contiguous development footprint of approximately 360,000 net leasehold acres, including approximately 75,500 mineral acres, lies within the core of the southern Utica Shale and, as supported by our drilling results and those of offset operators, offers development opportunities with predictable and repeatable production profiles, low breakeven costs and industry-leading rates of return. We also own royalty interests in approximately 4,500 mineral acres that are being developed by third-party operators and provide enhanced value without additional capital costs or operating expenses.

We are focused on generating stakeholder value through the responsible development of our assets, while upholding our position as a prominent producer of affordable, reliable, cleaner-burning energy in the United States. We achieve this by continuously enhancing our drilling and completion techniques, minimizing our operating costs and maximizing recovery from our assets, with the goal of generating strong corporate-level returns and sustainable free cash flow in a capital efficient, financially disciplined, and environmentally conscious manner.

Recent Developments

Equity Distribution Program

In September 2023, we funded a \$12.5 million distribution that was declared and paid by our Parent to its unitholders. Additionally, in conjunction with the distribution, our Parent effected a reverse stock split of its outstanding units at a ratio of 1-for-100 (1:100).

Prepayment of Second Lien Term Loans

In May 2023, we prepaid the outstanding aggregate principal amount of our 2025 Second Lien Term Loans at a price of 105.00% for \$577.3 million, plus accrued and unpaid interest (the "2025 Prepayment") utilizing borrowings from our Credit Facility. Subsequently, we issued an additional \$212.6 million in aggregate principal amount of our existing 2028 Notes (the "2028 Add-On Notes") to certain holders of our 2025 Second Lien Term Loans and used the \$210.0 million of proceeds to partially repay borrowings under our Credit Facility. These transactions reduce our associated

interest expense, simplify our capital structure and extend our debt maturity profile, all of which help reinforce our balance sheet, enhance our future cash flows and improve our long-term financial profile. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of our debt transactions.

Commodity Prices

Prices for natural gas, oil and NGL that we produce significantly impact our revenue and cash flows. In the current economic environment, we expect that commodity prices for some or all the commodities we produce will remain volatile due to rising macroeconomic uncertainties and geopolitical tensions, including Russia's invasion of Ukraine as well as hostilities in the Middle East. These factors and the resulting volatility are outside of our control and could adversely impact our business, financial condition, results of operations and future cash flows. We actively monitor commodity markets and use derivative instruments to reduce our exposure to fluctuations in future commodity prices and protect our anticipated operating cash flows against significant market movements or volatility. See Note 6 of the notes to our condensed consolidated financial statements included in this report for further information regarding our derivative instruments.

Inflation

The annual rate of inflation in the United States was particularly high during 2022 but has decreased throughout 2023. While the lower rate of inflation has eased pressure on a portion of our capital and operating expenses that are not fixed, our costs are largely anticipated to remain elevated throughout the remainder of the year. Additionally, continued governmental policies aimed at addressing inflation have resulted in rising interest rates which have increased the borrowing costs on our Credit Facility and could increase borrowing costs on potential new debt. We continue to monitor these inflationary factors and remain focused in our efforts to increase the efficiencies of our operations, which may, in part, offset certain costs that continue to rise from inflation.

Operational Update

During the three months ended September 30, 2023, we spud 19 new wells, successfully fractured 24 wells, and turned 20 wells in line. In support of this activity, we incurred \$250.6 million of total capital expenditures for the quarter, including \$8.4 million of capitalized interest. Over the nine months ended September 30, 2023, we spud 59 new wells, successfully fractured 65 wells, and turned 52 wells in line. For the year, we have incurred \$784.4 million of total capital expenditures, including \$28.0 million of capitalized interest. This development activity is in line with our strategy of maintaining current levels of production, which allows us to remain focused on preserving financial flexibility.

Results of Operations

Comparison of Three Months Ended September 30, 2023 and 2022

Revenues. The following table sets forth certain information for the periods indicated regarding our revenues, average sales prices received and net production volumes:

	Three Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
Revenues (\$ in thousands):				
Natural gas	\$ 388,727	\$ 1,625,516	\$ (1,236,789)	(76)%
Oil	61,336	52,715	8,621	16 %
NGL	52,685	54,759	(2,074)	(4)%
Total Revenues, before effects of commodity derivatives	<u>\$ 502,748</u>	<u>\$ 1,732,990</u>	<u>\$ (1,230,242)</u>	<u>(71)%</u>
Average Sales Prices:				
Natural gas (\$/mcf)	\$ 2.14	\$ 8.02	\$ (5.88)	(73)%
Oil (\$/bbl)	\$ 73.23	\$ 86.00	\$ (12.77)	(15)%
NGL (\$/bbl)	\$ 25.78	\$ 37.61	\$ (11.83)	(31)%
Natural Gas Equivalent (\$/mcf)	\$ 2.52	\$ 8.05	\$ (5.53)	(69)%
Settlements of commodity derivatives (\$/mcf)	0.52	(3.98)	4.50	113 %
Average sales price, after effects of settled derivatives (\$/mcf)	<u>\$ 3.04</u>	<u>\$ 4.07</u>	<u>\$ (1.03)</u>	<u>(25)%</u>
Net Production Volumes:				
Natural gas (mmcf)	181,873	202,795	(20,922)	(10)%
Oil (mbbls)	838	613	225	37 %
NGL (mbbls)	2,044	1,456	588	40 %
Natural Gas Equivalent (mmcf)	199,163	215,208	(16,045)	(7)%
Average Daily Net Production Volumes:				
Natural gas (mmcf/d)	1,977	2,204	(227)	(10)%
Oil (mbbls/d)	9	7	2	29 %
NGL (mbbls/d)	22	16	6	38 %
Natural Gas Equivalent (mmcf/d)	2,165	2,339	(174)	(7)%

