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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35467

**Battalion Oil Corporation**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>1311</b> (Primary Standard Industrial Classification Code Number)	<b>20-0700684</b> (I.R.S. Employer Identification Number)
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**3505 West Sam Houston Parkway North, Suite 300, Houston, TX 77043**

(Address of principal executive offices)

**(832) 538-0300**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

<b>Title of each class</b>	<b>Trading Symbol</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.0001	BATL	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities made under a plan confirmed by a court. Yes  No

At November 14, 2023, 16,456,563 shares of the Registrant's Common Stock were outstanding.

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### **Special note regarding forward-looking statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, are forward looking statements and may concern, among other things, planned capital expenditures, potential increases in oil and natural gas production, the potential availability and capacity of acid gas treatment facilities being brought online, potential costs to be incurred, future cash flows, borrowings and equity raises, our financial position, business strategy and other plans and objectives for future operations. These forward-looking statements may be identified by their use of terms and phrases such as "may," "expect," "estimate," "project," "plan," "objective," "believe," "predict," "intend," "achievable," "anticipate," "will," "continue," "potential," "should," "could" and similar terms and phrases. Although we believe that the expectations reflected in forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements. Readers should consider carefully the risks described under the "Risk Factors" section of our previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as well as the other disclosures contained herein and therein, which describe factors that could cause our actual results to differ from those anticipated in forward-looking statements, which include, but are not limited to, the following factors:

- volatility in prices for oil, natural gas and natural gas liquids;
- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fund our operations, satisfy our obligations and develop our undeveloped acreage positions;
- contractual limitations that affect our management's discretion in managing our business, including covenants that, among other things, limit our ability to incur debt, make investments and pay cash dividends;
- our indebtedness, which may increase in the future, and higher levels of indebtedness can make us more vulnerable to economic downturns and adverse developments in our business;
- our ability to replace our oil and natural gas reserves and production;
- the presence or recoverability of estimated oil and natural gas reserves attributable to our properties and the actual future production rates and associated costs of producing those oil and natural gas reserves;
- our ability to successfully develop our inventory of undeveloped acreage;
- the cost and availability of goods and services, such as drilling rigs, fracture stimulation services and tubulars, which may be subject to inflation caused by labor shortages, supply shortages and increased demand, and other inflationary pressures;
- our ability to secure adequate sour gas treating and/or sour gas take-away capacity, including the acid gas treatment facility for our Monument Draw area to handle production volumes and achieve anticipated reductions in the future costs of treating sour gas;
- drilling and operating risks, including accidents, equipment failures, fires, and leaks of toxic or hazardous materials, such as hydrogen sulfide (H<sub>2</sub>S), which can result in injury, loss of life, pollution, property damage and suspension of operations;
- senior management's ability to execute our plans to meet our goals;
- access to and availability of water, sand and other treatment materials to carry out fracture stimulations in our completion operations;
- the possibility that our industry may be subject to future regulatory or legislative actions (including, but not limited to, additional taxes and changes in environmental regulations);
- access to adequate gathering systems, processing and treating facilities and transportation take-away capacity to move our production to marketing outlets to sell our production at market prices;
- our ability to pursue and integrate strategic mergers and acquisitions;
- the potential for production decline rates for our wells to be greater than we expect;
- competition, including competition for acreage in our resource play;
- environmental risks, such as accidental spills of toxic or hazardous materials, and the potential for environmental liabilities;
- exploration and development risks;
- our ability to retain key members of senior management, the board of directors and key technical employees;
- social unrest, political instability or armed conflict in major oil and natural gas producing regions outside the United States, such as the conflict between Ukraine and Russia, and acts of terrorism or sabotage;

- general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business, may be less favorable than expected, including the possibility that economic conditions in the United States will worsen and that capital markets are disrupted, which could adversely affect demand for oil and natural gas and make it difficult to access capital;
- impacts and potential risks related to actual or anticipated pandemics, such as the novel coronavirus (COVID-19) pandemic, including how it has and may continue to impact our operations, financial results, liquidity, contractors, customers, employees and vendors;
- other economic, competitive, governmental, regulatory, legislative, including federal and state regulations and laws, geopolitical and technological factors that may negatively impact our business, operations or oil and natural gas prices;
- our insurance coverage may not adequately cover all losses that we may sustain; and
- title to the properties in which we have an interest may be impaired by title defects.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

**BATTALION OIL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Operating revenues:</b>				
Oil, natural gas and natural gas liquids sales:				
Oil	\$ 43,689	\$ 70,406	\$ 144,072	\$ 206,874
Natural gas	3,668	15,656	8,628	39,296
Natural gas liquids	6,078	12,644	18,893	35,234
Total oil, natural gas and natural gas liquids sales	53,435	98,706	171,593	281,404
Other	671	443	1,927	858
Total operating revenues	54,106	99,149	173,520	282,262
<b>Operating expenses:</b>				
Production:				
Lease operating	11,152	12,265	34,208	35,698
Workover and other	700	2,559	4,669	4,807
Taxes other than income	3,307	5,613	9,677	15,936
Gathering and other	15,512	16,663	48,857	47,787
General and administrative	3,192	4,498	13,572	14,071
Depletion, depreciation and accretion	13,426	13,615	44,287	36,436
Total operating expenses	47,289	55,213	155,270	154,735
<b>Income from operations</b>	<b>6,817</b>	<b>43,936</b>	<b>18,250</b>	<b>127,527</b>
<b>Other income (expenses):</b>				
Net (loss) gain on derivative contracts	(53,687)	67,634	(29,741)	(88,134)
Interest expense and other	(6,929)	(5,682)	(24,245)	(13,202)
Total other (expenses) income	(60,616)	61,952	(53,986)	(101,336)
(Loss) income before income taxes	(53,799)	105,888	(35,736)	26,191
Income tax benefit (provision)	—	—	—	—
<b>Net (loss) income</b>	<b>\$ (53,799)</b>	<b>\$ 105,888</b>	<b>\$ (35,736)</b>	<b>\$ 26,191</b>
Series A preferred dividends	(3,863)	—	(6,352)	—
<b>Net (loss) income available to common stockholders</b>	<b>\$ (57,662)</b>	<b>\$ 105,888</b>	<b>\$ (42,088)</b>	<b>\$ 26,191</b>
<b>Net (loss) income per share of common stock available to common stockholders:</b>				
Basic	\$ (3.50)	\$ 6.48	\$ (2.56)	\$ 1.60
Diluted	\$ (3.50)	\$ 6.42	\$ (2.56)	\$ 1.59
<b>Weighted average common shares outstanding:</b>				
Basic	16,457	16,340	16,436	16,327
Diluted	16,457	16,483	16,436	16,496

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

BATTALION OIL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share and per share amounts)

	September 30, 2023	December 31, 2022
<b>Current assets:</b>		
Cash and cash equivalents	\$ 42,590	\$ 32,726
Accounts receivable, net	27,177	37,974
Assets from derivative contracts	4,649	16,244
Restricted cash	90	90
Prepays and other	786	1,131
Total current assets	<u>75,292</u>	<u>88,165</u>
<b>Oil and natural gas properties (full cost method):</b>		
Evaluated	736,205	713,585
Unevaluated	62,649	62,621
Gross oil and natural gas properties	798,854	776,206
Less: accumulated depletion	(434,034)	(390,796)
Net oil and natural gas properties	364,820	385,410
<b>Other operating property and equipment:</b>		
Other operating property and equipment	4,623	4,434
Less: accumulated depreciation	(1,653)	(1,209)
Net other operating property and equipment	2,970	3,225
<b>Other noncurrent assets:</b>		
Assets from derivative contracts	2,022	5,379
Operating lease right of use assets	889	352
Other assets	10,768	2,827
<b>Total assets</b>	<u><u>\$ 456,761</u></u>	<u><u>\$ 485,358</u></u>
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 59,417	\$ 100,095
Liabilities from derivative contracts	36,363	29,286
Current portion of long-term debt	45,106	35,067
Operating lease liabilities	513	352
Asset retirement obligations	—	225
Total current liabilities	<u>141,399</u>	<u>165,025</u>
<b>Long-term debt, net</b>	<u>153,476</u>	<u>182,676</u>
<b>Other noncurrent liabilities:</b>		
Liabilities from derivative contracts	35,089	33,649
Asset retirement obligations	17,202	15,244
Operating lease liabilities	375	—
Other	1,554	4,136
<b>Commitments and contingencies (Note 9)</b>		
<b>Temporary equity:</b>		
Series A redeemable convertible preferred stock: 63,000 shares of \$0.0001 par value authorized, issued and outstanding as of September 30, 2023	66,834	—
<b>Stockholders' equity:</b>		
Common stock: 100,000,000 shares of \$0.0001 par value authorized; 16,456,563 and 16,344,815 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	326,511	334,571
Retained earnings (accumulated deficit)	(285,681)	(249,945)
Total stockholders' equity	<u>40,832</u>	<u>84,628</u>
<b>Total liabilities, temporary equity and stockholders' equity</b>	<u><u>\$ 456,761</u></u>	<u><u>\$ 485,358</u></u>

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

**BATTALION OIL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)**  
**(In thousands)**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>		<u>(Accumulated Deficit)</u>	
<b>Balances at December 31, 2022</b>	<u>16,345</u>	<u>\$ 2</u>	<u>\$ 334,571</u>	<u>\$ (249,945)</u>	<u>\$ 84,628</u>
Net income	—	—	—	22,811	22,811
Deemed dividends for Series A preferred stock	—	—	(1,492)	—	(1,492)
Long-term incentive plan vestings	159	—	—	—	—
Tax withholding on vesting of restricted stock units	(47)	—	(454)	—	(454)
Stock-based compensation	—	—	327	—	327
<b>Balances at March 31, 2023</b>	<u>16,457</u>	<u>\$ 2</u>	<u>\$ 332,952</u>	<u>\$ (227,134)</u>	<u>\$ 105,820</u>
Net loss	—	—	—	(4,748)	(4,748)
Deemed dividends for Series A preferred stock	—	—	(997)	—	(997)
Stock-based compensation	—	—	(754)	—	(754)
<b>Balances at June 30, 2023</b>	<u>16,457</u>	<u>\$ 2</u>	<u>\$ 331,201</u>	<u>\$ (231,882)</u>	<u>\$ 99,321</u>
Net loss	—	—	—	(53,799)	(53,799)
Deemed dividends for Series A preferred stock	—	—	(3,863)	—	(3,863)
Stock-based compensation	—	—	(827)	—	(827)
<b>Balances at September 30, 2023</b>	<u>16,457</u>	<u>\$ 2</u>	<u>\$ 326,511</u>	<u>\$ (285,681)</u>	<u>\$ 40,832</u>

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

**BATTALION OIL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)**  
**(In thousands)**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
<b>Balances at December 31, 2021</b>	16,274	\$ 2	\$ 332,187	\$ (268,484)	\$ 63,705
Net loss	—	—	—	(92,744)	(92,744)
Long-term incentive plan vestings	89	—	—	—	—
Tax withholding on vesting of restricted stock units	(26)	—	(461)	—	(461)
Stock-based compensation and other	—	—	452	—	452
<b>Balances at March 31, 2022</b>	16,337	2	332,178	(361,228)	(29,048)
Net income	—	—	—	13,047	13,047
Long-term incentive plan vestings	1	—	—	—	—
Tax withholding on vesting of restricted stock units	—	—	(6)	—	(6)
Stock-based compensation and other	—	—	594	—	594
<b>Balances at June 30, 2022</b>	16,338	2	332,766	(348,181)	(15,413)
Net income	—	—	—	105,888	105,888
Long-term incentive plan vestings	8	—	—	—	—
Tax withholding on vesting of restricted stock units	(2)	—	(25)	—	(25)
Stock-based compensation and other	—	—	893	—	893
<b>Balances at September 30, 2022</b>	16,344	2	333,634	(242,293)	91,343
Net loss	—	—	—	(7,652)	(7,652)
Stock-based compensation and other	1	—	937	—	937
<b>Balances at December 31, 2022</b>	<u>16,345</u>	<u>\$ 2</u>	<u>\$ 334,571</u>	<u>\$ (249,945)</u>	<u>\$ 84,628</u>

