

REFINITIV

# DELTA REPORT

## 10-K

EQS - EQUUS TOTAL RETURN, INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 2030

■ CHANGES	243
■ DELETIONS	699
■ ADDITIONS	1088

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended **December 31, 2022** **December 31, 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 814-00098

**EQUUS TOTAL RETURN, INC.**

(Exact name of registrant as specified in its charter)

Delaware

76-0345915

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**700 Louisiana St. 48<sup>th</sup> Floor, Houston, Texas**

77002

(Address of principal executive offices)

(Zip Code)

(713) 529-0900

Registrant's telephone number, including area code:

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

**Title of each class**

**Trading Symbol**

Name of each exchange  
**on which registered**

Common Stock

EQS

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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Approximate aggregate market value of common stock held by non-affiliates of the registrant: **\$16,167,306** \$9,518,843 computed on the basis of **\$2.61** \$1.52 per share, the closing price of the registrant's common stock on the New York Stock Exchange on **June 30, 2022** June 30, 2023. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were **13,518,146** 13,586,173 shares of the registrant's common stock, \$.001 par value, outstanding as of March 28, **2023** 2024. The net asset value of a share of the Registrant as of **December 31, 2022** December 31, 2023 was **\$2.61**.

**\$3.55.**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Portions of the Proxy Statement (to be filed) for the **2023** 2024 Annual Shareholder's meeting are incorporated by reference in Parts II and III.

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### PART I

#### Item 1. Business

Equus Total Return, Inc. (“we,” “us,” “our,” “Equus” the “Company” or the “Fund”), a Delaware corporation, was formed by Equus Investments II, L.P. (the “Partnership”) on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. On August 11, 2006, our shareholders approved the change of the Fund’s investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc.

We attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value between \$5.0 million and \$75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments consist principally of debt securities, including bonds, subordinated debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with a financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies or smaller public companies in transactions negotiated directly with such companies.

Equus is a closed-end management investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). In order to remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of our assets in eligible portfolio companies and limiting the amount of leverage we incur. Equus is also a regulated investment company (“RIC”) under Subchapter M of the U.S. Internal Revenue Code of 1986. As such, we are not required to pay corporate-level income tax on the Fund’s investment income. So long as we remain a BDC, we intend, *insofar as reasonably possible*, to maintain our RIC status, which requires that we qualify annually as a RIC by meeting certain specified requirements. For a discussion of these requirements necessary to maintain our status as a BDC and as a RIC, please see “*Business Development Company Requirements*” and “*Regulated Investment Company Tax Status*,” respectively.

Our principal office is located at 700 Louisiana St., 48<sup>th</sup> Floor, Houston, Texas, 77002, and the telephone number is 1-800-856-0901. Our corporate website is located at [www.equuscrap.com](http://www.equuscrap.com). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished to the Securities and Exchange Commission (“SEC”). Our shares are traded on The New York Stock Exchange (“NYSE”) under the ticker symbol “EQS”.

#### Significant Developments

**Impact of Geopolitical Events on the Oil and Gas Sector.** The substantial volatility in world markets has been prominent in the oil and gas sector, with crude WTI oil prices falling reaching a multi-year high of \$130.00 per barrel in March 2022, and gas prices also reaching a multi-year high in mid-year, both due in part to 18-year lows in mid-March 2020 as a result of increased demand, the coronavirus pandemic, only to increase to multi-year highs in the first half of 2022, largely as a result of high industrial and consumer demand, a reluctance of U.S. producers and OPEC nations to generate additional supply, and the conflict in Ukraine. Recessionary headwinds, among other macroeconomic factors, led to a decrease Beginning in the second and third quarters of 2022, oil prices retreated substantially before stabilizing in the second quarter of 2023, increasing again in the third quarter of 2023, and largely returning to second quarter 2023 prices by year-end. During the third quarter of 2023, oil prices increased from their 2022 peak, \$70.64 to \$90.79, and have traded within a much narrower range than in previous years (approximately \$72.00 thereafter decreased to \$82.00 per barrel) since \$71.65 by the beginning end of 2023. Meanwhile, gas prices have experienced even greater volatility recently, with gas prices increasing to \$9.85 per MMBTU in August 2022, decreasing markedly to \$3.52 per MMBTU as of December 31, 2022, and decreasing further during the first fourth quarter of 2023. These pricing changes have had Gas prices were volatile in the first half of 2023 before stabilizing in the second half of the year. During the third quarter of 2023, gas prices increased from \$2.48 to \$2.68 before decreasing to \$2.58 by the end of the fourth quarter of 2023. Recent oil price stability has been a significant effect on forward pricing curves and the corresponding outlook and prospects for remaining small oil and gas firms such as Equus Energy that hold development rights factor in low-cost production reservoirs such as those underlying increased consolidation activity in the Permian Basin and where Equus Energy holds most of its development rights, as well as in the Eagle Ford Shale regions.

Williston Basin region in North Dakota where Morgan E&P, LLC holds its development rights.

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**Authorization to Withdraw BDC Election.** On November 1, 2022, holders of a majority of the outstanding common stock of the Fund have previously approved our cessation as a BDC under the 1940 Act and have authorized our Board to cause the Fund's withdrawal of its election to be classified as a BDC, effective as of a date designated by the Board and our Chief Executive Officer. Although this authorization has since expired, on February 28, 2023, we expect to receive an additional authorization from our stockholders in the future. This authorization and others which preceded it are a consequence of our expressed intent to transform Equus into an operating company or a permanent capital vehicle. Notwithstanding any such authorization to withdraw our BDC election, we will not submit any such withdrawal unless and until Equus has entered into a definitive agreement to effect a transformative transaction. Further, even if we are again authorized to withdraw our election as a BDC, we will require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business. While we are presently evaluating various opportunities that could enable us to accomplish this transformation, we cannot assure you that we will be able to do so within any particular time period or at all. Moreover, we cannot assure you that the terms of any such transformative transaction would be acceptable to us.

**Increase in Authorized Shares.** On January 20, 2021, holders of a majority of the outstanding common stock of the Fund approved the restatement of our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 to 100,000,000, and the number of our authorized shares of preferred stock from 5,000,000 to 10,000,000. The increase is intended to help facilitate the transformation of Equus into an operating company and provide sufficient authorized shares to evaluate larger business concerns as possible acquisition or merger candidates.

**Outlook.** Our Board and management of the Fund ("Management") continue to believe that current market conditions and recent portfolio performance dictate the need to pursue a more active role in the management of our remaining investments and to seek liquidity events at the appropriate time to protect and enhance shareholder value. These activities include continuous monitoring and intensive reviews of portfolio company performance and expectations, providing follow-on capital when necessary, and the exploration of liquidity events for certain portfolio companies to position the Fund to maximize investment returns and, to the extent we intend to remain a BDC, actively pursuing suitable new investments for the Fund.

### **Investment Objective**

To the extent we remain a BDC and do not complete the transformation of Equus into an operating company as described above, our investment objective is to maximize the total return to our stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of small and middle market capitalization companies that are generally not publicly traded at the time of our investment. As a result of our endeavors in the energy sector, we may also seek to purchase or develop working interests, mineral interests, and revenue leasehold interests in oil and gas properties, although we remain open to exploring investment opportunities in a variety of other sectors. Should we continue to grow and develop Equus as a closed-end fund or permanent capital vehicle instead of an operating company, we intend to include investments in progressively larger enterprises.