Natural gas, oil and NGL revenues (excluding the effects of derivatives) decreased \$1.23 billion during the three months ended September 30, 2023 compared to the same period in 2022, of which \$1.22 billion was attributable to a 69% decrease in our average sales prices and \$12.8 million was attributable to a 7% decrease in our net production volumes.

Commodity prices fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond our control. A change in commodity prices has a direct impact on our sales and cash flows. The following table illustrates the effects of an increase or decrease in commodity prices on our sales and cash flows, before the effects of derivatives, assuming our production levels for the three months ended September 30, 2023 remained constant:

<i>(\$ in thousands)</i>	Volumes	Price Fluctuation per Unit	Effect on Sales and Cash Flows
Commodity:			
Natural Gas (mmcf)	181,873	\$ 0.10	\$ 18,187
Oil (mbbls)	838	\$ 1.00	\$ 838
NGL (mbbls)	2,044	\$ 1.00	\$ 2,044

Impact of Commodity Derivative Instruments. We use commodity derivative instruments to mitigate our exposure to fluctuations in future commodity prices in order to protect our anticipated cash flows against significant market movements or volatility. For the three months ended September 30, 2023 and 2022, we recorded gains related to our commodity derivatives of \$69.3 million and losses of \$1.10 billion, respectively, including settlement gains of \$104.3 million and losses of \$856.0 million on our derivative instruments for the same periods. The following table sets forth the settlements of our derivative instruments by commodity for the periods indicated:

	Three Months Ended September 30,	
	2023	2022
<i>(\$ in thousands)</i>		
Net Settlements of Commodity Derivatives:		
Natural Gas	\$ 106,537	\$ (834,864)
Oil	(5,457)	(15,706)
NGL	3,189	(5,434)
Total Net Settlements of Commodity Derivatives	\$ 104,269	\$ (856,004)

We paid \$300.0 million in April 2022 to restructure a portion of our May through December 2022 natural gas swaps, resulting in an increase to our weighted average strike prices for these periods.

Changes in the fair value of commodity derivatives vary based on future commodity prices and have no impact on our cash flows until derivative contracts are either settled or monetized prior to settlement. As commodity prices increase or decrease, such changes will have an opposite effect on the fair value and ultimate settlement of our derivatives. See Quantitative and Qualitative Disclosures About Market Risk, *Commodity Demand and Price Risk*, and Note 6 of the notes to our condensed consolidated financial statements included in this report for further information regarding our derivative instruments.

Operating Expenses. The following table sets forth our operating expenses and costs per mcfe:

	Three Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
Operating Expenses (\$ in thousands):				
Lease operating expenses	\$ 31,252	\$ 26,826	\$ 4,426	16 %
Gathering, processing and transportation expenses	\$ 253,479	\$ 258,868	\$ (5,389)	(2)%
Taxes other than income	\$ 11,784	\$ 12,728	\$ (944)	(7)%
Exploration expenses	\$ 1,862	\$ 15,365	\$ (13,503)	(88)%
General and administrative expenses	\$ 17,852	\$ 26,535	\$ (8,683)	(33)%
Depreciation, depletion and amortization	\$ 186,486	\$ 192,484	\$ (5,998)	(3)%
Operating Expenses (\$/mcfe):				
Lease operating expenses	\$ 0.16	\$ 0.12	\$ 0.04	33 %
Gathering, processing and transportation expenses	\$ 1.27	\$ 1.20	\$ 0.07	6 %
Taxes other than income	\$ 0.06	\$ 0.06	\$ —	— %
Exploration expenses	\$ 0.01	\$ 0.07	\$ (0.06)	(86)%
General and administrative expenses	\$ 0.09	\$ 0.12	\$ (0.03)	(25)%
Depreciation, depletion and amortization	\$ 0.94	\$ 0.89	\$ 0.05	6 %

- Lease operating expenses increased during the three months ended September 30, 2023 compared to the same period in 2022 as a result of an increased number of producing wells from our drilling program and inflationary pressure on labor and materials.
- The decrease in gathering, processing and transportation expenses for the three months ended September 30, 2023 compared to the same period in 2022 was primarily due to decreased natural gas production. The decrease in our natural gas production for the three months ended September 30, 2023 compared to the same period in 2022 also impacted the increase in our per mcfe costs.