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

**BATTALION OIL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (35,736)	\$ 26,191
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depletion, depreciation and accretion	44,287	36,436
Stock-based compensation, net	(1,231)	1,540
Unrealized loss (gain) on derivative contracts	23,469	(23,911)
Amortization/accretion of financing related costs	5,789	2,726
Reorganization items	—	(744)
Accrued settlements on derivative contracts	2,846	7,493
Change in fair value of embedded derivative liability	(2,582)	(3,043)
Other	144	(128)
Change in assets and liabilities:		
Accounts receivable	11,410	(1,605)
Prepays and other	344	407
Accounts payable and accrued liabilities	(37,675)	8,452
Net cash provided by operating activities	<u>11,065</u>	<u>53,814</u>
<b>Cash flows from investing activities:</b>		
Oil and natural gas capital expenditures	(36,695)	(86,998)
Proceeds received from sale of oil and natural gas assets	1,189	1
Other operating property and equipment capital expenditures	(136)	(949)
Other	(1,464)	166
Net cash used in investing activities	<u>(37,106)</u>	<u>(87,780)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	—	20,122
Repayments of borrowings	(25,066)	(85)
Payment of deferred debt financing costs	—	(379)
Proceeds from issuance of preferred stock	61,425	—
Other	(454)	(492)
Net cash provided by financing activities	<u>35,905</u>	<u>19,166</u>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>9,864</b>	<b>(14,800)</b>
Cash, cash equivalents and restricted cash at beginning of period	32,816	48,359
Cash, cash equivalents and restricted cash at end of period	<u>\$ 42,680</u>	<u>\$ 33,559</u>

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

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. FINANCIAL STATEMENT PRESENTATION**

**Basis of Presentation and Principles of Consolidation**

Battalion Oil Corporation ("Battalion" or the "Company") is an independent energy company focused on the acquisition, production, exploration and development of onshore liquids-rich oil and natural gas assets in the United States. The consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries. The Company operates in one segment which focuses on oil and natural gas acquisition, production, exploration and development. Allocation of capital is made across the Company's entire portfolio without regard to operating area. All intercompany accounts and transactions have been eliminated.

These unaudited condensed consolidated financial statements reflect, in the opinion of the Company's management, all adjustments, consisting of normal and recurring adjustments, necessary to present fairly the financial position as of, and the results of operations for, the periods presented. Interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), has been condensed or omitted. During interim periods, Battalion follows the accounting policies disclosed in its Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (the "SEC") on March 30, 2023. Please refer to the notes in the Annual Report on Form 10-K for the year ended December 31, 2022 when reviewing interim financial results. The Company has evaluated events or transactions through the date of issuance of these unaudited condensed consolidated financial statements.

**Liquidity and Cash Requirements**

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with GAAP applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company's ability to execute its operating strategy is dependent on its ability to maintain adequate liquidity and continue to access capital, as needed. The Company's current business estimates and forecasts indicate that it will require additional liquidity to continue its operations and meet its debt covenant requirements for the next 12 months from the issuance of these unaudited condensed consolidated financial statements. In response to these events and conditions, the Company has continued to execute on a plan to reduce operating and capital costs to improve cash flow, including recent reductions in headcount to align with planned drilling activity. During the third quarter of 2023, the Company obtained an additional support letter from the three largest existing stockholders to purchase additional preferred equity securities in an amount up to \$55.0 million over the next 12 months to enable the Company to meet its obligations as they become due through at least one year beyond the issuance of these unaudited condensed consolidated financial statements. The Company's management believes that based upon its operational forecasts, cash and cash equivalents on hand, cost reduction measures, and the additional \$55.0 million of preferred equity commitments available, it is probable the Company will have sufficient liquidity to fund its operations, meet its continuous drilling obligations and debt payment requirements and maintain compliance with its future debt covenants, as described in Note 5, "Debt," for the next 12 months from the issuance of these unaudited condensed consolidated financial statements.

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Risk and Uncertainties**

*Supply chain issues.* In periods of increasing commodity prices, the Company is at risk for supply chain issues, including, but not limited to, labor shortages, pipe restrictions and potential delays in obtaining frac and/or drilling related equipment that could impact its business. During these periods, the costs and delivery times of rigs, equipment and supplies may also be substantially greater. The unavailability or high cost of drilling rigs and/or frac crews, pressure pumping equipment, tubulars and other supplies, and of qualified personnel can materially and adversely affect the Company's operations and profitability.

*Commodity Prices.* The Company's financial results depend upon many factors, but are largely driven by the volume of its oil and natural gas production and the price that it receives for that production. Demand for oil and natural gas may be adversely impacted by macro-economic events, such as economic effects of rising interest rates, tightening monetary policies, as well as the price and availability of alternatives or other factors, while supply fluctuates based on controls imposed by oil exporting countries, social, labor and political unrest, armed conflict, terrorist attacks, weather conditions and other factors. As a consequence, the Company is unable to predict future oil and natural gas prices. When commodity prices decline, the Company's ability to finance its capital budget and operations may be adversely impacted to the extent the Company has not or is unable to hedge the prices it receives for its production sufficiently to offset such declines, and it may also be required to record non-cash impairment charges as further described in Note 4, "Oil and Natural Gas Properties".

For further information regarding the actual and potential impacts of the supply chain issues and the potential impact of declines in commodity prices on the Company, see "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

**Use of Estimates**

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Estimates and assumptions that, in the opinion of management of the Company, are significant include oil and natural gas revenue accruals, capital and operating expense accruals, oil and natural gas reserves, depletion relating to oil and natural gas properties, asset retirement obligations ("AROs"), and fair value estimates. The Company bases its estimates and judgments on historical experience and on various other assumptions and information believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be predicted with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of the Company's unaudited condensed consolidated financial statements.

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Cash, Cash Equivalents and Restricted Cash**

The Company considers all highly liquid short-term investments with a maturity of three months or less at the time of purchase to be cash equivalents. These investments are carried at cost, which approximates fair value. Amounts in the unaudited condensed consolidated balance sheets included in "Cash and cash equivalents" and "Restricted cash" reconcile to the Company's unaudited condensed statements of cash flows as follows (in thousands):

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Cash and cash equivalents	\$ 42,590	\$ 32,726
Restricted cash	90	90
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 42,680</b>	<b>\$ 32,816</b>

Restricted cash consists of funds to collateralize lines of credit.

**Accounts Receivable and Allowance for Doubtful Accounts**

The Company's accounts receivable are primarily receivables from joint interest owners and oil and natural gas purchasers. Accounts receivable are recorded at the amount due, less an allowance for doubtful accounts, when applicable. Payment of the Company's accounts receivable is typically received within 30-60 days. The Company's historical credit losses have been de minimis and are expected to remain so in the future assuming no substantial changes to the business or creditworthiness of the Company's counterparties.

**Concentrations of Credit Risk**

The Company's primary concentrations of credit risk are the risks of uncollectible accounts receivable and of nonperformance by counterparties under the Company's derivative contracts. Each reporting period, the Company assesses the recoverability of material receivables using historical data, current market conditions and reasonable and supportable forecasts of future economic conditions to determine expected collectability of its material receivables.

The Company's exposure to credit risk under its derivative contracts is varied among major financial institutions with investment grade credit ratings, where it has master netting agreements which provide for offsetting of amounts payable or receivable between the Company and the counterparty. To manage counterparty risk associated with derivative contracts, the Company selects and monitors counterparties based on an assessment of their financial strength and/or credit ratings. At September 30, 2023, the Company's derivative counterparties include two major financial institutions, both of which are secured lenders under the Amended Term Loan Agreement (as defined in Note 5, "Debt").

**Recently Issued Accounting Pronouncements**

In the first quarter of 2023, the Company early adopted the Financial Accounting Standards Board's (the "FASB") Accounting Standards Update ("ASU") ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"). The update simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and limiting the number of embedded conversion features separately recognized from the primary contract. The guidance also includes targeted improvements to the disclosures for convertible instruments and earnings per share. The adoption of ASU 2020-06 did not have an impact on the Company's financial statements.

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. LEASES**

The Company leases equipment and office space pursuant to operating leases. The Company determines if an arrangement is or contains a lease at inception and combines lease and non-lease components, when fixed, for all lease contracts. Non-lease components include common area maintenance charges on office leases and, when applicable, services associated with equipment leases. Operating leases with a lease term greater than 12 months where the Company is the lessee are included in *"Operating lease right of use assets"* and *"Operating lease liabilities"* on the unaudited condensed consolidated balance sheets and are recorded based on the present value of the future minimum lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date of the lease to determine the present value of lease payments. The Company does not recognize right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but rather recognizes the lease payments associated with its short-term leases when incurred.

Payments due under the lease contracts include fixed payments plus, in some instances, variable payments. Variable lease payments, if applicable, associated with the Company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments, when applicable, are presented as *"Gathering and other"* or *"General and administrative"* in the unaudited condensed consolidated statements of operations in the same line item as the expense arising from the fixed lease payments on the operating leases.

The *"Operating lease right of use assets"* outstanding on the unaudited condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 have initial lease terms ranging from 1.9 to 2.3 years. Payments due under the lease contracts include fixed payments plus, in some instances, variable payments. The table below summarizes the Company's leases for the periods presented (in thousands, except term and discount rate):

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Lease cost</b>		
Operating lease costs	\$ 381	\$ 294
Short-term lease costs	1,022	6,112
<b>Total lease costs</b>	<b>\$ 1,403</b>	<b>\$ 6,406</b>
<b>Other information</b>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 381	\$ 294
Weighted-average remaining lease term - operating leases	1.6 years	1.2 years
Weighted-average discount rate - operating leases	12.13 %	4.29 %

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Future minimum lease payments associated with the Company's non-cancellable operating leases as of September 30, 2023 are presented in the table below (in thousands):

	<u>September 30, 2023</u>
Remaining period in 2023	\$ 196
2024	522
2025	261
Thereafter	—
Total operating lease payments	979
Less: discount to present value	91
Total operating lease liabilities	888
Less: current operating lease liabilities	513
Noncurrent operating lease liabilities	\$ 375

**3. OPERATING REVENUES**

Substantially all of the Company's revenues are derived from single basin operations, the Delaware Basin in Pecos, Reeves, Ward and Winkler Counties, Texas. Revenue is presented disaggregated in the unaudited condensed consolidated statement of operations by major product, and depicts how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors in the Company's single basin operations.

Revenue is recognized when the following five steps are completed: (1) identify the contract with the customer, (2) identify the performance obligation (promise) in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when the reporting organization satisfies a performance obligation. Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized, at a point in time, when a performance obligation is satisfied by the transfer of control of each unit (e.g. barrel of oil, Mcf of gas) of commodity to the customer. Revenue is measured based on contract consideration allocated to each unit of commodity and excludes amounts collected on behalf of third parties. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Company from a customer are excluded from revenue.

Because the Company's performance obligations have been satisfied and an unconditional right to consideration exists as of the balance sheet date, the Company recognized amounts due from contracts with customers of \$24.6 million and \$34.0 million as of September 30, 2023 and December 31, 2022, respectively, as "Accounts receivable, net" on the unaudited condensed consolidated balance sheets. The Company utilizes the practical expedient exempting the disclosure of the transaction price of unsatisfied performance obligations for (i) contracts with an original expected duration of one year or less and (ii) contracts where variable consideration is allocated entirely to a wholly unsatisfied performance obligation (each unit of product typically represents a separate performance obligation, and therefore, future volumes under the Company's long-term contracts are wholly unsatisfied).

For additional information regarding the Company's operating revenues, refer to its Annual Report on Form 10-K for the year ended December 31, 2022.