### **Investment Strategy**

Our investment strategy attempts to strike a balance between the potential for gain and the risk of loss. With respect to capital appreciation, Equus is a "growth-at-reasonable-price" investor that seeks to identify and acquire securities that meet our criteria for selling at reasonable prices. We give priority to cash producing investments wherein we invest principally in debt or preferred equity financing with the objective of generating regular interest and dividend income back to the Fund. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with a financing. Given market conditions over the past several years and the performance of our portfolio, our Management and Board believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

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### Investment Criteria

Consistent with our investment objective and strategy, our Management evaluates prospective investments based upon the criteria set forth below. We may modify some or all of these criteria from time to time.

**Management Competency and Ownership.** We seek to invest in companies with experienced management teams who have demonstrated a track record of successful performance. Further, we desire to invest in companies with significant management ownership. We believe that significant management ownership in small capitalization and middle market companies provides appropriate incentives and an alignment of interests for management to maximize shareholder value. In addition, we will seek to design compensation and incentive arrangements that align the interests of the portfolio company's management with those of the Fund to enhance potential returns.

**Substantial Target Market.** We desire to focus on companies whose products or services have favorable growth potential and strong competitive positions in their respective markets. These positions may be as leadership positions within a given industry or market niche positions in which the product or service has a demonstrated competitive advantage. The market in which a potential portfolio company operates should either be sizeable or have significant growth potential.

**History of Profitability and Favorable Growth Potential.** We target companies that have demonstrated a history of profitability or a reasonable expectation of a return to profitability in the near future.

**Ability to Provide Regular Cash Interest and Distributions.** We look for companies with strong cash flow models sufficient to provide regular and consistent interest and/or preferred dividend payments.

**Management Assistance and Substantial Equity.** Given the requirements of a BDC under the 1940 Act, we seek to invest in companies that will permit substantial managerial assistance, including representation on the board of directors of the company or its equivalent. With regard to equity investments, we desire to obtain a substantial investment position in portfolio companies. This position may be as a minority shareholder with certain contractual rights and powers, or as a majority shareholder, and should otherwise allow us to have substantive input on the direction and strategies of the portfolio company.

**Plausible Exit and Potential for Appreciation.** Prior to investing in a portfolio company, we will seek to analyze potential exit strategies and pursue those investments with such strategies as may be achievable.

### Investment Operations

Our investment operations consist principally of the following basic activities:

**Investment Selection.** Historically, many of our investment opportunities have come from Management, members of our Board, other private equity investors, direct approaches from prospective portfolio companies and referrals from investment banks, business brokers, commercial, regional and local banks, attorneys, accountants and other members of the financial community. Subject to the approval of our Board, we may compensate certain referrals with finder's fees to the extent permissible under applicable law and consistent with industry practice.

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**Due Diligence.** Once a potential investment is identified, we undertake a due diligence review using information provided by the prospective portfolio company and publicly available information. Management may also seek input from consultants, investment bankers and other knowledgeable sources. The due diligence review will typically include, but is not limited to:

- Review of historical and prospective financial information, including audits and budgets;
- On-site visits;
- Interviews with management, employees, customers and vendors;
- Review of existing loan documents and credit arrangements, if any;
- Background checks on members of management; and
- Research relating to the company, its management, industry, markets, products and services and competitors.

**Review of historical and prospective financial information, including audits and budgets;**

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## On-site visits;

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- **Interviews with management, employees, customers and vendors;**
- **Review of existing loan documents and credit arrangements, if any;**
- **Background checks on members of management; and**
- **Research relating to the company, its management, industry, markets, products and services and competitors.**

*Structuring Investments.* We typically negotiate investments in private transactions directly with the owner or issuer of the securities acquired. Management structures the terms of a proposed investment, including the purchase price, the type of security to be purchased and our future involvement in the portfolio company's business. We seek to structure the terms of the investment to provide for the capital needs of the portfolio company while maximizing our opportunities for current income and capital appreciation. In addition, we may invest with other co-investors including private equity firms, business development companies, small business investment companies, venture capital groups, institutional investors and individual investors.

*Providing Management Assistance and Monitoring of Investments.* Successful private equity investments typically require active monitoring of, and significant participation in, major business decisions of portfolio companies. In several cases, officers and directors of the Fund serve as members of the governing boards of portfolio companies. Such management assistance is required of a BDC under the 1940 Act. We seek to provide guidance and management assistance with respect to such matters as capital structure, acquisitions, budgets, profit goals, corporate strategy, portfolio management and potential sale of the company or other exit strategies. In connection with their service as directors of portfolio companies, officers and directors of the Fund may receive and retain directors' fees or reimbursement for expenses incurred, and may participate in incentive stock option plans for non-employee directors, if any. When necessary and as requested by any portfolio company, Management, on behalf of the Fund, may also assign staff professionals with financial or management expertise to assist portfolio company management.

## Follow-On Investments

Following our initial investment, a portfolio company may request that we make follow-on investments by providing additional equity or loans needed to fully implement its business plans to develop a new line of business or to recover from unexpected business problems or other purposes. In addition, follow-on investments may be made to exercise warrants or other preferential rights granted to the Fund or otherwise to increase our position in a portfolio company. We may make follow-on investments in portfolio companies from cash on hand or borrow all or a portion of the funds required. If we are unable to make follow-on investments due to lack of available capital, the portfolio company in need of the investment may be negatively impacted, we may be required to subordinate our debt interest in the portfolio company to a new lender, and/or our equity interest in the portfolio company may be diluted if outside equity capital is required.

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**Disposition of Investments**

The method and timing of the disposition of our investments in portfolio companies are critical to our ability to realize capital gains and minimize capital losses. We may dispose of our portfolio securities through a variety of transactions, including recapitalizations, refinancings, management buyouts, repayments from cash flow, acquisitions of portfolio companies by a third party and outright sales of the Fund's securities in a portfolio company. In addition, under certain circumstances we may distribute our portfolio securities in-kind to our stockholders. In structuring our investments, we endeavor to reach an understanding with the management of the prospective portfolio company as to the appropriate method and timing of the disposition of the investment. In some cases, we seek registration rights for our portfolio securities at the time of investment which typically provide that the portfolio company will bear the cost of registration. To the extent not paid by the portfolio company, the Fund typically bears the costs of disposing of our portfolio investments.

**Current Portfolio Companies**

For a description of our current portfolio company investments, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Portfolio Securities.*"

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**Valuation**

**On a quarterly basis, Management values our portfolio investments. These valuations are subject to the approval and adoption of the Board. Valuations of our portfolio securities at “fair value” are performed in accordance with accounting principles generally accepted in the United States (“GAAP”).**

**The fair value of investments for which no market exists (which includes most of our investments) is determined through procedures established in good faith by the Board. As a general principle, the current “fair value” of an investment is the amount the Fund might reasonably expect to receive upon its sale in an orderly manner. There are a range of values that are reasonable for such investments at any particular time.**

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We base our adjustments to fair value upon such factors as the portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful or substantially declining operations, we may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are inherently subjective, and our estimate of fair value may differ materially from amounts actually received upon the disposition of our portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe the fair value will not exceed the cost of the investment; however, we **may** perform a yield analysis to determine if a debt security has been impaired.

Our Management may engage independent, third-party valuation firms to conduct independent appraisals and review Management's preliminary valuations of each privately-held investment in order to make their own independent assessment. Any third- party valuation data would be considered as one of many factors in a fair value determination. Management would then present its fair value recommendations to the Audit Committee of the Board of Directors for review. Following review and any adjustments required thereby, the Audit Committee would, in turn, recommend the fair values for all of the Fund's portfolio investments to the Board of Directors for final approval.