- Taxes other than income primarily consists of production taxes and ad valorem taxes. The decrease for the three months ended September 30, 2023 was primarily due to decreased production.
- Exploration expenses were primarily driven by impairments of \$1.0 million and \$14.6 million for the three months ended September 30, 2023 and 2022, respectively, for unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments and abandonments may be recorded in future periods.
- The decrease in general and administrative expenses was primarily due to the three months ended September 30, 2022 including \$8.1 million of expense relating to the Cash Awards. See Note 8 of the notes to our condensed consolidated financial statements included in this report for information regarding our Cash Awards. Excluding the impact of this item, our general and administrative expenses were \$18.4 million for the three months ended September 30, 2022.
- DD&A decreased due to a decrease in our total production during the three months ended September 30, 2023 compared to the same period in 2022. Our per mcf rate increased \$0.05 during the three months ended September 30, 2023 compared to the same period in 2022. The increase in our per mcf rate was primarily the result of increased development costs due to inflationary pressure on labor and materials.

Interest Expense. Interest expense was \$50.0 million and \$57.6 million for the three months ended September 30, 2023 and 2022, respectively, detailed as follows along with our weighted average debt outstanding:

	Three Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
(\$ in thousands)				
Credit Facility	\$ 17,664	\$ 17,062	\$ 602	4 %
2025 Second Lien Term Loans ^(a)	—	15,856	(15,856)	(100)%
Senior Notes	34,740	30,419	4,321	14 %
Gain on interest rate derivatives	(212)	(1,734)	1,522	(88)%
Amortization of debt discounts, premium and issuance costs	5,240	4,966	274	6 %
Other	988	1,205	(217)	(18)%
Interest Expense, before capitalized interest	58,420	67,774	(9,354)	(14)%
Capitalized interest	(8,377)	(10,221)	1,844	(18)%
Total Interest Expense, net	\$ 50,043	\$ 57,553	\$ (7,510)	(13)%
Weighted Average Debt Outstanding:				
Credit Facility	\$ 822,880	\$ 1,202,880	\$ (380,000)	(32)%
2025 Second Lien Term Loans ^(a)	—	549,822	(549,822)	(100)%
Senior Notes	1,857,931	1,648,294	209,637	13 %
Weighted Average Debt Outstanding	\$ 2,680,811	\$ 3,400,996	\$ (720,185)	(21)%

- (a) We prepaid the outstanding principal amount in May 2023. See Note 5 of the notes to our condensed consolidated financial statements included in this report for information regarding the 2025 Prepayment.

The decrease in interest expense before capitalized interest for the three months ended September 30, 2023 compared to the same period in 2022 was primarily due to the 2025 Prepayment and an overall reduction in our weighted average debt outstanding, partially offset by increased interest expense on our Senior Notes as a result of the issuance of the 2028 Add-On Notes. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of the 2025 Prepayment and our 2028 Add-On Notes.

Results of Operations

Comparison of Nine Months Ended September 30, 2023 and 2022

Revenues. The following table sets forth certain information for the periods indicated regarding our revenues, average sales prices received and net production volumes:

	Nine Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
Revenues (\$ in thousands):				
Natural gas	\$ 1,334,008	\$ 3,653,047	\$ (2,319,039)	(63)%
Oil	188,495	184,684	3,811	2 %
NGL	136,062	192,314	(56,252)	(29)%
Total Revenues, before effects of commodity derivatives	<u>\$ 1,658,565</u>	<u>\$ 4,030,045</u>	<u>\$ (2,371,480)</u>	<u>(59)%</u>
Average Sales Prices:				
Natural gas (\$/mcf)	\$ 2.47	\$ 6.85	\$ (4.38)	(64)%
Oil (\$/bbl)	\$ 68.69	\$ 92.58	\$ (23.89)	(26)%
NGL (\$/bbl)	\$ 26.16	\$ 45.20	\$ (19.04)	(42)%
Natural Gas Equivalent (\$/mcf)	\$ 2.83	\$ 7.06	\$ (4.23)	(60)%
Settlements of commodity derivatives (\$/mcf) ^(a)	0.28	(3.20)	3.48	109 %
Average sales price, after effects of settled derivatives (\$/mcf)	<u>\$ 3.11</u>	<u>\$ 3.86</u>	<u>\$ (0.75)</u>	<u>(19)%</u>
Net Production Volumes:				
Natural gas (mmcf)	539,011	533,048	5,963	1 %
Oil (mbbls)	2,744	1,995	749	38 %
NGL (mbbls)	5,202	4,255	947	22 %
Natural Gas Equivalent (mmcf)	586,687	570,547	16,140	3 %
Average Daily Net Production Volumes:				
Natural gas (mmcf/d)	1,974	1,953	21	1 %
Oil (mbbls/d)	10	7	3	43 %
NGL (mbbls/d)	19	16	3	19 %
Natural Gas Equivalent (mmcf/d)	2,149	2,090	59	3 %

- (a) Excludes a one-time payment of \$300.0 million in April 2022 to restructure a portion of our May through December 2022 natural gas swaps, resulting in an increase to our weighted average strike prices for these periods.

Natural gas, oil and NGL revenues (excluding the effects of derivatives) decreased \$2.37 billion during the nine months ended September 30, 2023 compared to the same period in 2022, of which \$2.46 billion was attributable to a 60% decrease in our average sales prices that was partially offset by \$91.9 million attributable to a 3% increase in our net production volumes.