**4. OIL AND NATURAL GAS PROPERTIES**

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas reserves (including such costs as leasehold acquisition costs, geological expenditures, treating equipment and gathering support facilities costs, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred. To the extent capitalized costs of evaluated oil and natural gas properties, net

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

of accumulated depletion, exceed the discounted future net revenues of proved oil and natural gas reserves, net of deferred taxes, such excess capitalized costs are charged to expense.

Additionally, the Company assesses all properties classified as unevaluated property on a quarterly basis for possible impairment. The Company assesses properties on an individual basis or as a group, if properties are individually insignificant. The assessment includes consideration of the following factors, among others: intent to drill; remaining lease term; geological and geophysical evaluations; drilling results and activity; the assignment of proved reserves; and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to depletion and the full cost ceiling test limitation.

At September 30, 2023 and September 30, 2022, using first-day-of-the-month average West Texas Intermediate ("WTI") crude oil spot prices and Henry Hub natural gas prices for the respective prior 12-month periods, the Company's net book value of oil and natural gas properties at September 30, 2023 and September 30, 2022, did not exceed the ceiling test value of the Company's reserves. Oil and natural gas prices utilized for the ceiling test calculations as of September 30, 2023 and September 30, 2022 were \$78.53/bbl and \$92.16/bbl of oil, respectively and \$ 3.42/MMBtu and \$6.13/MMBtu for natural gas, respectively.

Changes in commodity prices, production rates, levels of reserves, future development costs, transfers of unevaluated properties to the full cost pool, capital spending, and other factors will determine the Company's ceiling test calculation and impairment analyses in future periods. Additionally, because oil and natural gas prices are inherently volatile, sustained lower commodity prices would reduce the calculated first-day-of-the-month average prices which could result in non-cash impairment charges of the Company's oil and natural gas properties under its full cost ceiling test calculation, negatively impacting earnings and financial position.

**5. DEBT**

As of September 30, 2023 and December 31, 2022, the Company's debt consisted of the following (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Term loan credit facility	\$ 210,001	\$ 235,000
Other	241	190
<b>Total debt (Face Value)</b>	<b>210,242</b>	<b>235,190</b>
Less:		
Current portion of long-term debt <sup>(1)</sup>	(45,106)	(35,067)
Other <sup>(2)</sup>	(11,660)	(17,447)
<b>Long-Term Debt, net</b>	<b>\$ 153,476</b>	<b>\$ 182,676</b>

<sup>(1)</sup> Amounts primarily reflect amortization payments under the Amended Term Loan Agreement due within one year.

<sup>(2)</sup> Amounts primarily reflect unamortized debt issuance costs of approximately \$8.3 million and \$13.0 million at September 30, 2023 and December 31, 2022, respectively, but also includes remaining amounts to be accreted associated with the embedded derivative separately presented and further described in Note 6, "Fair Value Measurements".

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Term Loan Credit Facility**

On November 24, 2021, the Company and its wholly owned subsidiary, Halcón Holdings, LLC (the "Borrower") entered into an Amended and Restated Senior Secured Credit Agreement (the "Term Loan Agreement") with Macquarie Bank Limited, as administrative agent, and certain other financial institutions party thereto, as lenders. On November 14, 2022, the Company paid approximately \$2.4 million and entered into a further Amended Credit Agreement (the "Amended Term Loan Agreement") with its lenders which modified certain provisions of its original Term Loan Agreement including, but not limited to, its Current Ratio financial covenant, interest rate benchmark, and prepayment premiums, all as further described below.

As of September 30, 2023, the Company had \$ 210.2 million of indebtedness outstanding and no letters of credit outstanding under the Amended Term Loan Agreement. The Company had \$5.0 million available for the issuance of letters of credit as of September 30, 2023 and \$4.7 million available as of the date of this filing. The maturity date of the Amended Term Loan Agreement is November 24, 2025. Borrowings under the Amended Term Loan Agreement bear a variable interest rate based on the Secured Overnight Financing Rate ("SOFR") plus 0.15% plus a fixed applicable margin of 7.5%. The weighted average interest rate on the Company's borrowings for the quarter ended September 30, 2023 was approximately 12.89%.

The Company may elect, at its option, to prepay any borrowing outstanding under the Amended Term Loan Agreement subject to the following prepayment premiums:

<b>Period (after applicable borrowing date <sup>(1)</sup>)</b>	<b>Premium</b>
Months 0-12	Make-whole amount equal to 12 months of interest plus 2.00%
Months 13-24	2.00%
Months 25-36	1.00%
Months 37-48	0.00%

<sup>(1)</sup> Applicable borrowing dates are November 2021 for the original \$200.0 million borrowed and April and November 2022 for the \$20.0 million and \$15.0 million in delayed draw borrowings, respectively.

The Company may be required to make mandatory prepayments under the Amended Term Loan Agreement in connection with the incurrence of non-permitted debt, certain asset sales, or with cash on hand in excess of certain maximum levels beginning in 2023. For each fiscal quarter after January 1, 2023, the Company is required to make mandatory prepayments when the Consolidated Cash Balance, as defined in the Amended Term Loan Agreement, exceeds \$20.0 million. Until December 31, 2024, the forecasted capital expenditures for the succeeding fiscal quarter on the approved plan of development ("APOD") wells (i.e. oil and natural gas wells located within a specified boundary as set by the Amended Term Loan Agreement) are excluded for purposes of determining the Consolidated Cash Balance.

The Company is required to make scheduled remaining amortization payments in the aggregate amount of \$ 95.0 million from the fiscal quarter ending December 31, 2023 through the fiscal quarter ending September 30, 2025 with \$10.0 million due at the end of the fourth quarter of 2023 and the first quarter of 2024, \$ 12.5 million due at the end of each of the second and third quarters of 2024, \$15.0 million due at the end of the fourth quarter of 2024 and the first quarter of 2025 and \$10.0 million due at the end of each of the second and third quarters of 2025. The Company will be required to make a final payment of \$115.0 million at maturity on November 24, 2025. Amounts outstanding under the Amended Term Loan Agreement are guaranteed by certain of the Borrower's direct and indirect subsidiaries and secured by substantially all of the assets of the Borrower and such direct and indirect subsidiaries, and by the equity interests of the Borrower held by the Company. As part of the Amended Term Loan Agreement there are certain restrictions on the transfer of assets, including cash, to Battalion from the guarantor subsidiaries.

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Amended Term Loan Agreement also contains certain financial covenants (as defined in the Amended Term Loan Agreement), including the maintenance of the following ratios:

- Asset Coverage Ratio of not less than 1.80 to 1.00 as of September 30, 2023 and the last day of each fiscal quarter thereafter
- Total Net Leverage Ratio of not greater than 2.50 to 1.00 as of September 30, 2023, and each fiscal quarter thereafter, and
- Current Ratio of not less than 1.00 to 1.00, determined as of the last day of any fiscal quarter period, as of September 30, 2023 and for each fiscal quarter thereafter.

As of September 30, 2023, the Company was in compliance with the financial covenants under the Amended Term Loan Agreement.

The Amended Term Loan Agreement also contains an APOD for the Company's Monument Draw acreage through the drilling and completion of certain wells. The Amended Term Loan Agreement contains a proved developed producing production test and an APOD economic test which the Company must maintain compliance with otherwise, subject to any available remedies or waivers, the Company is required to immediately cease making expenditures in respect of the APOD other than any expenditures deemed necessary by the Company in respect of no more than six additional APOD wells.

The Amended Term Loan Agreement also contains certain events of default, including non-payment; breaches of representations and warranties; non-compliance with covenants or other agreements; cross-default to material indebtedness; judgments; change of control; and voluntary and involuntary bankruptcy.

In conjunction with entering into the original Term Loan Agreement in November 2021, the Company agreed to pay a premium to the lenders upon a future change of control event in which a majority of the board of directors or the Chief Executive Officer (the "CEO") or the Principal Financial Officer positions do not remain held by the same persons as before the change of control event ("Change of Control Call Option"). The premium is reduced over time through the payment of interest and certain fees. The Change of Control Call Option is accounted for as an embedded derivative not clearly and closely related to the host debt instrument. Accordingly, the Company recorded the initial fair value separately on the unaudited condensed consolidated balance sheet within "*Other noncurrent liabilities*" and records changes in the fair value of the embedded derivative each reporting period in "*Interest expense and other*" on the unaudited condensed consolidated statements of operations. Refer to Note 6, "*Fair Value Measurements*," for a discussion of the valuation approach used, the significant inputs to the valuation, and for a reconciliation of the change in fair value of the Change of Control Call Option.

**6. FAIR VALUE MEASUREMENTS**

The Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's unaudited condensed consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company separates the fair value of its financial instruments using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no transfers between fair value hierarchy levels for any period presented. The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities associated with commodity-based derivative contracts that were accounted for at fair value as of September 30, 2023 and December 31, 2022 (in thousands):

	<b>September 30, 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Assets from commodity-based derivative contracts	\$ —	\$ 6,671	\$ —	\$ 6,671
<b>Liabilities</b>				
Liabilities from commodity-based derivative contracts	\$ —	\$ 71,452	\$ —	\$ 71,452
<b>December 31, 2022</b>				
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets from commodity-based derivative contracts	\$ —	\$ 21,623	\$ —	\$ 21,623
<b>Liabilities</b>				
Liabilities from commodity-based derivative contracts	\$ —	\$ 62,935	\$ —	\$ 62,935

Derivative contracts listed above as Level 2 include fixed-price swaps, collars, basis swaps and WTI NYMEX rolls that are carried at fair value. The Company records the net change in the fair value of these positions in "*Net gain (loss) on derivative contracts*" in the Company's unaudited condensed consolidated statements of operations. The Level 2 observable data includes the forward curves for commodity prices based on quoted market prices and implied volatility factors related to changes in the forward curves. See Note 7, "*Derivative and Hedging Activities*," for additional discussion of derivatives.

The Company's derivative contracts are with major financial institutions with investment grade credit ratings which are believed to have minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts; however, the Company does not anticipate such nonperformance.

As discussed in Note 5, "*Debt*," the Company reflects the fair value of the Change of Control Call Option separately on the unaudited condensed consolidated balance sheets and changes to the fair value of the embedded derivative each reporting period in "*Interest expense and other*" on the unaudited condensed consolidated statements of operations. The valuation of the Change of Control Call Option includes significant inputs such as the timing and probability of discrete potential exit scenarios, forward interest rate curves, and discount rates based on implied and market yields. The following table sets forth a reconciliation of the changes in fair value of the Change of Control Call Option classified as Level 3 in the fair value hierarchy (in thousands):

	<b>Change of Control Call Option</b>
Balance at December 31, 2022	\$ 4,136
Change in fair value	(2,582)
<b>Balance at September 30, 2023</b>	<b>\$ 1,554</b>

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Estimated fair value amounts have been determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents and restricted cash, accounts receivable, and accounts payable approximates their carrying value due to their short-term nature. The estimated fair value of borrowings under the Company's Amended Term Loan Agreement approximates carrying value because the interest rates approximate current market rates.

The Company follows the provisions of the FASB's Accounting Standards Codification ("ASC") 820, *Fair Value Measurement* for nonfinancial assets and liabilities measured at fair value on a non-recurring basis. These provisions apply to the Company's initial recognition of AROs for which fair value is used. The ARO estimates are derived from historical costs and management's expectation of future cost environments; and therefore, the Company has designated these liabilities as Level 3. See Note 8, "Asset Retirement Obligations," for a reconciliation of the beginning and ending balances of the liability for the Company's AROs.

**7. DERIVATIVE AND HEDGING ACTIVITIES**

The Company is exposed to commodity price risks relating to its ongoing business operations. In accordance with the Company's policy and the requirements under the Term Loan Agreement, it generally hedges a substantial, but varying, portion of anticipated oil and natural gas production for future periods. Derivatives are carried at fair value on the unaudited condensed consolidated balance sheets as assets or liabilities, with the changes in the fair value included in the unaudited condensed consolidated statements of operations for the period in which the change occurs. The Company has elected not to designate any of its derivative contracts for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these derivative contracts, as well as all payments and receipts on settled derivative contracts, in "*Net gain (loss) on derivative contracts*" on the unaudited condensed consolidated statements of operations. The Company's hedge policies and objectives may change significantly as its operational profile changes. The Company does not enter into derivative contracts for speculative trading purposes.