To the extent that market quotations are readily available for our investments and such investments are freely transferable, we value them at the closing market price on the date of valuation. For securities which are of the same class as a class of public securities but are restricted from free trading (such as Rule 144 stock), we establish our valuation by discounting the closing market price to reflect the estimated impact of illiquidity caused by such restrictions. We generally hold investments in debt securities to maturity. Accordingly, we determine the fair value of debt securities on the basis of the terms of the debt securities and the financial condition of the issuer. We value certificates of deposit at their face value, plus interest accrued to the date of valuation.

Our Board reviews the valuation policies on a quarterly basis to determine their appropriateness and reserves the right to hire and, from time to time, utilizes independent valuation firms to review Management's valuation methodology or to conduct an independent valuation.

## Competition

We compete with a large number of public and private equity and mezzanine funds and other financing sources, including traditional financial services companies such as finance companies and commercial banks. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources. Our competitors may have a lower cost of funds and many have access to funding sources not available to us. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their respective market shares. In addition, many of our competitors are not subject to the regulatory restrictions imposed by the 1940 Act imposed on BDCs.

We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. In addition, because of this competition, we may not be able to take advantage of attractive investment opportunities and may not be able to identify and make investments that satisfy our investment objectives or meet our investment goals.

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### Properties

Our principal executive offices are located at 700 Louisiana St., 48<sup>th</sup> Floor, Houston, Texas 77002. Should we remain a BDC and not transform into an operating company or a permanent capital vehicle, we believe our office facilities are suitable and adequate for our operations as currently conducted and contemplated.

### Business Development Company Requirements

*Qualifying Assets.* As a BDC, we may not acquire any asset other than qualifying assets, as defined by the 1940 Act, unless, at the time the acquisition is made, the value of our qualifying assets ~~represent~~ represents at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are the following:

- Securities purchased in transactions not involving any public offering from an issuer that is an eligible portfolio company. An eligible portfolio company is any issuer that (a) is organized and has its principal place of business in the United States, (b) is not an investment company other than a small business investment company wholly-owned by the BDC, and (c) either (i) (A) does not have any class of securities with respect to which a broker or dealer may extend margin credit, (B) is controlled by the BDC either singly or as part of a group and an affiliated person of the BDC is a member of the issuer's board of directors, or (C) has total assets of not more than \$4 million and capital and surplus of at least \$2 million, or (ii) does not have any class of securities listed on a national securities exchange, unless the total market capitalization of such issuer does not exceed \$250 million. Qualifying assets may also include follow-on investments in a company that was a particular type of eligible portfolio company at the time of the BDC's initial investment, but subsequently did not meet the definition;
- Securities received in exchange for or distributed with respect to securities described above, or pursuant to the exercise of options, warrants or rights relating to such securities; and
- Cash, cash items, government securities, or high quality debt securities maturing in one year or less from the time of investment.

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To include certain securities above as qualifying assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance, such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We offer to provide significant managerial assistance to each of our portfolio companies.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of the holders of the majority of our outstanding voting securities, as defined in the 1940 Act. On November 1, 2022, As noted above, we have previously received this authorization from our shareholders to withdraw our BDC election and, although this authorization has expired, on February 28, 2023, we expect to receive an additional authorization by our stockholders in the future. This authorization and others which preceded it were provided as was a consequence of our plan to effect a transformation of Equus by: (i) acquiring or merging with an operating company based in the energy, natural resources, technology, or financial services sectors, and (ii) terminating the Fund's election to be classified as a BDC under the 1940 Act. Notwithstanding the present any future authorization to withdraw our BDC election, we will also require a separate affirmative vote of the holders of a majority of our outstanding voting securities to consummate a transformation of Equus and change the nature of our business (see "Significant Developments—Authorization to Withdraw BDC Election" above).

**Temporary Investments.** Pending investment in portfolio companies, we invest our available funds in interest-bearing bank accounts, money market mutual funds, U.S. Treasury securities and/or certificates of deposit with maturities of less than one year (collectively, "Temporary Investments"). Temporary Investments may also include commercial paper (rated or unrated) and other short-term securities. Temporary Investments constituting cash, cash items, securities issued or guaranteed by the U.S. Treasury or U.S. Government agencies and high quality debt securities (commercial paper rated in the two highest rating categories by Moody's Investor Services, Inc. or Standard & Poor's Corporation, or if not rated, issued by a company having an outstanding debt issue so rated, with maturities of less than one year at the time of investment) will qualify for determining whether we have 70% of our total assets invested in qualifying assets or in qualified Temporary Investments for purposes of the BDC provisions of the 1940 Act.

**Leverage.** We are permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock senior to the common stock if our asset coverage, as defined in the 1940 Act, is at least 150% after the issuance of the debt or the senior stockholders' interests. In addition, provisions must be made to prohibit any distribution to common stockholders or the repurchase of any shares unless the asset coverage ratio is at least 150% at the time of the distribution or repurchase.

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**Fund Share Sales Below Net Asset Value.** To the extent we remain a BDC, we generally may sell our common stock at a price that is below the prevailing net asset value per share only upon the approval of the policy by stockholders holding a majority of our issued shares, including a majority of shares held by nonaffiliated stockholders. We may, in accordance with certain conditions established by the SEC, sell shares below net asset value in connection with the distribution of rights to all of our stockholders. We may also issue shares at less than net asset value in payment of dividends to existing stockholders.

**No Redemption Rights.** Since we are a closed-end BDC, our stockholders have no right to present their shares to the Fund for redemption. Recognizing the possibility that our shares might trade at a discount, our Board has determined that it would be in the best interest of our stockholders for the Fund to be authorized to attempt to reduce or eliminate a market value discount from net asset value. Accordingly, from time to time we may, but are not required to, repurchase our shares (including by means of tender offers) to attempt to reduce or eliminate any discount or to increase the net asset value of our shares.

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**Affiliated Transactions.** Many of the transactions involving the Fund and its affiliates (as well as affiliates of such affiliates) require the prior approval of a majority of the independent directors and a majority of the independent directors having no financial interest in the transactions. However, certain transactions involving closely affiliated persons of the Fund require the prior approval of the SEC.

**Regulated Investment Company Tax Status**

As a BDC, we have historically operated to qualify as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), although RIC qualification is not a prerequisite to qualifying as a BDC. If we qualify as a RIC and annually distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and capital gains we distribute to our stockholders. Taxable income generally differs from net income as defined by accounting principles generally accepted in the United States due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation.

While we are not required to qualify as a RIC to maintain our BDC status, we must continue to qualify as an investment company to maintain our RIC status, among other requirements. To maintain our RIC status, we must (i) continue to qualify as an investment company; (ii) distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, as defined by the Code; (iii) derive in each taxable year at least 90% of our gross investment company income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities or other income derived with respect to our business of investing in such stock or securities as defined by the Code; and (iv) meet investment diversification requirements. The diversification requirements generally require us, at the end of each quarter of the taxable year, to have (a) at least 50% of the value of our assets consist of cash, cash items, government securities, securities of other RICs and other securities if such other securities of any one issuer do not represent more than 5% of our assets and 10% of the outstanding voting securities of the issuer and (b) no more than 25% of the value of our assets invested in the securities of one issuer (other than U.S. government securities and securities of other RICs), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses.