Commodity prices fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond our control. A change in commodity prices has a direct impact on our sales and cash flows. The following table illustrates the effects of an increase or decrease in commodity prices on our sales and cash flows, before the effects

of derivatives, assuming our production levels for the nine months ended September 30, 2023 remained constant:

<i>(\$ in thousands)</i>	Volumes	Price Fluctuation per Unit	Effect on Sales and Cash Flows
Commodity:			
Natural Gas (mmcf)	539,011	\$ 0.10	\$ 53,901
Oil (mbbls)	2,744	\$ 1.00	\$ 2,744
NGL (mbbls)	5,202	\$ 1.00	\$ 5,202

Impact of Commodity Derivative Instruments. We use commodity derivative instruments to mitigate our exposure to fluctuations in future commodity prices in order to protect our anticipated cash flows against significant market movements or volatility. For the nine months ended September 30, 2023 and 2022, we recorded gains related to our commodity derivatives of \$1.34 billion and losses of \$3.68 billion, respectively, including settlement gains on our derivative instruments of \$164.4 million and losses of \$1.83 billion for the same periods. The following table sets forth the settlements of our derivative instruments by commodity for the periods indicated:

(\$ in thousands)	Nine Months Ended September 30,	
	2023	2022
Net Settlements of Commodity Derivatives:		
Natural Gas	\$ 165,304	\$ (1,749,334)
Oil	(8,308)	(55,474)
NGL	7,384	(21,914)
Total Net Settlements of Commodity Derivatives	<u>\$ 164,380</u>	<u>\$ (1,826,722)</u>

In addition, we paid \$300.0 million in April 2022 to restructure a portion of our May through December 2022 natural gas swaps, resulting in an increase to our weighted average strike prices for these periods.

Changes in the fair value of commodity derivatives vary based on future commodity prices and have no impact on our cash flows until derivative contracts are either settled or monetized prior to settlement. As commodity prices increase or decrease, such changes will have an opposite effect on the fair value and ultimate settlement of our derivatives. See Quantitative and Qualitative Disclosures About Market Risk, *Commodity Demand and Price Risk*, and Note 6 of the notes to our condensed consolidated financial statements included in this report for further information regarding our derivative instruments.

Operating Expenses. The following table sets forth our operating expenses and costs per mcfe:

	Nine Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
Operating Expenses (\$ in thousands):				
Lease operating expenses	\$ 95,219	\$ 74,019	\$ 21,200	29 %
Gathering, processing and transportation expenses	\$ 721,563	\$ 734,943	\$ (13,380)	(2)%
Taxes other than income	\$ 35,918	\$ 34,150	\$ 1,768	5 %
Exploration expenses	\$ 6,654	\$ 45,789	\$ (39,135)	(85)%
General and administrative expenses	\$ 52,824	\$ 53,635	\$ (811)	(2)%
Depreciation, depletion and amortization	\$ 545,202	\$ 494,534	\$ 50,668	10 %
Operating Expenses (\$/mcfe):				
Lease operating expenses	\$ 0.16	\$ 0.13	\$ 0.03	23 %
Gathering, processing and transportation expenses	\$ 1.23	\$ 1.29	\$ (0.06)	(5)%
Taxes other than income	\$ 0.06	\$ 0.06	\$ —	— %
Exploration expenses	\$ 0.01	\$ 0.08	\$ (0.07)	(88)%
General and administrative expenses	\$ 0.09	\$ 0.09	\$ —	— %
Depreciation, depletion and amortization	\$ 0.93	\$ 0.87	\$ 0.06	7 %

- Lease operating expenses increased during the nine months ended September 30, 2023 compared to the same period in 2022 as a result of an increased number of producing wells from our drilling program and inflationary pressure on labor and materials.
- The decrease in gathering, processing and transportation expenses for the nine months ended September 30, 2023 compared to the same period in 2022 was primarily due to a refund for a favorable rate adjustment associated with one of our firm transportation contracts. This factor also impacted our per mcfe metric, resulting in the net decrease for the nine months ended September 30, 2023 when compared to the same period in 2022.
- Taxes other than income primarily consists of production taxes and ad valorem taxes. The increase for the nine months ended September 30, 2023 was primarily due to increased ad valorem tax rates.
- Exploration expenses were primarily driven by impairments of \$4.8 million and \$44.1 million for the nine months ended September 30, 2023 and 2022, respectively, for unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments and abandonments may be recorded in future periods.
- General and administrative expenses were relatively flat for the nine months ended September 30, 2023 compared to the same period in 2022. The nine months ended September 30, 2022 included an \$11.4 million accrual for the Cash Awards which was partially offset by a \$7.6 million non-recurring legal benefit. Excluding the impact of these items our general and administrative expenses were \$49.8 million for the nine months ended September 30, 2022. The remaining \$3.0 million increase was due to an increase in other general corporate expenses for the nine months ended September 30, 2023. See Note 8 of the notes to our condensed consolidated financial statements included in this report for additional information regarding the Cash Awards.
- DD&A increased due to an increase in our total production as well as an \$0.06 increase in our per mcfe rate during the nine months ended September 30, 2023 compared to the same period in 2022. The increase in our per mcfe rate was primarily the result of increased development costs due to inflationary pressure on labor and materials.