It is the Company's policy to enter into derivative contracts only with counterparties that are creditworthy financial or commodity hedging institutions deemed by management as competent and competitive market makers. As of September 30, 2023, the Company did not post collateral under any of its derivative contracts as they are secured under the Company's Term Loan Agreement.

The Company's crude oil and natural gas derivative positions at any point in time may consist of fixed-price swaps, costless put/call collars, basis swaps and WTI NYMEX rolls further described as follows:

- *Fixed-price swaps* are designed so that the Company receives or makes payments based on a differential between fixed and variable prices for crude oil and natural gas.
- *Costless collars* consist of a sold call, which establishes a maximum price the Company will receive for the volumes under contract and a purchased put that establishes a minimum price and are generally utilized less frequently by the Company than fixed-price swaps.
- *Basis swaps* effectively lock in a price differential between regional prices (i.e. Midland) where the product is sold and the relevant pricing index under which the oil production is hedged (i.e. Cushing).
- *WTI NYMEX roll agreements* account for pricing adjustments to the trade month versus the delivery month for contract pricing.

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following table summarizes the location and fair value amounts of all commodity derivative contracts in the unaudited condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 (in thousands):

Balance sheet location	September 30, 2023	December 31, 2022	Balance sheet location	September 30, 2023	December 31, 2022
Current assets	\$ 4,649	\$ 16,244	Current liabilities	\$ (36,363)	\$ (29,286)
Other noncurrent assets	2,022	5,379	Other noncurrent liabilities	(35,089)	(33,649)
	<u>\$ 6,671</u>	<u>\$ 21,623</u>		<u>\$ (71,452)</u>	<u>\$ (62,935)</u>

The following table summarizes the location and amounts of the Company's realized and unrealized gains and losses on derivative contracts in the Company's unaudited condensed consolidated statements of operations (in thousands):

Type	Location of net gain (loss) on derivative contracts on Statement of Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
<b>Commodity derivative contracts:</b>					
Unrealized gain (loss)	Other income (expenses)	\$ (46,805)	\$ 102,112	\$ (23,469)	\$ 23,911
Realized gain (loss)	Other income (expenses)	\$ (6,882)	\$ (34,478)	\$ (6,272)	\$ (112,045)
<b>Total net gain (loss)</b>		<u>\$ (53,687)</u>	<u>\$ 67,634</u>	<u>\$ (29,741)</u>	<u>\$ (88,134)</u>

At September 30, 2023, the Company had the following open crude oil and natural gas derivative contracts:

Instrument	2023	2024	2025	2026	2027
<b>Crude oil:</b>					
Fixed-price swap:					
Total volumes (Bbls)	462,580	1,840,894	1,370,321	1,002,223	442,887
Weighted average price	\$ 67.85	\$ 63.58	\$ 61.32	\$ 63.43	\$ 61.47
Basis swap:					
Total volumes (Bbls)	461,603	1,840,274	1,370,321	1,002,223	442,887
Weighted average price	\$ 0.41	\$ 0.27	\$ 0.20	\$ 0.02	\$ 0.41
WTI NYMEX roll:					
Total volumes (Bbls)	445,995	1,837,851	1,370,321	1,002,223	442,887
Weighted average price	\$ 0.50	\$ 0.27	\$ 0.13	\$ (0.01)	\$ 0.01
<b>Natural gas:</b>					
Fixed-price swap:					
Total volumes (MMBtu)	874,211	4,442,234	3,969,413	2,174,383	459,650
Weighted average price	\$ 3.72	\$ 3.54	\$ 3.36	\$ 3.97	\$ 3.53
Two-way collar:					
Total volumes (MMBtu)	1,082,869	2,610,639	1,651,321	2,063,812	1,355,000
Weighted average price (call)	\$ 5.21	\$ 5.08	\$ 5.12	\$ 5.26	\$ 3.53
Weighted average price (put)	\$ 3.76	\$ 3.67	\$ 3.72	\$ 3.70	\$ 5.57
Basis swap:					
Total volumes (MMBtu)	1,957,080	7,052,822	5,602,178	4,238,195	1,814,650
Weighted average price	\$ (0.86)	\$ (0.87)	\$ (0.68)	\$ (0.77)	\$ 3.66

The Company presents the fair value of its derivative contracts at the gross amounts in the unaudited condensed consolidated balance sheets. The following table shows the potential effects of master netting arrangements on the fair value of the Company's derivative contracts at September 30, 2023 and December 31, 2022 (in thousands):

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

<b>Offsetting of Derivative Assets and Liabilities</b>	<b>Derivative Assets</b>		<b>Derivative Liabilities</b>	
	<b>September 30, 2023</b>	<b>December 31, 2022</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Gross Amounts - Consolidated Balance Sheet	\$ 6,671	\$ 21,623	\$ (71,452)	\$ (62,935)
Amounts Not Offset - Consolidated Balance Sheet	(6,671)	(20,997)	6,671	20,997
<b>Net Amount</b>	<b>\$ —</b>	<b>\$ 626</b>	<b>\$ (64,781)</b>	<b>\$ (41,938)</b>

The Company enters into an International Swap Dealers Association Master Agreement ("ISDA") with each counterparty prior to a derivative contract with such counterparty. The ISDA is a standard contract that governs all derivative contracts entered into between the Company and the respective counterparty. The ISDA allows for offsetting of amounts payable or receivable between the Company and the counterparty, at the election of both parties, for transactions that occur on the same date and in the same currency.

**8. ASSET RETIREMENT OBLIGATIONS**

The Company records an ARO on oil and natural gas properties when it can reasonably estimate the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon costs. The Company records the ARO liability on the unaudited condensed consolidated balance sheets and capitalizes the cost in "*Oil and natural gas properties*" during the period in which the obligation is incurred. The Company records the accretion of its ARO liabilities in "*Depletion, depreciation and accretion*" expense in the unaudited condensed consolidated statements of operations. The additional capitalized costs are depreciated on a unit-of-production basis.

The Company recorded the following activity related to its ARO liability (in thousands):

Liability for asset retirement obligations as of December 31, 2022	\$ 15,469
Accretion expense	561
Liabilities incurred	11
Liabilities settled	(112)
Revisions to estimate	1,273
<b>Liability for asset retirement obligations as of September 30, 2023</b>	<b>17,202</b>

**9. COMMITMENTS AND CONTINGENCIES****Commitments**

In May 2022, the Company entered into a joint venture agreement to develop a strategic acid gas treatment and carbon sequestration facility and entered into a gas treating agreement. The Company has a minimum volume commitment of 20,000 Mcf per day under the gas treating agreement, with certain rollover rights and start-up flexibility, for an initial term of five years from the in-service date of the facility. Under the gas treating agreement, the Company will pay a treating rate that begins at \$1.65/Mcf and varies based on volumes delivered to the facility. At an initial treated volume of 12,000 Mcf/d, the commitment would be approximately \$7.3 million for the first 12 months of the agreement. For additional information on this joint venture, see Note 13, "*Additional Financial Information*".

The Company has entered into various long-term gathering, transportation and sales contracts with respect to its oil and natural gas production from the Delaware Basin in West Texas. As of September 30, 2023, the Company had in place multiple long-term crude oil and natural gas contracts in this area and the sales prices under these contracts are based on posted market rates. Under the terms of these contracts, the Company has committed a substantial portion of its production from this area for periods ranging from one to twenty years from the date of first production.

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Contingencies**

In addition to the matter described below, from time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. While the outcome and impact of currently pending legal proceedings cannot be determined, the Company's management and legal counsel believe that the resolution of these proceedings through settlement or adverse judgment will not have a material effect on the Company's unaudited condensed consolidated operating results, financial position or cash flows.

Surface owners of properties in Louisiana, where the Company formerly operated, often file lawsuits or assert claims against oil and natural gas companies claiming that operators and working interest owners are liable for environmental damages arising from operations conducted on the leased properties. These damages are frequently measured by the cost to restore the leased properties to their original condition. Currently and in the past, the Company has been party to such matters in Louisiana. With regard to pending matters, the overall exposure is not currently determinable. The Company intends to vigorously oppose these claims.

**10. REDEEMABLE CONVERTIBLE PREFERRED STOCK**

**Overview.** On March 28, 2023, the Company received \$24.4 million in proceeds (net of \$0.6 million in original issue discount) from the sale of 25,000 shares of Series A Redeemable Convertible Preferred Stock (the "preferred stock") in a private placement to certain funds managed by Luminus Management, LLC, Oaktree Capital Management, LP, and LSP Investment Advisors, LLC, the Company's largest three existing stockholders ("Holders"). On September 6, 2023, the Company received \$37.1 million in proceeds (net of \$0.9 million in original issue discount) from the sale of 38,000 shares of preferred stock in a private placement to the Holders. Each of the Holders has an employee that has been elected to and serves on the Company's board of directors, comprised of six members. The issuance of preferred stock on both March 28, 2023 and September 6, 2023 was approved by the Company's board of directors upon recommendation by a special committee of disinterested directors that was established to evaluate the proposed terms of the preferred stock.

For accounting purposes, upon issuance of the preferred stock on March 28, 2023 and September 6, 2023, the Company recorded \$23.5 million (\$25.0 million net of original issue discount and accrued offering costs) and \$ 36.9 million (\$38.0 million net of original issue discount and accrued offering costs), respectively, as mezzanine equity (temporary equity) on the unaudited condensed consolidated balance sheets because it is not mandatorily redeemable but does contain a redemption feature at the option of the preferred holders that is considered not solely within the Company's control. Due to the redeemable nature of the preferred stock, as further discussed below, at March 31, 2023 and September 30, 2023, the Company recorded non-cash deemed dividends of approximately \$1.5 million and \$1.1 million to increase the carrying value of the preferred stock to its redemption amounts of approximately \$25.0 million and \$38.0 million, respectively.

For the three and nine months ended September 30, 2023, the Company paid-in-kind ("PIK") its dividend on the preferred stock of \$2.8 million and \$3.8 million, respectively. As of September 30, 2023, the carrying value of the preferred stock, inclusive of PIK dividends, is approximately \$66.8 million.

**Voting Rights.** Holders of preferred stock have no voting rights with respect to the shares of preferred stock.

**Dividends.** Holders of preferred stock are entitled to receive cumulative dividends at a fixed rate of 14.5% per annum on the Liquidation Preference (\$1,000 per share, or \$63.0 million, increased for any PIK accruals), compounding and accruing quarterly in arrears. Dividends may be paid in cash or, if not declared and paid in cash, the amount of any such dividend shall automatically accrue at a fixed rate of 16.0% per annum on the Liquidation Preference and be added to the Liquidation Preference (a "PIK Accrual"). Currently, the Company's Amended Term Loan Agreement prohibits the payment of cash dividends. Additionally, while the Company has not declared or paid dividends on its common

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

stock since its inception, holders of preferred stock will be entitled to participate in any dividends or permitted distributions to holders of common stock on an as-converted basis should they occur.

*Conversion Features.* In addition to the conversion rights noted in “*Redemption Features (Change of Control)*” below, Holders of preferred stock may convert their shares into common stock at a conversion ratio (the “Conversion Ratio”) equal to the then applicable Liquidation Preference at the time of conversion divided by the then applicable Conversion Price (initially equal to an 18% premium to the volume weighted average price of common stock for the 20 trading days immediately preceding the closing date). Additionally, the Company has the right, at its option, to convert outstanding shares of preferred stock into common stock at the Conversion Ratio should the Company meet certain calculated valuation metrics which when divided by the number of outstanding shares of common stock equals or exceeds 130% of the Conversion Price.