In addition, should we choose not to distribute at least 98.2% of our **capital gain** net income **consisting of capital gains** for each one-year period ending on October 31, we will be subject to a 4.0% nondeductible Federal exercise tax. For the year ended December 31, 2021, we incurred a capital gain related to the settlement of the escrow receivable in connection with the sale of our interest in PalletOne, Inc. that was not fully offset by our capital loss carryforward. We chose not to distribute this small amount for the current year and pay the **RIC and excise associated tax**. **As such, as of** For the year ended December 31, 2021, we **have accrued** a \$38,000 in corporate level income and excise tax in lieu of making effecting a distribution of the net capital gain. This tax was paid in March 2022.

If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to tax in such year on all of our taxable income, regardless of whether we make any distribution to our stockholders. In addition, in that case, all of our distributions to our stockholders will be characterized as ordinary income (to the extent of our current and accumulated earnings and profits). We have distributed and currently intend to distribute sufficient dividends to eliminate our investment company taxable income; however, none have been necessary in recent years.

During the year ended December 31, 2021, according and pursuant to ASC 946-20-50, we recharacterized as a return of capital in excess of par certain accumulated undistributed net capital gains of \$18.5 million for which we had loss carryforwards.

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**Custodian**

**We act as the custodian of our securities to the extent permitted under the 1940 Act and are subject to the restrictions imposed on self-custodians by the 1940 Act and the rules and regulations thereunder. We have also entered into an agreement with Amegy Bank with respect to the safekeeping of our securities. The principal business office of Amegy Bank is 1717 West Loop South, Houston, Texas 77027.**

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### Transfer and Disbursing Agent

We employ Equiniti Group as our transfer agent to record transfers of our shares, maintain proxy records and to process distributions. The principal business office of our transfer agent is 6201 15th Avenue, 2nd Floor, Brooklyn, NY 11219.

### Certifications

In **July 2022, June 2023**, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual, we submitted to the NYSE an unqualified certification of our Chief Executive Officer. In addition, certifications by our Chief Executive Officer and Chief Financial Officer have been filed as exhibits to this annual report on Form 10-K as required by the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002.

### Forward-Looking Statements

*All statements contained herein that are not historical facts including, but not limited to, statements regarding anticipated activity are “forward-looking statements” within the meaning of the federal securities laws, involve a number of risks and uncertainties, and are based on the beliefs and assumptions of Management, based on information currently available to Management. Actual results may differ materially. In some cases, readers can identify forward-looking statements by words such as “may,” “will,” “should,” “expect,” “objective,” “plan,” “intend,” “anticipate,” “believe,” “Management believes,” “estimate,” “predict,” “project,” “potential,” “forecast,” “continue,” “strategy,” or “position” or the negative of such terms or other variations of them or by comparable terminology. In particular, statements, express or implied, concerning future actions, conditions, or events, future operating results, or the ability to generate sales, income, or cash flow are forward-looking statements.*

Among the factors that could cause actual results to differ materially are the following: (i) changes in the economic conditions in which we operate, including changes related to the evolving impact of the coronavirus, which might negatively impacting our financial resources; (ii) the substantially greater resources of certain of our competitors than the Fund, potentially reducing the number of suitable investment opportunities offered or reducing the yield necessary to consummate the investment; (iii) the uncertainty regarding the value of our privately held securities that require a good faith estimate of fair value for which a change in estimate could affect the Fund's net asset value; (iv) the illiquidity of our investments in securities of privately held companies which could affect our ability to realize a gain; (v) the default of one or more of our portfolio companies on their loans or the failure of such companies to provide any returns on our investments which could affect the Fund's operating results; (vi) our dependence on external financing to grow our business; (vii) our ability to retain key management personnel; (viii) an economic downturn or recession that could impair our portfolio companies and therefore harm our operating results; (iv) our borrowing arrangements, which could impose certain restrictions; (x) changes in interest rates that may affect our cost of capital and net operating income; (xi) our inability to incur additional indebtedness unless the Fund maintains an asset coverage of at least 150%, which may affect returns to our stockholders; (xii) the possible failure of the Fund to continue to qualify for our pass-through treatment as a RIC which could have an effect on stockholder returns; (xiii) the volatility of the price of our common stock; (xiv) general business and economic conditions and other risk factors described in its reports filed from time to time with the SEC; and (xv) risks related to our plan to transform Equus into an operating company or a permanent capital vehicle. We caution readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

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### **Item 1A. Risk Factors**

An investment in our securities involves certain risks relating to our structure and investment objectives. The risks and uncertainties described below are not the only ones facing Equus. You should carefully consider these risks, together with all of the other information included in our annual report on Form 10-K, including our financial statements and the related notes thereto.

Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline and you may lose all or part of your investment.

#### **Risks Related to Our Investments**

*Investments in small capitalization companies present certain risks that may not exist to the same degree as investments in larger, more established companies and will cause such investments to be volatile and speculative.*

We have invested and may continue to invest, in private, small and/or new companies that may be in their early stages of development. Investments in these types of companies involve a number of significant risks, including the following:

- They typically have shorter operating histories, narrower product lines and smaller market shares than public companies, which tend to render them more vulnerable to competitors' actions and market conditions as well as general economic downturns;
- They may have no earnings or experienced losses or may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;
- They are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse effect on their business and prospects and, in turn, on our investment;
- They may have difficulty accessing the capital markets to meet future capital needs;
- They generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- Generally little public information exists regarding these companies, and investors in these companies generally must rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision.

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*There is uncertainty regarding the value of our privately held securities.*

Our net asset value is based on the value we assign to our portfolio investments. For investments that are not listed on a securities exchange or quotation medium, we determine the value of our investments in securities for which market quotations are not available as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Because of the inherent uncertainty of the valuation of portfolio securities that do not have readily ascertainable market values, our fair value determination may differ materially from the value that would have been used had a ready market existed for the securities. We determine the fair value of investments for which no market quotations are available based upon a methodology that we believe reaches a reasonable estimation of fair value. However, we do not necessarily apply multiple valuation metrics in reaching this determination and, in some cases, we do not obtain any third-party valuations before reaching this determination. Our determinations of the fair value of our investments have a material impact on our net earnings through the recording of unrealized appreciation or depreciation of investments as well as our assessment of interest income recognition. Our net asset value could be affected materially if our determinations of the fair value of our investments differ significantly from values based on a ready market for these securities.

*We depend upon Management for our future investment success.*

We depend upon the diligence and skill of our Management to select, structure, close and monitor our investments. Management is responsible for identifying, structuring, evaluating, monitoring, and disposing of our investments, and the services they collectively provide significantly impact our results of operations. Our future success will depend to a significant extent on the continued service and coordination of Management. Our success will depend on our ability to retain our existing Management and to recruit additional other highly qualified individuals. If we are unable to integrate new investment and management personnel, we may be unable to achieve our desired investment results.

*Management may not be able to implement our investment objective successfully.*

Our Board is taking a more opportunistic approach to our portfolio investment strategy, shifting our investment emphasis from manufacturing and services to other sectors such as energy. In order to implement our investment strategy, Management must analyze, conduct due diligence, invest in, monitor and sell investment interests in industries in which many of them have not previously been involved. Also, we expect that our investment strategy will continue to require Management to investigate and monitor investments that are much more broadly dispersed geographically. In addition, Management is required to provide valuations for investments in a broader range of securities, including debt securities, which may require expertise beyond that previously required. We cannot assure investors that the overall risk of their investment in the Fund will be reduced as a result of our investment strategy. If we cannot achieve our investment objective successfully, the value of your investment in our common stock could decline substantially.