Interest Expense. Interest expense was \$153.2 million and \$152.3 million for the nine months ended September 30, 2023 and 2022, respectively, detailed as follows along with our weighted average debt outstanding:

(\$ in thousands)	Nine Months Ended September 30,		Variance	
	2023	2022	Amount	Percent
Credit Facility	\$ 42,657	\$ 34,790	\$ 7,867	23 %
2025 Second Lien Term Loans ^(a)	25,744	43,573	(17,829)	(41)%
Senior Notes	98,002	91,266	6,736	7 %
Gain on interest rate derivatives	(3,701)	(4,961)	1,260	(25)%
Amortization of debt discounts, premium and issuance costs	15,493	16,643	(1,150)	(7)%
Other	2,986	3,513	(527)	(15)%
Interest Expense, before capitalized interest	181,181	184,824	(3,643)	(2)%
Capitalized interest	(27,985)	(32,519)	4,534	(14)%
Total Interest Expense, net	\$ 153,196	\$ 152,305	\$ 891	1 %
Weighted Average Debt Outstanding:				
Credit Facility	\$ 658,938	\$ 998,608	\$ (339,670)	(34)%
2025 Second Lien Term Loans ^(a)	245,708	549,822	(304,114)	(55)%
Senior Notes	1,758,233	1,648,294	109,939	7 %
Weighted Average Debt Outstanding	\$ 2,662,879	\$ 3,196,724	\$ (533,845)	(17)%

- (a) We prepaid the outstanding principal amount in May 2023. See Note 5 of the notes to our condensed consolidated financial statements included in this report for information regarding the 2025 Prepayment.

The decrease in interest expense before capitalized interest for the nine months ended September 30, 2023 compared to the same period in 2022 was primarily due to the 2025 Prepayment and an overall reduction in our weighted average debt outstanding, partially offset by increased interest expense on our Senior Notes as a result of the issuance of the 2028 Add-On Notes and increased variable interest rates on funds drawn on our Credit Facility. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of our floating interest rates on debt.

Losses on Purchases or Exchanges of Debt. In May 2023, we recognized a loss of \$26.9 million related to the 2025 Prepayment. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of the 2025 Prepayment.

Liquidity and Capital Resources

Overview

Our primary sources of funds are internally generated cash flows from operations, borrowings under our Credit Facility and historically have included proceeds from the issuance of debt and equity contributions from our Parent. Our future success in maintaining our proved reserves and current levels of production will be highly dependent upon net cash provided by our operating activities and the capital resources available to us, and there can be no assurance that such resources will be available to us on favorable terms, or at all. Based on existing market conditions and our expected liquidity needs, among other factors, we intend to use a portion of our cash flows from operations to repay or redeem portions of our indebtedness and make equity distribution payments to our unitholders. Additionally, we may use availability under our Credit Facility, securities offerings or other debt issuances to repay debt prior to scheduled maturities, and we may seek opportunities to refinance all or a portion of our indebtedness, including through cash purchases, exchanges, open market purchases or privately negotiated transactions. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of our debt.

The drilling, completion and production of our natural gas and oil properties are capital intensive activities that require access to significant capital. We continually evaluate our capital needs and compare them to our capital resources. We establish a capital budget at the beginning of each calendar year and periodically review and may adjust our allocation for capital expenditures as business conditions warrant. Actual capital expenditures may vary due to many factors, including drilling results, commodity prices, industry conditions, the prices and availability of goods and services, inflationary pressure and the extent to which properties are acquired or assets are sold.

As of September 30, 2023, we had a cash balance of \$4.4 million and availability under our Credit Facility of \$1.09 billion. We currently plan to fund our capital program through cash on hand, expected cash flows from our operations and borrowings under our Credit Facility. Based on current expectations, we anticipate being able to satisfy all of our financial obligations and liquidity needs for the next twelve months.

Long-term cash flows are subject to a number of variables including our level of production and prices as well as various economic conditions that have historically affected the natural gas and oil industry. Based on our significant borrowing capacity under our Credit Facility with a maturity date in 2027, commodity derivatives we have in place which cover a portion of our expected annual production through 2026 and having no significant maturities of senior notes until 2026 and beyond, we believe we will have adequate capital resources and liquidity for the foreseeable future.

Sources of Cash and Cash Equivalents

The following table presents the sources of cash and cash equivalents:

(\$ in thousands)	Nine Months Ended September 30,	
	2023	2022
Cash provided by operating activities	\$ 884,142	\$ 1,300,371
Financing commodity derivative settlements	(53,530)	(297,911)
Payment to restructure commodity derivatives	—	(300,000)
Proceeds from Credit Facility borrowings, net of repayments	375,000	310,000
Proceeds from issuance of long-term debt	210,000	—
Total Sources of Cash and Cash Equivalents	<u>\$ 1,415,612</u>	<u>\$ 1,012,460</u>

Our primary source of funds is net cash flow provided by operating activities, which is highly dependent upon our natural gas, oil and NGL production, the sales prices that we receive and our commodity hedging activities. Commodity prices are subject to wide fluctuations and are driven by market supply and demand, which is impacted by many factors. To mitigate these fluctuations we enter into various derivative contracts, which ensures a certain level of cash flow to fund our operations. Any payments made to our derivative counterparties are ultimately funded by proceeds received from the sale of our production. However, production receipts can lag hedging settlements, creating timing differences between the associated cash flows. Although we are continually securing additional derivative positions for portions of our expected future production, there can be no assurance that we will be able to add additional derivative positions at favorable prices. See Quantitative and Qualitative Disclosures About Market Risk and Note 6 of the notes to our condensed consolidated financial statements included in this report for further details.