*Redemption Features (Issuer).* The Company has the option to redeem the preferred stock in cash for an amount per share of Preferred Stock equal to (the “Redemption Price”):

- at any time prior to 120 days following the closing date, 100% of the Liquidation Preference at such time;
- at any time on or after 120 days following the closing date but prior to the 180 days following the closing date, 102% of the Liquidation Preference at such time;
- at any time on or after 180 days following the closing date but on or prior to the first anniversary of the closing date, 105% of the Liquidation Preference at such time;
- at any time after the first anniversary of the closing date but on or prior to the second anniversary of the closing date, 108% of the Liquidation Preference at such time; and
- at any time after the second anniversary of the closing date, 120% of the Liquidation Preference at such time.

*Redemption Features (Change of Control).* In the event of a change of control, holders have the right to receive:

- at any time on or prior to 150 days following the issuance date, and at the election of the Company, a cash payment equal to the Liquidation Preference or equity consideration equal to the 107.5% of the Liquidation Preference, or
- at any time after the one hundred fiftieth (150th) day following the issuance date, the Company shall offer each Holder a cash payment equal to the Redemption Price. Holders shall also have the ability to elect conversion into common stock at the Conversion Ratio. Until (i) a termination of or certain amendments to the Amended Term Loan Agreement or (ii) one year past the maturity date of the Amended Term Loan Agreement, an election of the cash payment option by holders in a change of control scenario is not permitted.

**11. STOCKHOLDERS' EQUITY**

**Incentive Plans**

The Company's board of directors adopted the 2020 Long-Term Incentive Plan (the “Plan”), as amended in 2021, in which an aggregate of approximately 1.8 million shares of the Company's common stock were available for grant pursuant to awards under the Plan. As of September 30, 2023, a maximum of 1.1 million of the Company's common stock remained reserved for issuance under the Plan. For the nine months ended September 30, 2023 and 2022, the Company recognized a benefit of \$1.2 million and expense of \$1.5 million, respectively, related to stock-based-compensation awards granted to employees and directors, including grants of stock options and restricted stock. The benefit recognized in the nine months ended September 30, 2023 is due to forfeitures of stock options and restricted

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

stock related to the departure of certain executives and employees. Stock-based compensation expense is recorded as a component of "*General and administrative*" on the unaudited condensed consolidated statements of operations.

**Restricted Stock**

From time to time, the Company grants shares of restricted stock units ("RSUs") under the Plan to employees of the Company. Under the Plan, employee RSUs will vest and convert to shares in equal amounts typically over a three or four year vesting period from the date of the grant, depending on award, or when the performance or market conditions occur as described further in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

During the nine months ended September 30, 2023, the Company granted less than 0.1 million shares of RSUs at a weighted average grant date fair value of \$10.68 per share. At September 30, 2023, the Company had \$0.5 million of unrecognized compensation expense related to non-vested RSU awards to be recognized over a weighted average period of less than 1 year.

**Stock Options**

From time to time, the Company has granted stock options under the Plan covering shares of common stock to employees of the Company. Stock options, when exercised, are settled through the payment of the exercise price in exchange for new shares of stock underlying the option. Awards granted under the Plan typically vest over a four year period at a rate of one-fourth on the annual anniversary date of the grant and expire seven years from the date of grant. No stock options have been granted during 2023. At September 30, 2023, the Company had less than \$ 0.1 million of unrecognized compensation expense related to non-vested stock options to be recognized over a weighted-average period of less than one year.

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. EARNINGS PER SHARE**

The following represents the calculation of earnings (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Basic:</b>				
Net (loss) income	\$ (53,799)	\$ 105,888	\$ (35,736)	\$ 26,191
Less: Preferred stock dividend	(3,863)	—	(6,352)	—
Less: Undistributed earnings allocable to preferred stockholders	—	—	—	—
Net (loss) income available to common stockholders	\$ (57,662)	\$ 105,888	\$ (42,088)	\$ 26,191
Weighted average basic number of common shares outstanding basic	16,457	16,340	16,436	16,327
Basic net (loss) income per share of common stock	\$ (3.50)	\$ 6.48	\$ (2.56)	\$ 1.60
<b>Diluted:</b>				
Net (loss) income available to common stockholders basic	\$ (57,662)	\$ 105,888	\$ (42,088)	\$ 26,191
Reallocation of undistributed earnings	—	—	—	—
Net (loss) income available to common stockholders diluted	\$ (57,662)	\$ 105,888	\$ (42,088)	\$ 26,191
Weighted average basic number of common shares outstanding basic	16,457	16,340	16,436	16,327
Common stock equivalent shares representing shares issuable upon:				
Exercise of warrants and stock options	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Vesting of restricted stock units	Anti-dilutive	143	Anti-dilutive	169
Weighted average diluted number of common shares outstanding diluted	16,457	16,483	16,436	16,496
Diluted net (loss) income per share of common stock	\$ (3.50)	\$ 6.42	\$ (2.56)	\$ 1.59

The Company computes earnings per share in accordance with ASC Topic 260, *Earnings per Share* ("ASC 260"), which requires earnings per share for each class of stock (common stock and participating preferred stock) to be calculated using the two-class method which allocates earnings for the reporting period between common shareholders and other security holders based on their respective participation rights in undistributed earnings. Diluted earnings per share was calculated using the two-class method, as this computation was more dilutive than the calculation using the if-converted method. For additional information on the Company's preferred stock, which is considered a participating security, see Note 10, "Redeemable Convertible Preferred Stock".

For the three and nine months ended September 30, 2023, common stock equivalents, including options and restricted stock units, totaling 0.3 million and 0.6 million, respectively, were anti-dilutive and not included in the computation of diluted earnings per share of common stock. For the three and nine months ended September 30, 2022, common stock equivalents, including warrants, options and RSUs, totaling 7.4 million were not included in the computation of diluted earnings per share of common stock because the effect would have been anti-dilutive.

**BATTALION OIL CORPORATION****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. ADDITIONAL FINANCIAL STATEMENT INFORMATION**

Certain balance sheet amounts are comprised of the following (in thousands):

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
<b>Accounts receivable, net:</b>		
Oil, natural gas and natural gas liquids revenues	\$ 24,571	\$ 33,980
Joint interest accounts	1,668	3,201
Other	938	793
	<u>\$ 27,177</u>	<u>\$ 37,974</u>
<b>Prepays and other:</b>		
Prepays	\$ 347	\$ 715
Funds in escrow	344	341
Other	95	75
	<u>\$ 786</u>	<u>\$ 1,131</u>
<b>Other assets (Non-current):</b>		
Investment in unconsolidated affiliate	\$ 1,435	\$ 1,561
Contract asset	8,050	—
Funds in escrow	545	527
Other	738	739
	<u>\$ 10,768</u>	<u>\$ 2,827</u>
<b>Accounts payable and accrued liabilities:</b>		
Trade payables	\$ 16,256	\$ 42,919
Accrued oil and natural gas capital costs	12,353	19,911
Revenues and royalties payable	21,016	26,759
Accrued employee compensation	1,548	2,300
Accrued lease operating expenses	8,059	8,005
Other	185	201
	<u>\$ 59,417</u>	<u>\$ 100,095</u>

*Investment in Unconsolidated Affiliate.* In May 2022, the Company entered into a joint venture with Caracara Services, LLC ("Caracara") to develop an acid gas treatment facility to remove hydrogen sulfide and carbon dioxide from its produced natural gas. Caracara provided the initial capital for the construction of the treatment facility. The Company contributed certain full cost pool assets to the related party joint venture in a non-cash exchange for a retained 5% equity interest in Wink Amine Treater, LLC ("WAT") (previously Brazos Amine Treater, LLC ("BAT"), an unconsolidated subsidiary. For accounting purposes, since the Company does not control the key activities (e.g. operating and maintaining the facility) which most significantly impact economic performance nor does the Company have the obligation to absorb losses or the right to receive benefits that could potentially be significant, the Company is not the primary beneficiary of WAT. Accordingly, the Company accounts for its investment in WAT (a related party) using the equity method of accounting based on its ability to exercise significant influence, but not control, over the key activities of the joint venture. For more information related to this joint venture, see Note 9, "Commitments and Contingencies".

**BATTALION OIL CORPORATION**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Contract Asset.* During the third quarter of 2023, the Company advanced a capital contribution of \$ 8.05 million on behalf of its joint venture partner in WAT to fund a workover operation on the Acid Gas Injection ("AGI") well. Pursuant to the terms of the agreement governing the joint venture, the Company has multiple remedies to recover such advance, including (1) declaring such payment a loan, which pursuant to the agreement would have an interest rate of the lesser of 15% or the maximum rate permitted by law, (2) recoupment from distributions from the joint venture and (3) reallocation of equity of the joint venture based on the relative level of total capital contributions by the parties after taking into account the advance. The Company estimates it will advance additional capital contributions on behalf of its joint venture partner during the fourth quarter of 2023 of approximately \$5.5 million to fund the necessary capital to WAT required to sidetrack the AGI well.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is intended to assist in understanding our results of operations for the three and nine months ended September 30, 2023 and 2022 and should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q and with the consolidated financial statements, notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. The results presented in this Form 10-Q are not necessarily indicative of future operating results.

Statements in this discussion may be forward-looking. These forward-looking statements involve risks and uncertainties, including those discussed below, which could cause actual results to differ from those expressed. For more information, see "*Special note regarding forward-looking statements*."

### **Overview**

We are an independent energy company focused on the acquisition, production, exploration and development of onshore liquids-rich oil and natural gas assets in the United States. Our properties and drilling activities are currently focused in the Delaware Basin, where we have an extensive drilling inventory that we believe offers attractive long-term economics.

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the price that we receive for that production. Our production volumes will decline as reserves are depleted unless we expend capital in successful development and exploration activities or acquire properties with existing production. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, attempts by foreign oil and natural gas producers to control the global supply, weather, transportation take-away capacity constraints, inventory storage levels, basis differentials and other factors. Accordingly, finding, developing and producing oil and natural gas reserves at economical costs are critical to our long-term success.

When commodity prices decline significantly our ability to finance our capital budget and operations may be adversely impacted. While we use derivative instruments to provide partial protection against declines in oil and natural gas prices, the total volumes we hedge are less than our expected production, vary from period to period based on our view of current and future market conditions, remain consistent with the requirements in effect under our Amended Term Loan Agreement and extend, on a rolling basis, for a limited period of time (generally, four years). These limitations result in our liquidity being susceptible to commodity price declines. Additionally, while intended to reduce the effects of volatile commodity prices, derivative transactions may limit our potential gains and increase our potential losses if commodity prices were to rise substantially over the price established by the hedge. Our hedge policies and objectives may change significantly as our operational profile changes and/or commodities prices change. We do not enter into derivative contracts for speculative trading purposes.

### **Recent Developments**

**Preferred Stock Equity Issuance.** On March 28, 2023 and September 6, 2023, we sold, in private placements, an aggregate of 25,000 shares and 38,000 shares, respectively, of Series A Convertible Preferred Stock (the "preferred stock") to certain funds managed by Luminus Management, LLC, Oaktree Capital Management, LP, and LSP Investment Advisors, LLC, who represent our largest three existing stockholders (the "Investors"). We received \$24.4 million in proceeds, net of \$0.6 million in original issue discount, and \$37.1 million in proceeds, net of \$0.9 million of original issue discount, respectively. The issuances of preferred stock were approved by our board of directors upon recommendation by a special committee of disinterested directors that was established to evaluate the proposed terms of the preferred stock. Holders of the preferred stock have no voting rights with respect to the shares of preferred stock. The preferred stock is entitled to annual dividends, paid either in cash at a fixed rate of 14.5% annually or accrued at a fixed rate of 16.0% annually ("PIK accrual") at the option of the Company. Currently, our Amended Term Loan Agreement

prohibits the payment of cash dividends. Paid in kind ("PIK") dividends are cumulative, compound and accrue quarterly in arrears and are added to the Liquidation Preference (defined below) of the preferred stock.