*We may not realize gains from our equity investments.*

We frequently invest in the equity securities of our portfolio companies. Also, when we make a loan, we sometimes receive warrants to acquire stock issued by the borrower. Ultimately, our goal is to sell these equity interests and realize gains. These equity interests may not appreciate and, in fact, may depreciate in value. For Equus Energy our present portfolio and other investments we may make in the future, the market value of our equity investments may fall below our estimate of the fair value of such investments before we sell them. Given these factors, there is a risk that we will not realize gains upon the sale of those or other investment interests that we hold.

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**Our holdings in Morgan E&P and Equus Energy are subject to commodity price declines endemic to oil and gas companies.**

The oil and gas business is fundamentally a commodity-based enterprise. This means that the operations and earnings of Morgan E&P, LLC (“Morgan”) and Equus Energy, LLC (“Equus Energy”), our two remaining portfolio investments, may be significantly affected by changes in prices of oil, gas and natural gas liquids. The prices of these products are also dependent upon local, regional and global events or conditions that affect supply and demand for the relevant commodity. In addition, the pricing of these commodities is highly dependent upon technological improvements in energy production and development, energy efficiency, and seasonal weather patterns. Moreover, as a worldwide commodity, the price of oil and natural gas is also influenced by global demand, changes in currency exchange rates, interest rates, and inflation. Neither Morgan nor Equus Energy does not employ any hedging strategies in respect of its oil and gas holdings and is therefore subject to price fluctuations resulting from these and other factors. The operational results and financial condition of Morgan and Equus Energy, as well as the economic attractiveness of future capital expenditures for new drilling and recompletions, may be materially adversely affected as a result of lower oil and gas prices.

*We may not be able to make additional investments in our portfolio companies from time to time, which may dilute our interests in such companies.*

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company, or may have the opportunity to increase our investment in that company through the exercise of a warrant to purchase common stock or through follow-on investments in the debt or equity of that company. We cannot assure you that we will make, or have sufficient funds to make, any such follow-on investments. Any decision by us not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of investment and may result in a missed opportunity for us to increase our participation in a successful operation. A decision not to make a follow-on investment may also require us to subordinate our debt interest to a new lender or dilute our equity interest in, or reduce the expected yield on, our investment.

*We have invested in a limited number of portfolio companies.*

The Fund is classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. As a matter of policy, we generally have not initially invested more than 25% of the value of our net assets in a single portfolio company. In view of the net asset value of the Fund as of December 31, 2022 and the fact that our sole portfolio investment consists of our equity holding in Equus Energy, however, However, we would expect that any new investments may exceed this percentage for the immediate future. Moreover, follow-on investments, disproportionate increases or decreases in the fair value of certain portfolio companies or sales of investments may result in more than 25% of our net assets being invested in a single portfolio company at a particular time.

A consequence of a limited number of investments is that changes in business or industry trends or in the financial condition, results of operations or the market's assessment of any single portfolio company will affect our net asset value and the market price of our common stock to a greater extent than would be the case if we were a “diversified” company holding a greater number of investments.

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*The lack of liquidity of our privately held securities may adversely affect our business.*

Our portfolio investments consist principally of securities that are subject to restrictions on sale because they are not listed or publicly traded securities. If any of these securities were to become publicly traded, our ability to sell them may still be restricted because we acquired them from the issuer in “private placement” transactions or because we may be deemed to be an affiliate of the issuer. We will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act and applicable state securities laws, unless an exemption from such registration requirements is available. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies because those securities are privately held and we may own a relatively large percentage of the issuer’s outstanding securities. Sales also may be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or generally. The illiquidity of our investments may preclude or delay any disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments if the need arises.

*In situations where we hold junior priority liens, our ability to control decisions with respect to our portfolio companies may be limited by lenders holding superior liens. In a default scenario, the value of collateral may be insufficient to repay us after the senior priority lenders are paid in full.*

We may make certain loans to portfolio companies that are secured by a junior priority security interest in the same collateral pledged to secure debt owed to lenders with liens senior to ours. Often, the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender’s consent. As a condition of permitting the portfolio company to incur junior secured indebtedness, the senior lender will require that we, as junior lender, enter into an intercreditor agreement that, among other things, will establish the senior lender’s right to control the disposition of any collateral in the event of an insolvency proceeding or other default situation. In addition, intercreditor agreements generally will expressly subordinate junior liens to senior liens as well as the repayment of junior debt to senior debt.

Because of the control we may cede to senior lenders under intercreditor agreements, we may be unable to control the manner or timing of collateral disposition. In addition, the value of collateral securing our debt investment will ultimately depend on market and economic conditions at the time of disposal, the availability of buyers and other factors. Therefore, we cannot assure you that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by our liens. There is also a risk that such collateral securing our investments will be difficult to sell in a timely manner or to appraise. If the proceeds of the collateral are insufficient to repay our loans, then we will have an unsecured claim to the extent of the deficiency against any of the company’s remaining assets, which claim will likely be shared with many other unsecured creditors.

*As a debt or minority equity investor in a portfolio company, we may have little direct influence over the entity. The stockholders and management of the portfolio company may make decisions that could decrease the value of our portfolio holdings.*

We may make both debt and minority equity investments. Should a portfolio company make business decisions with which we disagree, or the stockholders and management of that company take risks or otherwise act in ways that do not serve our interests, the value of our portfolio holdings could decrease and have an adverse effect on our financial position and results of operations.

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*We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.*

We may structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay dividends, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

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*We expect to have limited public information regarding the companies in which we may invest.*

Our portfolio consists entirely of securities issued by privately-held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of Management to obtain the information necessary for our decision to invest in them and in order to monitor them effectively. We cannot assure you that such diligence efforts will uncover all material information about such privately held businesses necessary to make fully informed investment decisions.

*Our prospective portfolio companies may be highly leveraged.*

Investments in leveraged buyouts and in highly leveraged companies involve a high degree of business and financial risk and can result in substantial losses. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The use of leverage by portfolio companies also magnifies the increase or decrease in the value of our investment as compared to the overall change in the enterprise value of a portfolio company.

Some of our portfolio companies have incurred substantial debt in relation to their equity capital. Such indebtedness generally has a term that will require that the balance of the loan be refinanced when it matures. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing the debt upon its maturity, our investment could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

A substantial portion of the debt incurred by portfolio companies may bear interest at rates that fluctuate in accordance with a stated interest rate index or the prime lending rate. The cash flow of a portfolio company may not be sufficient to meet increases in interest payments on its debt. Accordingly, the profitability of our portfolio companies, as well as the value of our investments in such companies, will depend significantly upon prevailing interest rates. An increase in prevailing interest rates may have an adverse effect on the ability of our portfolio companies to service their floating rate debt and on their profits.

Leverage may impair the ability of our portfolio companies to finance their future operations and capital needs. As a result, the ability of our portfolio companies to respond to changing business and economic conditions and to business opportunities may be limited.