Cash provided by operating activities. We generated \$884.1 million and \$1.30 billion in cash flows from our operations for the nine months ended September 30, 2023 and 2022, respectively. The decrease was primarily the result of decreases in the average realized sales price of natural gas, oil and NGL, which were partially offset by the settlement of commodity derivatives and an increase in our produced volumes.

Financing commodity derivative settlements. Certain of our commodity derivative contracts contain an other than insignificant financing element, whereby the associated settlement payments are classified as financing activities rather than cash flows from our operations. As commodity prices increase or decrease, such changes will have an opposite effect on the ultimate settlement of our derivatives.

Payment to restructure commodity derivatives. In April 2022, we paid \$300.0 million to restructure a portion of our May through December 2022 natural gas swaps, resulting in an increase to our weighted average strike prices for those periods.

Proceeds from issuance of long-term debt. In May 2023, we issued an additional \$212.6 million in aggregate principal amount of 2028 Add-On Notes to certain holders of our 2025 Second Lien Term Loans and used the \$210.0 million of proceeds to partially repay borrowings under our Credit Facility. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further details of the 2028 Add-On Notes.

Uses of Cash and Cash Equivalents

The following table presents the uses of cash and cash equivalents:

	Nine Months Ended	
	September 30,	
	2023	2022
(\$ in thousands)		
Natural Gas and Oil Capital Expenditures:		
Drilling and completion costs	\$ 683,164	\$ 623,489
Land and leasehold costs	78,646	79,679
Interest capitalized ^(a)	27,985	32,519
Total Natural Gas and Oil Capital Expenditures	789,795	735,687
Other Uses of Cash and Cash Equivalents:		
Repayment of long-term debt	549,822	—
Cash paid for debt issuance and amendment costs	11,219	16,852
Cash paid for debt prepayment costs	27,491	—
Cash paid to Member for long-term incentive Cash Awards	17,856	—
Cash paid to Member for equity distribution	12,503	—
Cash paid for acquisition	—	250,882
Additions to other property and equipment	2,151	1,537
Other	4,254	5,052
Total Other	625,296	274,323
Total Uses of Cash and Cash Equivalents	\$ 1,415,091	\$ 1,010,010

(a) Interest is capitalized on significant investments in certain unproved properties and wells in process.

Drilling and completion costs. Our cash drilling and completion costs were \$683.2 million and \$623.5 million during the nine months ended September 30, 2023 and 2022, respectively. The increase in drilling and completion costs in 2023 was primarily the result of inflationary pressure on labor and materials.

Land and leasehold costs. We spent cash of \$78.6 million and \$79.7 million during the nine months ended September 30, 2023 and 2022, respectively, primarily related to the acquisition of leases arising in the ordinary course of business.

Repayment of long-term debt and debt prepayment costs. We spent cash of \$549.8 million during the nine months ended September 30, 2023 to prepay the outstanding aggregate principal amount of our 2025 Second Lien Term Loans and incurred a 5.0% cash premium of \$27.5 million. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further details of the 2025 Prepayment.

Cash paid to Member for long-term incentive Cash Awards. We paid \$17.9 million of cash to our Member during the nine months ended September 30, 2023. The cash was used by our Parent to fund the 2022 calendar year cash payments made under our long-term incentive plan. See Note 8 of the notes to our condensed consolidated financial statements included in this report for further discussion of our long-term incentive plan.

Cash paid to Member for equity distribution. In September 2023, we funded a \$12.5 million distribution that was declared and paid by our Parent to its unitholders, of which \$0.1 million was recognized as long-term incentive compensation expense.

Cash paid for acquisition. In August 2022, we acquired assets in Ohio for a total purchase price of \$270.0 million, or \$250.9 million after closing purchase price adjustments. The transaction was financed with a combination of cash on hand and borrowings under the Credit Facility. See Note 3 of the notes to our condensed consolidated financial statements included in this report for further discussion of the acquisition.

Certain Indebtedness

Credit Facility. Our Credit Facility matures on June 30, 2027, and as of September 30, 2023, it had an elected commitment of \$2.0 billion, of which \$250.0 million was authorized for letters of credit. The maturity date will accelerate to August 2, 2026 if an amount greater than or equal to \$150.0 million of our 2026 Notes is outstanding as of that date. The amount available to be borrowed under our Credit Facility is subject to a borrowing base that is required to be redetermined semiannually on or about April 1 and October 1 of each year, primarily based on the estimated value and future net cash flows of our proved reserves and the value of our commodity derivative positions, as determined by lenders under our Credit Facility at their discretion. If the commodity price environment declines over an extended period, it may in the future lead to a reduction in the borrowing base of our Credit Facility. We do not believe that any such reductions would have a significant impact on our ability to service our debt and fund our drilling program and related operations. As of September 30, 2023, we had \$745.0 million of borrowings outstanding and \$168.4 million of letters of credit issued under our Credit Facility. See Note 5, *Credit Facility*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of our Credit Facility.