Shares of preferred stock are convertible, subject to conversion ratios and prices stipulated in the certificate of designation of the preferred stock, at any time by the holders of the preferred stock and by Battalion after meeting certain other agreement requirements. Battalion also has the right to redeem the preferred stock in cash at an amount equal to between 100-120% of the Liquidation Preference (\$1,000 per share, or \$63.0 million, increased for any PIK accruals) determined according to the redemption date. Additionally, in the event of a change of control, holders of the preferred stock have the right to receive, (i) at any time on or prior to 150 days following the closing date, and at the election of the Company, a cash payment equal to the Liquidation Preference or equity consideration equal to the 107.5% of the Liquidation Preference, or (ii) at any time after 150 days following the closing date, a cash payment equal to between 100-120% of the Liquidation Preference determined by the redemption date or conversion into common stock. Until (i) a termination of or certain amendments to the Amended Term Loan Agreement or (ii) one year past the maturity date of the Amended Term Loan Agreement, an election of the cash payment option by holders in a change of control scenario is not permitted. For additional information, see Note 10, *"Redeemable Convertible Preferred Stock"* to the unaudited condensed consolidated financial statements.

**H2S Treating Joint Venture.** In May 2022, we entered into a joint venture agreement with Caracara Services, LLC ("Caracara") to develop a strategic acid gas treatment and carbon sequestration facility (the "Facility") in Winkler County, Texas. The joint venture, operating as Wink Amine Treater, LLC ("WAT") (previously Brazos Amine Treater, LLC ("BAT"), has also entered into a Gas Treating Agreement ("GTA") with us for natural gas production from our Monument Draw area. In exchange for contributing to the joint venture a wellbore with an approved permit for the injection of acid gas and surface land, we retained a 5% equity interest in WAT, an unconsolidated subsidiary. Caracara provided the initial capital for the construction of the Facility, which is expected to have an initial capacity of approximately 30 MMcf per day, and a design capacity to treat up to 10% combined concentrations for H2S and CO2. During commissioning and initial operations, it was determined that additional pressure was required to initiate gas injection. To correct this issue, a positive displacement pump was ordered and has been installed. The Facility's injection well also experienced pressure communication between the tubing and annular space after an injection procedure. We commenced workover operations to remediate this issue and are exploring alternatives in the event such efforts prove inadequate.

During the third quarter of 2023, additional complications were encountered with the workover operation causing higher than expected costs. To fund this workover operation, we advanced a capital contribution of \$8.05 million on behalf of our joint venture partner in WAT. Pursuant to the terms of the agreement governing the joint venture, we have multiple remedies to recover such advance, including (1) declaring such payment a loan, which pursuant to the agreement would have an interest rate of the lesser of 15% or the maximum rate permitted by law, (2) recoupment from distributions from the joint venture and (3) reallocation of equity of the joint venture based on the relative level of total capital contributions by the parties after taking into account the advance. We estimate that we will advance additional capital contributions on behalf of our joint venture partner during the fourth quarter of 2023 of approximately \$5.5 million to fund the necessary capital to WAT required to sidetrack the Acid Gas Injection ("AGI") well.

Our current forecast assumes the AGI facility will be processing 20,000 mcf gas per day in the first quarter of 2024. It is possible that the existing remedial well work could extend past this estimate. Any delays in commissioning past the first quarter of 2024 will result in higher processing fees than currently forecast until such time the facility comes online.

Under the GTA, we will pay a treating rate that varies based on volumes delivered to the Facility for a term that will last 20 years from the in-service date of the Facility and have a minimum volume commitment of 20 MMcf per day, with certain rollover rights and start-up flexibility, for an initial term of five years from the in service date of the Facility, which can be extended up to seven years under certain conditions. Once in service, the GTA has a tiered-rate structure which is expected to drive a greater than 50 percent reduction in treating fees. Our current estimates of facility in-service dates and future treating fee reductions are subject to various operational and other risk factors, some of which are beyond our control, which could impact the timing and extent of these estimates.

## Capital Resources and Liquidity

**Overview.** Our ability to execute our operating strategy is dependent on our ability to maintain adequate liquidity and access additional capital, as needed. Our future capital resources and liquidity depend, in part, on our success in developing our leasehold interests, growing our reserves and production and finding additional reserves. Sufficient levels of available cash are required to fund capital expenditures necessary to offset inherent declines in our production and proven reserves. As of September 30, 2023, we had \$42.7 million of cash and cash equivalents, no additional borrowing capacity under the Amended Term Loan Agreement (as defined in Note 5, *"Debt"* to the unaudited condensed consolidated financial statements) and a total of \$95.0 million in debt repayments due through September 2025, including \$10.0 million due during the remainder of 2023.

In November 2022, we were required to seek an amendment to our Term Loan Agreement (as defined in Note 5, *"Debt"* to the unaudited condensed consolidated financial statements) to alleviate Current Ratio covenant compliance requirements through the first quarter of 2023 as a result of reduced commodity prices, higher interest rates, and the high capital costs experienced in our 2022 drilling program, which are by nature difficult to predict and subject to factors outside our control. In the first quarter of 2023, commodity prices, cost conditions and interest rates continued to deteriorate, which further constrained our liquidity. As a result, we projected near-term future covenant breaches (specifically the Current Ratio) beginning with the first quarter of 2023, coupled with inadequate liquidity resources available to fully fund all of our upcoming obligations, including debt repayments and interest, capital expenditures and operating costs. In the absence of additional liquidity from other sources with agreeable economic terms, we obtained \$24.4 million in March 2023 and \$37.1 million in September 2023 of additional preferred equity funding from our three largest existing stockholders.

Changes to our current business estimates and forecasts, based primarily on recent declines in commodity prices and modifications to our planned drilling schedule to achieve better overall well economics, indicate that we will require additional liquidity to continue our operations and meet our debt covenant requirements for the next 12 months from the issuance of these unaudited condensed consolidated financial statements. In response to these events and conditions, we have continued to execute on a plan to reduce operating and capital costs to improve cash flow, including a reduction in headcount in April 2023 to align with planned drilling activity and the issuance of preferred stock totaling \$63.0 million during 2023. We have also obtained a support letter from the Investors to purchase up to an additional \$55.0 million of preferred equity securities. When and as needed, we will provide notice to the Investors of our intent to draw the funds necessary to enable us to meet our obligations as they become due. Management believes that based upon its operational forecasts, cash and cash equivalents on hand, cost reduction measures, and the commitment by the Investors to purchase \$55.0 million in additional preferred equity, it is probable that we will have sufficient liquidity to fund our operations, meet our debt requirements and maintain compliance with our future debt covenants as described in Note 5, *"Debt,"* for the next 12 months from the issuance of these unaudited condensed consolidated financial statements. We will, however, continue to pursue alternative liquidity sources which could include entering into other financing arrangements (e.g. future equity raises), a sale of a portion of our non-core assets, seeking capital partners for our drilling program, pursuing strategic merger opportunities or joint ventures, the sale of the Company, or pursuing additional general and administrative or other cost reduction opportunities. Our estimates and forecasts are based upon assumptions that may prove to be incorrect due to many factors that are currently unknown, such as prevailing economic conditions, many of which are beyond our control. In the event the assumptions underlying our estimates and forecasts prove to be incorrect, our operating plans, capital requirements, and covenant compliance may be adversely impacted.

We continuously monitor changes in market conditions and will continue to adapt our operational and capital plans as necessary to strive to maintain sufficient liquidity, meet our drilling requirements, and selectively develop or expand our acreage position, while meeting our debt obligations and maintaining compliance with our restrictive covenants. We continue to explore strategic transactions to address these concerns, while also looking at opportunities to significantly reduce expenses in the near term. In this regard, we continue to consider whether it is advisable to continue to bear the ongoing costs of the listing of our common stock on the NYSE American and of being a reporting company under the Securities Exchange Act of 1934. We believe that we currently qualify to suspend these obligations should we elect to do so. While such a determination has not yet been made, we expect that the cost savings, particularly over the longer term, would be significant; however, as we have noted in the past (see *"Risk Factors"* in our most recent annual report on Form 10-K), we believe doing so would adversely impact liquidity and the trading price of our common stock.

Accordingly, we will continue to consider the matter while we simultaneously pursue strategic and financial alternatives that may render it unnecessary. However, there can be no assurance that such efforts will succeed, that we will not find it necessary to delist or cease being a reporting company or that absent additional capital, reducing costs or other material favorable developments, we will not experience liquidity and covenant compliance issues in the future.

*Other Risks and Uncertainties.* Our ability to complete transactions and maintain or increase our liquidity is subject to a number of variables, including our level of oil and natural gas production, proved reserves and commodity prices, the amount and cost of our indebtedness, as well as various economic and market conditions that have historically affected the oil and natural gas industry. Even if we are otherwise successful in growing our proved reserves and production, if oil and natural gas prices decline for a sustained period of time, our ability to fund our capital expenditures, complete acquisitions, reduce debt, meet our financial obligations and become profitable may be materially impacted.

Additionally, particularly in periods of increasing commodity prices, we continue to be at risk to supply chain issues, including, but not limited to, labor shortages, pipe restrictions and potential delays in obtaining frac and/or drilling related equipment that could impact our business. During these periods, the costs and delivery times of rigs, equipment and supplies may also be substantially greater. The unavailability or high cost of drilling rigs and/or frac crews, pressure pumping equipment, tubulars and other supplies, and of qualified personnel can materially and adversely affect our operations and profitability.

Lastly, actual or anticipated declines in domestic or foreign economic activity or growth rates, regional or worldwide increases in tariffs or other trade restrictions, turmoil affecting the United States or global financial system and markets and a severe economic contraction either regionally or worldwide, resulting from international conflicts, efforts to contain the COVID-19 pandemic or other factors, could materially affect our business and financial condition and impact our ability to finance operations by worsening the actual or anticipated future drop in worldwide oil demand, negatively impacting the price received for oil and natural gas production or adversely impacting our ability to comply with covenants in our Amended Term Loan Agreement. Negative economic conditions could also adversely affect the collectability of our trade receivables or performance by our vendors and suppliers or cause our commodity hedging arrangements to be ineffective if our counterparties are unable to perform their obligations. All of the foregoing may adversely affect our business, financial condition, results of operations, cash flows and, potentially, compliance with the covenants contained in our Amended Term Loan Agreement.

*Debt Obligations.* On November 24, 2021, we and our wholly owned subsidiary, Halcón Holdings, LLC (Borrower) entered into the Term Loan Agreement with Macquarie Bank Limited, as administrative agent, and certain other financial institutions party thereto, as lenders.

On November 14, 2022, we paid approximately \$2.4 million and entered into a further Amended Credit Agreement (the "Amended Term Loan Agreement") with our lenders which modified certain provisions of its original Term Loan Agreement including, but not limited to, our Current Ratio financial covenant, interest rate benchmark, and prepayment premiums, all as further described below.

As of September 30, 2023, we had \$210.2 million of indebtedness outstanding and no letters of credit outstanding under the Amended Term Loan Agreement. We currently, as of November 14, 2023, have \$4.7 million available for the issuance of letters of credit. The maturity date of the Amended Term Loan Agreement is November 24, 2025. Borrowings under the Amended Term Loan Agreement bear a variable interest rate based on the Secured Overnight Financing Rate ("SOFR") plus 0.15% plus a fixed applicable margin of 7.5%. The weighted average interest rate on our borrowings for the quarter ended September 30, 2023 was approximately 12.89%.

Our Amended Term Loan Agreement contains a mandatory repayment schedule with \$10.0 million due at the end of the fourth quarter in 2023 and first quarter of 2024, \$12.5 million due at the end of each of the second and third quarters in 2024 and in the aggregate, \$50.0 million due from the third quarter ending September 30, 2024 through the fiscal quarter ending September 30, 2025 as well as a \$115.0 million payment due upon maturity. Amounts outstanding under the Amended Term Loan Agreement are guaranteed by certain of the Borrower's direct and indirect subsidiaries and secured by a security interest in substantially all of the assets of the Borrower and such direct and indirect subsidiaries,

and all of the equity interests of the Borrower held by us. As part of the Amended Term Loan Agreement there are certain restrictions on the transfer of assets, including cash, to Battalion from the guarantor subsidiaries.