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***Our business depends on external financing.***

Our business requires a substantial amount of cash to operate. We may borrow funds to pay contingencies or expenses or to make investments, to maintain our pass-through tax status as a RIC under Subchapter M of the Code. We are permitted under the 1940 Act to borrow if, immediately after the borrowing, we have an asset coverage ratio of at least 150%. That is, we may borrow an amount equal to double the fair value of our total net assets (including investments made with borrowed funds). The amount and nature of any such borrowings depend upon a number of factors over which we have no control, including general economic conditions, conditions in the financial markets and the impact of the financing on the tax treatment of our stockholders. The use of leverage, even on a short-term basis, could have the effect of magnifying increases or decreases in our net asset value.

While the “spread” between the current yields on our investments and the cost of any loan would augment the return to our stockholders, if the spread narrows (because of an increase in the cost of debt or insufficient income on our investments), our net investment income, and consequently our ability to provide distributions to our stockholders, could be adversely affected. This may also render us unable to meet our obligations to our lenders, which might then require us to liquidate some or all of our investments. We cannot assure you that we would realize full value for our investments or recoup all of our capital if we needed to liquidate our portfolio investments.

Many financial institutions are unwilling to lend against a portfolio of illiquid, private securities. The make-up of our portfolio has made it more difficult for us to borrow at the level and on the terms that we desire. Our borrowings have historically consisted of a revolving line of credit which has since expired, and a margin account used quarterly to enable us to achieve adequate diversification to maintain our pass-through tax status as a RIC. Although we believe the Fund's liquidity is sufficient for our operating expenses for the next twelve months, we could be wrong. If we are wrong, we would have to obtain capital from other sources to pay Fund expenses, which could involve selling our portfolio holdings at an inopportune time and at a price that may be less than would be received if such holding were sold in a more competitive and orderly manner.

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The costs of borrowing money may exceed the income from the portfolio securities we purchase with the borrowed money. We will suffer a decline in net asset value if the investment performance of the additional securities purchased with borrowed money fails to cover their cost to the Fund (including any interest paid on the money borrowed). A decline in net asset value could affect our ability to make distributions on our common stock. Our failure to distribute a sufficient portion of our net investment income and net realized capital gains could result in a loss of pass-through tax status or subject us to a 4% excise tax. If the asset coverage for debt securities issued by the Fund declines to less than 150% (as a result of market fluctuations or otherwise), we may be required to sell a portion of our investments when it is disadvantageous to do so. See *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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*We have had net investment losses in the past five years.*

We have had net investment losses in the past five years, with a net investment loss of **\$3.6 million** **\$4.0 million** for the year ended **December 31, 2022** **December 31, 2023**. We cannot assure you that we will be able to increase our net assets or generate net investment income. If we fail to increase the Fund's net assets or generate net investment income, such failure will likely have a material adverse effect upon the Fund, our results of operation, and our financial condition. You could lose all or a substantial amount of your investment in the Fund as a result.

*We do not currently intend to recommence our managed distribution policy and you might not receive dividends on your shares.*

On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. We subsequently undertook certain changes in our Board and Management. These changes have been pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more recurrent cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. The implementation of these revisions to our investment strategy and the recurrent generation of cash income from our investments, however, cannot be guaranteed and will not occur if we complete the transformation of Equus into an operating company. If we were unable to resume our managed distribution policy and were further unable to profitably sell or otherwise dispose of our portfolio company investments, you might not receive dividends on your shares.

*We operate in a highly competitive market for investment opportunities.*

We compete with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity-based investment funds, investment entities, foreign investors and individuals and other sources of financing, including traditional financial services companies such as commercial banks. In recent years, the number of investment vehicles seeking small capitalization investments has increased dramatically. Many of our competitors are substantially larger and have considerably greater financial resources than we do, and some may be subject to different and frequently less stringent regulation. As our portfolio size increases, we expect that some of our investments will be larger. We believe that we will face increased competition to participate in these larger transactions. These competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

*An economic downturn could affect our operating results.*

An economic downturn may have a particularly adverse effect upon small and medium-sized companies, which are our primary market for investments. During periods of volatile economic conditions, these companies often experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies also may have difficulty expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing developments could cause the value of our investments in these companies to decline. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

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*We may experience fluctuations in our quarterly results.*

We may experience fluctuations in our quarterly operating results due to a number of factors, including variations in, and the timing of, the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the ability to find and close suitable investments and general economic conditions. The volatility of our results is exacerbated by our relatively small number of investments. As a result of these factors, you should not rely on our results for any period as being indicative of performance in future periods.

*The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.*

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Our due diligence review with respect to a potential portfolio company typically includes, but is not limited to, a review of historical and prospective financial information including audits and budgets, on-site visits and interviews with management, employees, customers and vendors, a review of business plans and an analysis of the consistency of operations with those plans, and other research relating to the company, management, industry, markets, products and services, and competitors. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we are required to rely on resources available to us, including information provided by the portfolio company and, in some circumstances, third party investigations. The due diligence process may at times be subjective, including with respect to newly organized companies for which only limited information is available. Accordingly, we cannot assure you that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. We also cannot assure you that such an investigation will result in an investment being successful.

### Risks Related to Our Potential Use of Leverage

*The use of leverage may adversely affect our performance.*

We may utilize leverage for the Fund or its subsidiaries by borrowing or issuing preferred stock or short-term debt securities. Borrowings and other capital generated from leverage will result in lenders and other creditors with fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Leverage is generally considered a speculative investment technique.

*The use of leverage may cause us to sell our portfolio interests prematurely.*

If we remain a BDC and borrow monies for our additional portfolio investments, we may secure loans or otherwise borrow funds from conventional banks, other lending institutions, or private parties, which parties may include the sellers of the investment interests being acquired. In the event Equus defaults under any of these borrowing arrangements, our business could be adversely affected as we may be forced to sell a portion of our investments quickly and prematurely at what may be disadvantageous prices to us in order to meet our outstanding payment obligations, the result of which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

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*The use of leverage will increase our exposure to changes in market rates of interest.*

To date, we have not incurred leverage to acquire portfolio investments. If we begin to take on leverage to make portfolio investments, we will be subject to risks associated with the current interest rate environment and changes in interest rates will affect our cost of capital and net investment income. The use of leverage will also affect our net investment income, which will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we cannot assure you that a significant change in market interest rates would not have a material adverse effect on our net investment income.

### Risks Related to Our Business and Structure

*Our ability to invest in private companies may be limited in certain circumstances.*

As noted elsewhere herein, **on November 1, 2022 we have previously received an authorization from our stockholders to withdraw our election to be classified as a BDC.** Although this authorization **has since expired, on February 28, 2023, we expect to receive an additional authorization from our stockholders in the future.** Accordingly, our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company instead of a BDC and the withdrawal of our BDC election within this time frame, but we **may nevertheless not consummate any such transformation and remain a BDC.** If we maintain our status as a BDC and do not complete the transformation to become an operating company or a permanent capital vehicle, we must not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. A principal category of qualifying assets relevant to our business is securities purchased in transactions not involving any public offering from issuers that qualify as eligible portfolio companies under the 1940 Act. Investments in companies organized outside of the United States or having a principal place of business outside of the United States are also not considered eligible portfolio companies.

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*Any failure on our part to maintain the Fund's status as a BDC could reduce our operating flexibility.*

If we do not maintain the Fund's status as a BDC and we do not complete the transformation of Equus into an operating company, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act. This could impose tighter limitations on Equus in terms of the use of leverage and transactions with affiliated entities. Such developments could correspondingly decrease our operating flexibility.