Senior Notes. The following table summarizes certain material terms of our outstanding Senior Notes as of September 30, 2023:

(\$ in thousands)	2026 Notes	2027 Notes ^(a)	2028 Notes ^(b)	2029 Notes
Outstanding principal	\$597,000	\$348,294	\$512,637	\$400,000
Interest rate	7.00%	9.00%	8.25%	5.875%
Maturity date	November 1, 2026	November 1, 2027	December 31, 2028	June 30, 2029
Interest payment dates	May 1, Nov. 1	May 1, Nov. 1	Feb. 1, Aug. 1	Mar. 1, Sept. 1
Make-whole redemption date	Expired ^(c)	November 1, 2026	February 1, 2024	September 1, 2024

- (a) The 2027 Notes also contain a contingent payment right. See Note 5, *Senior Notes*, and Note 7, *Contingent Payment Right*, of the notes to our condensed consolidated financial statements included in this report for further discussion.
- (b) The outstanding principal amount includes the 2028 Add-On Issuance. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion.
- (c) The 2026 Notes are currently callable at 101.167% until November 1, 2024.

Upon the occurrence of a change of control (as defined in the respective indenture), we are required to offer to repurchase all or any part of our outstanding Senior Notes at a price of 101.00%, plus accrued and unpaid interest. We are also required to offer to repurchase the outstanding Senior Notes at a price of 100.00%, plus accrued and unpaid interest, in the event of certain asset sales if we do not otherwise apply the net proceeds of such asset sales as permitted under the applicable indenture. The Senior Notes may be redeemed, at our option, prior to their maturity. Prior to the make-whole redemption date specified in the table above, each applicable series of Senior Notes may be redeemed at a make-whole premium based on the present value of the remaining principal and interest payments to the make-whole redemption date. After the applicable make-whole redemption date, the Senior Notes may be redeemed at a declining premium set forth in the applicable indenture. See Note 5, *Senior Notes*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms and early redemption dates and prices for the outstanding Senior Notes.

Debt Covenants. The agreements governing our debt contain certain restrictive and financial covenants. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of our debt covenants. Our ability to comply with financial covenants in future periods depends, among other things, on the success of our development program and other factors beyond our control, such as market demand and prices for natural gas, oil and NGL. As of September 30, 2023, we were in compliance with all applicable debt covenants.

Contractual Obligations and Off-Balance Sheet Arrangements

As of September 30, 2023, our material contractual obligations included repayments of our outstanding borrowings and associated interest payment obligations, derivative obligations, asset retirement obligations, lease obligations, letters of credit, surety bonds and various other commitments we enter into in the ordinary course of business that could result in future cash obligations. In addition, we have entered into certain pipeline capacity commitments with various counterparties, some of which extend beyond 20 years, in order to facilitate the delivery of our production to market and

reduce the likelihood of possible production curtailments that may arise due to limited capacity. The estimated gross undiscounted future commitments under these pipeline agreements were approximately \$7.31 billion as of September 30, 2023; however, third parties that own a working interest in the wells we operate, and royalty and overriding royalty interest owners, where applicable, will be responsible for their proportionate share of these costs. As discussed above, we believe our existing sources of liquidity will be sufficient to fund our near and long-term contractual obligations. See Notes 5, 6, 10 and 11 of the notes to our condensed consolidated financial statements included in this report for further discussion. We do not maintain off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities.

Quantitative and Qualitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk as well as how we view and manage our exposure to such risk. The term “market risk” refers to the risk of loss arising from adverse changes in natural gas, oil and NGL prices, counterparty credit, customer credit and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses.

Commodity Demand and Price Risk

Our primary market risk exposure is in the prices we receive for our natural gas, oil and NGL production. Realized pricing is primarily driven by spot regional market prices applicable to our natural gas, oil and NGL production. Pricing for natural gas, oil and NGL production is volatile and unpredictable, and we expect this volatility to continue in the future. The prices we expect to receive for our natural gas, oil and NGL production will depend on many factors outside of our control, including the supply of, and demand for, natural gas, oil and NGL, the level of economic activity in the United States and globally, the performance of specific industries and the volatility of natural gas, oil and NGL prices at various delivery points. During the nine months ended September 30, 2023 and 2022, the average daily Henry Hub spot market price of natural gas was \$2.46 per mmbtu and \$6.66 per mmbtu, respectively, and the average daily WTI oil price was \$77.27 per bbl and \$98.25 per bbl, respectively. Approximately 87% of our September 30, 2023 proved reserves were natural gas; therefore, changes in realized natural gas pricing will affect us more than changes in realized oil or NGL pricing.