We may elect, at our option, to prepay any borrowing outstanding under the Amended Term Loan Agreement subject to the following prepayment premiums:

Period (after applicable borrowing date <sup>(1)</sup> )	Premium
Months 0-12	Make-whole amount equal to 12 months of interest plus 2.00%
Months 13-24	2.00%
Months 25-36	1.00%
Months 37-48	0.00%

<sup>(1)</sup> Applicable borrowing dates are November 2021 for the original \$200.0 million borrowed and April and November 2022 for the \$20.0 million and \$15.0 million in delayed draw borrowings, respectively.

We may be required to make mandatory prepayments of the loans under the Amended Term Loan Agreement in connection with the incurrence of non-permitted debt, certain asset sales, or with cash on hand in excess of certain maximum levels beginning in 2023. For each fiscal quarter after January 1, 2023, we are required to make mandatory prepayments when our Consolidated Cash Balance, as defined in the Amended Term Loan Agreement, exceeds \$20.0 million. Until December 31, 2024, the forecasted approved plan of development ("APOS") capital expenditures for the succeeding fiscal quarter are excluded for purposes of determining the Consolidated Cash Balance.

The Amended Term Loan Agreement also contains certain financial covenants (as defined), including the maintenance of the following ratios:

- Asset Coverage Ratio of not less than 1.80 to 1.00 as of September 30, 2023 and each fiscal quarter thereafter
- Total Net Leverage Ratio of not greater than 2.50 to 1.00 as of September 30, 2023, and each fiscal quarter thereafter, and
- Current Ratio of not less than 1.00 to 1.00, determined as of the last day of any fiscal quarter period, as of September 30, 2023 and for each fiscal quarter thereafter.

As of September 30, 2023, we were in compliance with the financial covenants under the Term Loan Agreement.

The Amended Term Loan Agreement also contains an APOS for our Monument Draw acreage through the drilling and completion of certain wells. The Amended Term Loan Agreement contains a proved developed producing production test and an APOS economic test which we must maintain compliance with otherwise, subject to any available remedies or waivers, we are required to immediately cease making expenditures in respect of the approved plan of development other than any expenditures deemed necessary by us in respect of no more than six additional approved plan of development wells.

The Amended Term Loan Agreement also contains certain events of default, including non-payment; breaches of representations and warranties; non-compliance with covenants or other agreements; cross-default to material indebtedness; judgments; change of control; and voluntary and involuntary bankruptcy.

Changes in the level and timing of our production, drilling and completion costs, the cost and availability of transportation for our production and other factors varying from our expectations can affect our ability to comply with the covenants under our Amended Term Loan Agreement. As a consequence, we endeavor to anticipate potential covenant compliance issues and work with our lenders under our Amended Term Loan Agreement to address any such issues ahead of time.

While we have largely been successful in obtaining modifications of our covenants as needed, as evidenced most recently by the amendment of our Term Loan Agreement in November 2022 which reduced the Current Ratio covenant as of September 30, 2022 and each successive quarter through the quarter ended September 30, 2023, there can be no assurance that we will be successful in the future. In the event we are not successful in obtaining future modifications or

amendments to our covenants, if needed, there is no assurance that we will be successful in implementing alternatives that allow us to maintain compliance with our covenants or that we will be successful in obtaining alternative financing that provides us with the liquidity that we need to operate our business. Even if successful, alternative sources of financing could prove more expensive than borrowings under our Amended Term Loan Agreement.

#### **Cash Flow**

Net increase (decrease) in cash and cash equivalents is summarized as follows (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
Cash flows provided by operating activities	\$ 11,065	\$ 53,814
Cash flows used in investing activities	(37,106)	(87,780)
Cash flows provided by financing activities	35,905	19,166
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 9,864</u>	<u>\$ (14,800)</u>

*Operating Activities.* Net cash flows provided by operating activities for the nine months ended September 30, 2023 and 2022, respectively were \$11.1 million and \$53.8 million. Items impacting operating cash flows were (i) lower total operating revenues resulting from an approximate \$23.42 per Boe decrease in average realized prices (excluding the impact of hedging arrangements) and lower production volumes for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, partially offset by the impact of settled derivative contracts period over period, (ii) increased operating costs per Boe and increased interest costs in 2023 and (iii) changes in working capital.

*Investing Activities.* Net cash flows used in investing activities for the nine months ended September 30, 2023 and 2022 were approximately \$37.1 million and \$87.8 million, respectively, primarily for drilling and completion activities.

During the nine months ended September 30, 2023, we spent \$36.7 million on oil and natural gas capital expenditures, of which \$31.6 million related to drilling and completion costs and \$4.1 million related to the development of our treating equipment and gathering support infrastructure. During the nine months ended September 30, 2023, our cash capital expenditures included amounts related to the drilling and completion activities that occurred in the fourth quarter of 2022. In the first nine months of 2023, we ran one operated rig in the Delaware Basin and completed and put online one operated well. We also received \$1.2 million in proceeds from the sale of oil and natural gas assets that were deemed to be unnecessary for future operations.

During the nine months ended September 30, 2022, we spent \$87.0 million on oil and natural gas capital expenditures, of which \$77.5 million related to drilling and completion costs and \$6.8 million related to the development of our treating equipment and gathering support infrastructure.

*Financing Activities.* Net cash flows provided by financing activities for the nine months ended September 30, 2023 and 2022 were \$35.9 million and \$19.2 million, respectively. During the nine months ended September 30, 2023, we received \$61.4 million from our Series A preferred stock equity issuance and repaid \$25.1 million under our Amended Term Loan Agreement. During the nine months ended September 30, 2022, we borrowed \$20.1 million under the first delayed draw of the Term Loan Agreement.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon the unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. There have been no material changes to our critical accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

## Results of Operations

We reported net losses of \$53.8 million and \$35.7 million for the three and nine months ended September 30, 2023, respectively, and net income of \$105.9 million and \$26.2 million for the three and nine months ended September 30, 2022, respectively. The table below sets forth financial information for the periods presented.

In thousands (except per unit and per Boe amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net (loss) income	\$ (53,799)	\$ 105,888	\$ (35,736)	\$ 26,191
Operating revenues:				
Oil	43,689	70,406	144,072	206,874
Natural gas	3,668	15,656	8,628	39,296
Natural gas liquids	6,078	12,644	18,893	35,234
Other	671	443	1,927	858
Operating expenses:				
Production:				
Lease operating	11,152	12,265	34,208	35,698
Workover and other	700	2,559	4,669	4,807
Taxes other than income	3,307	5,613	9,677	15,936
Gathering and other	15,512	16,663	48,857	47,787
General and administrative:				
General and administrative	3,878	3,815	14,803	12,531
Stock-based compensation	(686)	683	(1,231)	1,540
Depletion, depreciation and accretion:				
Depletion – Full cost	13,070	13,391	43,238	35,872
Depreciation – Other	167	110	488	230
Accretion expense	189	114	561	334
Other income (expenses):				
Net (loss) gain on derivative contracts	(53,687)	67,634	(29,741)	(88,134)
Interest expense and other	(6,929)	(5,682)	(24,245)	(13,202)
Production:				
Oil – MBbls	539	753	1,905	2,097
Natural Gas - MMcf	2,054	2,352	6,616	7,022
Natural gas liquids – MBbls	288	348	917	924
Total MBoe <sup>(1)</sup>	1,170	1,493	3,925	4,191
Average daily production – Boe <sup>(1)</sup>	12,717	16,228	14,377	15,352
Average price per unit <sup>(2)</sup> :				
Oil price - Bbl	\$ 81.06	\$ 93.50	\$ 75.63	\$ 98.65
Natural gas price - Mcf	1.79	6.66	1.30	5.60
Natural gas liquids price - Bbl	21.10	36.33	20.60	38.13
Total per Boe <sup>(1)</sup>	45.67	66.11	43.72	67.14
Average cost per Boe:				
Production:				
Lease operating	\$ 9.53	\$ 8.22	\$ 8.72	\$ 8.52
Workover and other	0.60	1.71	1.19	1.15
Taxes other than income	2.83	3.76	2.47	3.80
Gathering and other	13.26	11.16	12.45	11.40
General and administrative:				
General and administrative	3.31	2.56	3.77	2.99
Stock-based compensation	(0.59)	0.46	(0.31)	0.37
Depletion	11.17	8.97	11.02	8.56

<sup>(1)</sup> Determined using a ratio of six Mcf of natural gas to one barrel of oil, condensate, or natural gas liquids ("NGLs") based on approximate energy equivalency. This is an energy content correlation and does not reflect the value or price relationship between the commodities.

<sup>(2)</sup> Amounts exclude the impact of cash paid/received on settled contracts as we did not elect to apply hedge accounting.

***Operating Revenues.*** Oil, natural gas and NGLs revenues were \$53.4 million and \$171.6 million for the three and nine months ended September 30, 2023, respectively. Oil, natural gas and NGLs revenues were \$98.7 million and \$281.4 million for the three and nine months ended September 30, 2022, respectively. The decrease in revenues is primarily attributable to a decrease in our average realized prices and lower production volumes for the nine months ended in September 30, 2023 compared to the same period in 2022. Average realized prices (excluding the effects of hedging arrangements) decreased approximately \$20.44 per Boe and \$23.42 per Boe, respectively, for the three and nine months ended September 30, 2023 when compared with the same periods in 2022. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, transportation take-away capacity constraints, inventory storage levels, quality of production, basis differentials and other factors.

Production averaged 12,717 Boe/d and 14,377 Boe/d for the three and nine months ended September 30, 2023, respectively. Production averaged 16,228 Boe/d and 15,352 Boe/d for the three and nine months ended September 30, 2022, respectively. Production was lower for the three and nine months ended September 30, 2023 compared with the same periods in 2022 primarily from midstream disruptions and plant curtailments causing sales per day to be lower on an equivalent basis and natural production declines on producing wells, partially offset by additional operated wells being put online in the third quarter of 2022.

***Lease Operating Expenses.*** Lease operating expenses were \$11.2 million and \$34.2 million for the three and nine months ended September 30, 2023, respectively. Lease operating expenses were \$12.3 million and \$35.7 million for the three and nine months ended September 30, 2022, respectively. On a per unit basis, lease operating expenses were \$9.53 per Boe and \$8.72 per Boe for the three and nine months ended September 30, 2023, respectively. On a per unit basis, lease operating expenses were \$8.22 per Boe and \$8.52 per Boe for the three and nine months ended September 30, 2022, respectively. The increase in lease operating expenses per Boe for the three months and nine months ended September 30, 2023 compared to the prior year resulted primarily from midstream disruptions and plant curtailments causing sales per day to be lower on an equivalent basis.

***Workover and Other Expenses.*** Workover and other expenses were \$0.7 million and \$4.7 million for the three and nine months ended September 30, 2023, respectively. Workover and other expenses were \$2.6 million and \$4.8 million for the three and nine months ended September 30, 2022, respectively. On a per unit basis, workover and other expenses were \$0.60 per Boe and \$1.19 per Boe for the three and nine months ended September 30, 2023, respectively. On a per unit basis, workover and other expenses were \$1.71 per Boe and \$1.15 per Boe for the three and nine months ended September 30, 2022, respectively. The decreased workover and other expenses for the three months ended September 30, 2023 relate to more significant workover projects undertaken in the prior year.

***Taxes Other than Income.*** Taxes other than income were \$3.3 million and \$9.7 million for the three and nine months ended September 30, 2023, respectively. Taxes other than income were \$5.6 million and \$15.9 million for the three and nine months ended September 30, 2022, respectively. Severance taxes are based on realized prices and volumes at the wellhead, while ad valorem taxes are tied to the annual valuation of our properties. As revenues or volumes from oil and natural gas sales increase or decrease, severance taxes on these sales also increase or decrease. On a per unit basis, taxes other than income were \$2.83 per Boe and \$2.47 per Boe for the three and nine months ended September 30, 2023, respectively. On a per unit basis, taxes other than income were \$3.76 per Boe and \$3.80 per Boe for the three and nine months ended September 30, 2022, respectively. The decrease in taxes other than income was largely driven by the reduced commodity pricing experienced in 2023 in addition to lower volumes for the three and nine months ended September 30, 2023, compared to the prior year period.