*We may not continue to qualify as a RIC under the Code.*

To remain entitled to the tax benefits accorded to RICs under the Code while we maintain our status as a BDC, we must meet certain income source, asset diversification and annual distribution requirements. To qualify as a RIC, we must derive each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or foreign currencies, or other income derived with respect to our business of investing in such stock or securities or currencies and net income from interests in certain "qualified" publicly traded partnerships. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis.

As discussed above in "*Our business depends on external financing*," we historically have borrowed funds necessary to make qualifying investments to satisfy the Subchapter M diversification requirements. If we fail to satisfy such diversification requirements and cease to qualify for conduit tax treatment, we will be subject to income tax on our income and gains and will not be permitted to deduct distributions paid to stockholders.

In addition, our distributions will be taxable as dividends to the extent paid from earnings and profits. We may also cease to qualify as a RIC or be subject to income tax and/or a 4% excise tax, if we fail to distribute a sufficient portion of our net investment income and net realized capital gains. The loss of our RIC qualification would have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

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*Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, if we continue to operate as a BDC and as a RIC, we will need additional capital to finance our growth.*

As noted above, inasmuch as we expect to receive a future authorization from our stockholders to withdraw our election to be classified as a BDC, such withdrawal also means that we will not operate as a RIC. Our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company and the withdrawal of our BDC election and RIC status within this time frame, but we may nevertheless not consummate any such transformative transaction and remain a BDC and continue to seek to qualify as a RIC. In order to qualify as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, for so long as we maintain our status as a BDC, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 150%. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, this limitation may prevent us from incurring debt and require us to issue additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

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*Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.*

Our Board of Directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. As described above under “*Significant Developments – Authorization to Withdraw BDC Election*”, our shareholders have ~~recently~~ previously provided this authorization and may do so again in the future, although we will not withdraw our election as a BDC unless and until we have entered into a definitive agreement to effect the transformation of Equus into an operating company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, any such effects may adversely affect our business and impact our ability to make distributions.

### Risks Related to Our Operation as a BDC

*Our ability to enter into transactions with our affiliates is restricted.*

As noted above, on November 1, 2022, our stockholders have previously authorized our Board and Chief Executive Officer to withdraw our election to be classified as a BDC and, although this authorization has expired, on February 28, 2023, we expect to receive a further authorization from our stockholders in the future. Accordingly, our management is currently evaluating potential transactions that would result in the transformation of Equus into an operating company and the withdrawal of our BDC election within this time frame, but we may nevertheless not consummate any such transformative transaction and remain a BDC. If we maintain our status as a BDC and do not complete a transformation into an operating company or a permanent capital vehicle, we will continue to be subject to the 1940 Act. As an investment company, we are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

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*Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.*

Our business requires a substantial amount of additional capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as “senior securities,” and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150% after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 150%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

**Senior Securities.** As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank “senior” to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than that of our common stockholders. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

**Additional Common Stock.** Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our independent directors. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities (less any commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

*Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.*

To the extent we remain a BDC, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

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**Risks Related to Our Plan to Transform Equus Into an Operating Company**

*In our efforts to pursue the transformation of Equus into an operating company, we are exploring and evaluating strategic alternatives for the Fund and we cannot assure you that we will be successful in identifying a strategic alternative, that such strategic alternative will yield additional value for our stockholders or that the process will not have an adverse impact on our business.*

In prior years, we announced our plan to effect the restructuring of the Fund as an operating company no longer subject to the 1940 Act, which transaction could take the form of a sale of Equus, a restructuring, a recapitalization, merger, or other business combination, or the conversion of Equus into a permanent capital vehicle. We cannot provide any assurance that the exploration of strategic alternatives will result in the identification or consummation of a transformative transaction of Equus into an operating company or permanent capital vehicle. Similarly, any strategic decision will involve risks and uncertainties, and we cannot provide any assurance that any strategic alternative, if identified, evaluated and consummated, will provide the anticipated benefits or otherwise enhance stockholder value. The process is ongoing and, although we believe we will consummate a transaction that would result in the transformation of Equus into an operating company during 2023, 2024, we may be wrong. Our Board of Directors has not set a timetable for completion of the evaluation of a potential transaction.

We expect to incur substantial costs associated with identifying and evaluating potential strategic alternatives incident to a transformative transaction. Any potential transaction would be dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, the interest of third parties in our business, stockholder approval and the availability of financing to potential buyers or to Equus on reasonable terms. The process of exploring strategic alternatives may be time consuming and disruptive to our business operations. We are also subject to other risks in connection with the uncertainty created by the strategic review process, including stock price volatility and the ability to retain qualified employees. We do not currently intend to disclose further developments with respect to this process, unless and until our Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives.

If we are unable to effectively manage the strategic review process, our business, financial condition, liquidity and results of operations could be adversely affected.

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*If we reorganize as an operating company, we will likely not continue to qualify as a RIC under the ~~Code~~ Code.*

If we were to reorganize as an operating company, we would lose our status as a RIC. If we fail to qualify as a RIC, we will be subject to corporate income tax, which would substantially reduce the amount of income we might otherwise distribute to our shareholders.

*If we reorganize as an operating company or a permanent capital vehicle, we will not continue to operate as a BDC.*

We have elected to be classified as a BDC under the 1940 Act. However, if we effect a reorganization of the Fund into an operating company or a permanent capital vehicle, we will seek to terminate our BDC classification. ~~On November 1, 2022, holders~~ Holders of a majority of the outstanding common stock of the Fund have previously approved our cessation as a BDC under the 1940 Act and authorized our Board to cause the Fund's withdrawal of its election to be classified as a BDC. Although this authorization has ~~expired, on February 28, 2023~~, we expect to receive a further such authorization from our stockholders in the future. Nevertheless, if we were to terminate our election to be classified as a BDC and were still determined by the SEC to constitute an "investment company," we would be subject to significantly greater regulatory requirements and constraints than under those which we presently operate, the result of which could have a material adverse effect on our results and financial condition.

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*If we reorganize as an operating company or a permanent capital vehicle, we may not be able to utilize our capital losses.*

As noted above, we may reorganize Equus as an operating company or a permanent capital vehicle. If we reorganize as an operating company or a permanent capital vehicle, we may lose our ability to offset future income against our cumulative capital losses. If we reorganized as an operating company or a permanent capital vehicle and were unable to offset future income against these capital losses, the result could have a material adverse effect on our future operating results and our financial condition.

*If we reorganize as an operating company or a permanent capital vehicle, our stockholders will no longer have certain protections under the 1940 Act.*

**If we withdraw the Fund's election to be treated as a BDC, Equus will no longer be subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. Specifically, our stockholders would no longer have the following protections of the 1940 Act:**

- *Leverage Limits.* We would no longer be subject to the requirement in Section 61 of the 1940 Act that we maintain a ratio of assets to senior securities (such as senior debt or preferred stock) of at least 150% and we would not be limited by statute or regulation to the amount of leverage we could incur.
- *Range of Investments.* We would no longer be prohibited from investing in certain types of companies, such as brokerage firms, insurance, companies, and investment companies.
- *Changes in Financial Reporting.* While the conversion of Equus into an operating company will enable us to consolidate the financial results of entities we control, a change in our method of accounting could also reduce the reported value of our investments in controlled privately-held companies by eliminating our ability to report an increase in the fair value of these holdings.
- *Protection of Directors and Officers.* We would no longer be prohibited from protecting any director or officer against any liability to the Fund or our stockholders arising from willful malfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of that person's office, although there are similar limitations under Delaware law, our Certificate of Incorporation, and our Bylaws that would still apply.
- *Fidelity Bond.* We would no longer be required to provide and maintain an investment company blanket bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement.