We use derivative instruments to reduce our exposure to fluctuations in future commodity prices and to protect our anticipated operating cash flow against significant market movements or volatility. These contracts are financial instruments and do not require or allow for physical delivery of the hedged commodity. We do not use derivative instruments for speculative or trading purposes. Under our Credit Facility, we are permitted to hedge up to 90% of our forecasted production for any month during the next 36 months. Additionally, we may enter into commodity derivative contracts with terms greater than 36 months, and for no longer than 66 months, for up to 80% of the forecasted production from our proved reserves for any month. As of September 30, 2023, approximately 1,472,000 mmbtu/d of our projected natural gas production for the remainder of 2023 was hedged at a weighted average floor price of \$3.19 per mmbtu, and approximately 1,410,000 mmbtu/d of our projected natural gas production for 2024 was hedged at a weighted average floor price of \$3.49 per mmbtu, excluding the sold puts on our three-way collars and sold calls. Additionally, as of September 30, 2023, approximately 6,000 bbls/d of our projected oil production for the remainder of 2023 was hedged at a weighted average floor price of \$72.30 per bbl, and approximately 10,000 bbls/d of our projected oil production for 2024 was hedged at a weighted average floor price of \$75.39 per bbl. Our open hedge positions as of September 30, 2023 had maturities extending through December 2026. We also have basis swaps to mitigate portions of our basis exposure. Our market risk associated with commodity prices did not materially change from September 30, 2022 to September 30, 2023. See Note 6 of the notes to our condensed consolidated financial statements included in this report for a summary of our commodity hedge position as of September 30, 2023.

The fair value of our commodity derivative instruments is largely influenced by the future prices of natural gas, oil and NGL. The following table sets forth the changes in the fair value of our commodity derivative instruments due to a hypothetical 10% change in future prices as of September 30, 2023. However, any realized derivative gain or loss would

be substantially offset by a decrease or increase, respectively, in the actual revenue received from the sale of our production associated with the derivative instrument.

<i>(\$ in thousands)</i>	Hypothetical 10% Increase in Future Prices	Hypothetical 10% Decrease in Future Prices
Natural gas	\$ (389,098)	\$ 384,909
Oil	\$ (37,978)	\$ 37,978
NGL	\$ (3,560)	\$ 3,610

All derivative instruments, other than those that meet the normal purchase and normal sale scope exception, are recorded at fair market value in accordance with GAAP and are included in our condensed consolidated balance sheets as assets or liabilities. Because we do not designate these derivatives as accounting hedges, they do not receive hedge accounting treatment; therefore, all mark-to-market gains or losses, as well as cash receipts or payments on settled derivative instruments, are recognized in our statements of operations within operating revenues as commodity derivative gain (loss).

We expect continued volatility in the fair value of our derivative instruments, and although mark-to-market adjustments of derivative instruments cause earnings volatility, our cash flows are only impacted when the associated derivative contracts are settled or are monetized prior to settlement by making or receiving payments to or from the counterparty. As of September 30, 2023, the estimated fair value of our commodity derivative positions was a net asset of \$11.1 million comprised of current and long-term assets and liabilities.

By removing price volatility from a portion of our future expected production, we have mitigated, but not eliminated, the potential negative effects of changing prices on our operating cash flows for those periods. While mitigating the negative effects of falling commodity prices, these derivative contracts also limit the benefits we receive from the increases in commodity prices above the fixed hedge ceiling prices.

Counterparty Credit Risk

Our derivative instruments expose us to counterparty credit risk, which arises due to the risk of loss from counterparties not performing under the terms of a derivative contract. Adverse moves within the financial or commodities markets could negatively impact our counterparties' ability to fulfill obligations to us. To minimize such risk, we only enter into derivative contracts with counterparties that we determine are creditworthy, which includes performing both quantitative and qualitative assessments of these counterparties, based on their credit ratings and credit default swap rates where applicable. Additionally, our derivative contracts are with multiple counterparties, reducing our exposure to any individual counterparty. See Note 6, *Credit Risk*, of the notes to our condensed consolidated financial statements included in this report for further discussion of our credit risk.

Customer Credit Risk

We are subject to credit risk resulting from the concentration of our natural gas, oil and NGL receivables; however, we do not believe the loss of any single customer would materially impact our operating results. We also have joint interest receivables, which arise from billings to entities that own working interests in the wells we operate, but historically we have not incurred any material losses.

Interest Rate Risk

Our Credit Facility bears interest at floating rates which exposes us to interest rate risk. As of September 30, 2023, borrowings under our Credit Facility bore interest at the 1-month SOFR plus 0.10%, plus an applicable margin ranging from 1.75% to 2.75% per annum based on Credit Facility utilization. For the nine months ended September 30, 2023, our Credit Facility had a weighted average interest rate of 7.22%. A 1.00% increase in the interest rate on our Credit Facility during the nine months ended September 30, 2023 would have resulted in an estimated total increase of \$5.0 million in interest expense on associated borrowings. We have entered into interest rate swaps through the end of 2024 to mitigate a portion of our exposure to interest rate volatility. See Note 6 of the notes to our condensed consolidated financial statements included in this report for further discussion of our interest rate derivatives.