***Gathering and Other Expenses.*** Gathering and other expenses were \$15.5 million and \$48.9 million for the three and nine months ended September 30, 2023, respectively. Gathering and other expenses were \$16.7 million and \$47.8 million for the three and nine months ended September 30, 2022, respectively. Gathering and other expenses include gathering fees paid to third parties on our oil and natural gas production and operating expenses of our gathering support infrastructure. Our gathering and other expenses are primarily driven by the amount and location of natural gas production, the concentration of H<sub>2</sub>S in our sour gas produced, and the amounts paid to treat our sour gas volumes, either through our own hydrogen sulfide treating plant or through third parties. On a per unit basis, gathering and other expenses were \$13.26 per Boe and \$12.45 per Boe for the three and nine months ended September 30, 2023, respectively, and \$11.16 per Boe and \$11.40 per Boe for the three and nine months ended September 30, 2022,

respectively. The increases in gathering and other expenses per Boe are primarily related to midstream disruptions and plant curtailments as well as an increased percentage of total production requiring H2S treatment, compared to 2022, as well as inflationary impacts on costs associated with our own hydrogen sulfide treating plant.

*General and Administrative Expense.* General and administrative expense was \$3.9 million and \$14.8 million for the three and nine months ended September 30, 2023, respectively. General and administrative expense was \$3.8 million and \$12.6 million for the three and nine months ended September 30, 2022, respectively. On a per unit basis, general and administrative expenses were \$3.31 per Boe and \$3.77 per Boe for the three and nine months ended September 30, 2023, respectively, and were \$2.56 per Boe and \$2.99 per Boe for the three and nine months ended September 30, 2022, respectively. The increase in general and administrative expense for the three and nine months ended September 30, 2023 compared with prior year periods is primarily associated with an increase in professional fees, partially offset by a decrease in payroll and benefits in connection with the headcount reduction in April 2023.

*Depletion, Depreciation, and Amortization Expense.* Depletion for oil and natural gas properties is calculated using the unit of production method, which depletes the capitalized costs of evaluated properties plus future development costs based on the ratio of production for the current period to total reserve volumes of evaluated properties as of the beginning of the period.

Depletion expense was \$13.1 million and \$43.2 million for the three and nine months ended September 30, 2023, respectively. Depletion expense was \$13.4 million and \$35.9 million for the three and nine months ended September 30, 2022, respectively. On a per unit basis, depletion expense was \$11.17 per Boe and \$11.02 per Boe for the three and nine months ended September 30, 2023, respectively. On a per unit basis, depletion expense was \$8.97 per Boe and \$8.56 per Boe for the three and nine months ended September 30, 2022, respectively. The increase in our depletion rate per Boe is primarily due to increased future development costs (tied to market and inflationary increases) associated with proved reserve additions relative to the change in proved reserves.

*Net (loss) gain on derivative contracts.* We enter into derivative commodity instruments to hedge our exposure to price fluctuations on our anticipated oil, natural gas and NGLs production. Consistent with prior years, we have elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, we recorded the net change in the mark-to-market value of these derivative contracts in the unaudited condensed consolidated statements of operations.

For the three and nine months ended September 30, 2023, respectively, we recorded net derivative losses of \$53.7 million and \$29.7 million (\$46.8 million net loss on unsettled contracts and \$6.9 million net realized loss on settled contracts for the three months ended September 30, 2023, and \$23.5 million net loss on unsettled contracts and \$6.3 million net realized loss on settled contracts for the nine months ended September 30, 2023).

For the three and nine months ended September 30, 2022, respectively, we recorded a net derivative gain of \$67.6 million and a net derivative loss of \$88.1 million (\$102.1 million net gain on unsettled contracts and \$34.5 million net realized loss on settled contracts three months ended September 30, 2022, and \$23.9 million net gain on unsettled contracts and \$112.0 million net realized loss on settled contracts for the nine months ended September 30, 2022).

At September 30, 2023, we had a \$6.7 million derivative asset (\$4.6 million current) and a \$71.5 million derivative liability (\$36.4 million current).

*Interest Expense and Other.* Interest expense and other was \$6.9 million and \$24.2 million for the three and nine months ended September 30, 2023, respectively. Interest expense and other was \$5.7 million and \$13.2 million for the three and nine months ended September 30, 2022, respectively. Interest expense and other primarily increased in the current year periods due to increased interest rates, an increased average debt balance due to the additional borrowings in April and November of 2022, and amortization/accretion of financing related costs since November 2022 associated with our Amended Term Loan Agreement. Our weighted average interest rate was approximately 12.89% for the quarter ended September 30, 2023 and 12.56% for the nine months ended September 30, 2023. For the fourth quarter of 2023, our interest rate will be approximately 13.04% on outstanding borrowings.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Derivative Instruments and Hedging Activity**

We are exposed to various risks, including energy commodity price risk, such as price differentials between the NYMEX commodity price and the index price at the location where our production is sold. When oil and natural gas prices decline, our ability to finance our capital budget and operations may be adversely impacted. We expect energy prices to remain volatile and unpredictable, therefore we have designed a risk management policy which provides for the use of derivative instruments to provide partial protection against declines in oil and natural gas prices by reducing the risk of price volatility and the affect it could have on our operations. The types of derivative instruments that we typically utilize include fixed-price swaps, costless collars, basis swaps and WTI NYMEX rolls. The total volumes that we hedge through the use of our derivative instruments varies from period to period; however, our requirement under our Term Loan Agreement, as amended, is to hedge approximately 50% to 85% of our anticipated oil and natural gas production, in varying percentages by year, on a rolling basis for the next four years. Our hedge policies and objectives may change significantly as our operational profile and contractual obligations change but remain consistent with the requirements in effect under our Term Loan Agreement, as amended. We do not enter into derivative contracts for speculative trading purposes.

We are exposed to market risk on our open derivative contracts related to potential non-performance by our counterparties. It is our policy to enter into derivative contracts only with counterparties that are creditworthy institutions deemed by management as competitive market makers. As of September 30, 2023, we did not post collateral under any of our derivative contracts as they are secured under our Term Loan Agreement, as amended. We account for our derivative activities on the balance sheet as either an asset or liability measured at fair value. See Item 1. *Condensed Consolidated Financial Statements (Unaudited)*—Note 7, “Derivative and Hedging Activities,” for more details.

#### **Fair Market Value of Financial Instruments**

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information, involve uncertainties, and cannot be determined with precision. The estimated fair value of cash, cash equivalents and restricted cash, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. See Item 1. *Condensed Consolidated Financial Statements (Unaudited)*—Note 6, “Fair Value Measurements,” for additional information.

#### **Interest Rate Sensitivity**

We are also exposed to market risk related to adverse changes in interest rates. Our interest rate risk exposure results primarily from fluctuations in short-term rates, which are SOFR (and previously, the London Interbank Offered Rate or “LIBOR”) based and may result in reductions of earnings or cash flows due to increases in the interest rates we pay on these obligations.

At September 30, 2023, the principal amount of our term loan debt was \$210.2 million, of which substantially all bears interest at floating and variable interest rates that are tied to SOFR. Fluctuations in market interest rates will cause our annual interest costs to fluctuate. At September 30, 2023, the weighted average interest rate on our variable rate debt was 12.68% per year. If the balance of our variable interest rate debt at September 30, 2023 were to remain constant, a 10% change in market interest rates would impact our cash flows by approximately \$2.8 million per year.

### **ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Principal Financial Officer, we evaluated the design and operation of our disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act) as of September 30, 2023. On the basis of this review, our management, including our Chief Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable

assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, in a manner that allows timely decisions regarding required disclosure.

We did not have any change in our internal controls over financial reporting during the three or nine months ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings to which we are a party is set forth in Item 1. *Condensed Consolidated Financial Statements (Unaudited)*—Note 9, “Commitments and Contingencies,” which is incorporated herein by reference.

### **ITEM 1A. RISK FACTORS**

There have been no changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On September 06, 2023, Battalion Oil Corporation entered into a purchase agreement to sell, in a private placement, an aggregate of 38,000 shares of Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”) which we reported on Form 8-K filed with the SEC on September 7, 2023.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

The following documents are included as exhibits to this Quarterly Report on Form 10-Q. Those exhibits incorporated by reference are so indicated by the information supplied with respect thereto. Those exhibits which are not incorporated by reference are attached hereto.

- 3.1 [Amended and Restated Certificate of Incorporation of Battalion Oil Corporation dated October 8, 2019, as amended by the Certificate of Amendment, dated January 21, 2020 \(Incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K filed March 25, 2020\).](#)
- 3.1.1 [Certificate of Designations of Series A-1 Redeemable Convertible Preferred Stock dated effective September 6, 2023 \(Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed September 7, 2023\).](#)
- 3.2 [Seventh Amended and Restated Bylaws of Battalion Oil Corporation \(Incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K filed January 27, 2020\).](#)
- 10.1 [Amended and Restated Senior Secured Credit Agreement dated as of November 24, 2021, by and among Battalion Oil Corporation, as holdings, Halcón Holdings LLC, as borrower, the subsidiary guarantors party thereto, Macquarie Bank Limited, as administrative agent, and the lenders party thereto \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed November 29, 2021\).](#)
- 10.1.1 [Second Amendment to Amended and Restated Senior Secured Credit Agreement dated as of November 14, 2022, by and among Halcón Holdings, LLC, as borrower, Macquarie Bank Limited, as administrative agent and the lenders party hereto, the guarantors party hereto and Battalion Oil Corporation, as holdings \(Incorporated by reference to Exhibit 10.1.1 of our Quarterly Report on Form 10-Q filed November 14, 2022\).](#)
- 10.2 [Purchase Agreement, dated September 6, 2023, by and among Battalion Oil Corporation and each of the purchasers set forth on Schedule A thereto \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed September 7, 2023\).](#)
- 10.3 [Second Amendment to Registration Rights Agreement dated September 6, 2023, by and among Battalion Oil Corporation and each of the parties thereto, as investors \(Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed September 7, 2023\).](#)
- 31\* Sarbanes-Oxley Section 302 certification of Principal Executive Officer and Principal Financial Officer
- 32\* Sarbanes-Oxley Section 906 certification of Principal Executive Officer and Principal Financial Officer
- 101.INS\* Inline XBRL Instance Document
- 101.SCH\* Inline XBRL Taxonomy Extension Schema Document
- 101.CAL\* Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* Inline XBRL Taxonomy Extension Definition Document
- 101.LAB\* Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104\* Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* *Attached hereto.*

† *Indicates management contract or compensatory plan or arrangement.*

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BATTALION OIL CORPORATION**

November 15, 2023

By: /s/ MATTHEW B. STEELE  
Name: Matthew B. Steele  
Title: Chief Executive Officer  
(*Principal Executive Officer and Principal Financial Officer*)

**Certification Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), Matthew B. Steele, Chief Executive Officer of Battalion Oil Corporation (the "**Company**"), hereby certifies that, to the best of his knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (the "**Report**") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ MATTHEW B. STEELE*

November 15, 2023

Matthew B. Steele  
Chief Executive Officer  
(*Principal Executive Officer and Principal Financial Officer*)

This certification accompanies this Form 10-Q and shall not be deemed "*filed*" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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## CERTIFICATIONS FOR FORM 10-Q

I, Matthew B. Steele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Battalion Oil Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

## BATTALION OIL CORPORATION

November 15, 2023

By: /s/ MATTHEW B. STEELE  
 Name: Matthew B. Steele  
 Title: Chief Executive Officer  
*(Principal Executive Officer and Principal Financial Officer)*

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