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- *Director Independence.* We would no longer be required to ensure that a majority of our directors are persons who are not “interested persons,” as that term is defined in the 1940 Act, and certain persons, such as investment bankers, that would be prevented from serving on our Board if we were a BDC. However, assuming we can comply with the NYSE’s listing standards for operating companies, we will remain subject to NYSE listing standards that require the majority of directors of a listed company and all members of its compensation, audit and nominating committees to be “independent” as defined under NYSE rules.
- *Affiliate Transactions.* We would no longer be subject to provisions of the 1940 Act regulating transactions between BDCs and certain affiliates, although we would still be subject to conflict of interest rules and governance procedures that exist under Delaware law and NYSE rules.
- *Share Issuances.* We would no longer be subject to provisions of the 1940 Act restricting our ability to issue shares below NAV or in exchange for services, nor would we be restricted in issuing more than one class of equity securities or instruments that could be converted into other classes of equity securities.
- *Share Repurchases.* We would no longer be restricted under the 1940 Act in our ability to repurchase shares from our stockholders, and would instead be subject only to NYSE rules and Delaware corporate law requirements for such repurchases.
- *Change of Business.* We would be able to change the nature of our business and fundamental investment policies without having to obtain the approval of our stockholders.
- *Director and Officer Incentives.* We would no longer require exemptive relief from the SEC before implementing incentive compensation plans for our key executives and non-executive directors.

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### **Item 1B. Unresolved Staff Comments**

None.

### **Item 1C. Cybersecurity**

Our operations and other aspects of our business rely heavily on various information technology systems which are largely managed by third parties. We face significant cybersecurity threats, which are continuously increasing in sophistication, including computer viruses, internal and external security breaches, and other cyber-attacks. These threats could disrupt our operations, lead to the loss of confidential information, and hinder our ability to accurately report our financial results in a timely manner. We have adopted a Cybersecurity Policy to create effective administrative, technical, electronic, and physical protections to safeguard the personal information of Company personnel, confidential information concerning our portfolio investments and the integrity of the Company's information systems.

We have created an Information Security Team, consisting of our Chief Financial Officer and our Chief Compliance Officer, to implement and administer our Cybersecurity Policy. Among the duties and responsibility of our Information Security Team are the following:

- Ensuring that all Equus personnel are aware of the Cybersecurity Policy and agree to adhere to its requirements;
- Establishing that information concerning the Fund is stored on encrypted cloud-based servers accessible only by authorized Equus personnel;
- Providing that all of the Company's information systems are backed up daily, with offline copies available in the event that a major security issue arises;
- Testing and evaluating cybersecurity safeguards via the use of third-party information technology service providers;
- Reviewing the security measures in the Company's Cybersecurity Policy annually or when there is a change in applicable laws or regulations or in business activities of Equus; and
- Conducting training as necessary for all Equus personnel; and
- Reporting cybersecurity matters to our Board of Directors who provide oversight of our Information Security Team.

We utilize third-party services and tools for identifying, protecting against, and detecting cyber incidents, and also partner with external vendors to augment our internal security capabilities. Additionally, we engage third-parties to conduct independent assessments of our cybersecurity infrastructure to evaluate the efficiency and effectiveness of our detection capabilities, along with our response mechanisms, and overall risk management.

Our approach to managing cybersecurity risks is part of a continuous improvement process, both in the context of cybersecurity and broader operational risk management. This ongoing process, which includes personnel training, is aimed at routinely reviewing and, as necessary, improving, our oversight processes and tools to ensure they remain effective and resilient in their management of cybersecurity risk.

#### **Material Impact of Cybersecurity Threats**

While we have yet to experience a material cybersecurity event, we acknowledge the persistent and evolving nature of these threats, which have the potential to materially impact our business strategy, operations, and financial results adversely. We maintain robust policies and procedures focused on cybersecurity incident management, ensuring timely communication and escalation to all relevant stakeholders. This enables faster response and effective communication, including public disclosure if a material cybersecurity event were to occur.

#### **Board of Directors Oversight**

Our Board of Directors oversees risks related to cybersecurity, including the security of our corporate, financial, and portfolio investment information and the steps management is taking to monitor and control these risks. Our Chief Compliance Officer conducts regular meetings with our independent directors to discuss various compliance matters, including any cybersecurity issues, and also delivers a comprehensive Annual Compliance Report to the Board, which report also addresses cybersecurity matters.

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**Item 2. Properties**

We do not own any real estate or other physical properties. Our principal executive offices are located at 700 Louisiana St. 48<sup>th</sup> Floor, Houston, Texas 77002. Should we remain a BDC and not consummate the transformation of Equus into an operating company, we believe that these leased office facilities are suitable and adequate for our business as it is contemplated to be conducted.

**Item 3. Legal Proceedings**

From time to time, the Fund is a party to certain proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of any potential legal proceedings cannot at this time be predicted with certainty, we do not expect that any such proceedings will have a material effect upon the Fund's financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

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**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NYSE under the symbol "EQS". We had approximately 2,400 1,600 stockholders as of December 31, 2022 December 31, 2023, 640 607 of whom were registered holders. Registered holders do not include those stockholders whose stock has been issued in street name. As of December 31, 2022 December 31, 2023, our net asset value per share was \$2.61, \$3.55.

The following table reflects the high and low closing sales prices per share of our common stock on the NYSE, and net asset value ("NAV") per share for each of the three years ended December 31, 2022 December 31, 2023, by quarter:

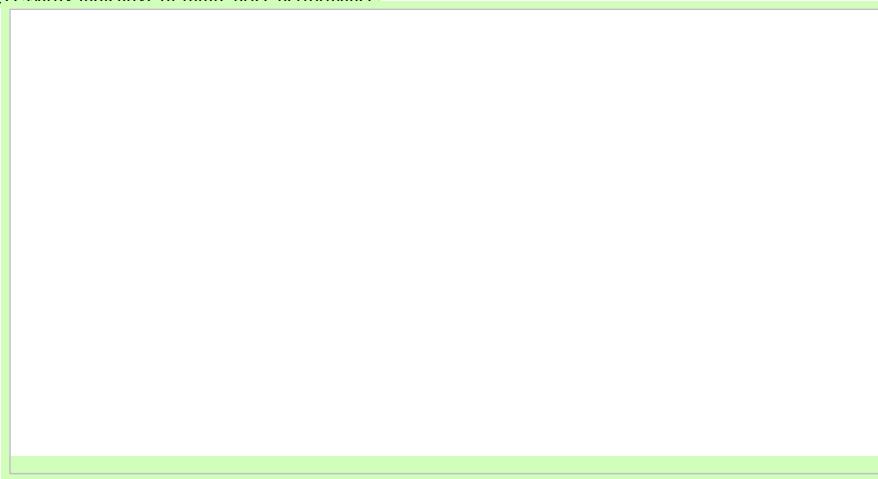
	2022				2021				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	\$ 2.71	\$ 2.70	\$ 2.63	\$ 1.83	\$ 2.23	\$ 1.96	\$ 2.75	\$ 2.48	\$ 1.79	\$ 1.28	\$ 1.51	\$ 2.30
Low	2.20	2.35	1.49	1.39	1.61	1.82	1.88	2.12	0.95	0.95	1.14	1.10
NAV	2.77	2.75	2.68	2.61	2.52	2.57	2.68	2.69	2.88	3.07	2.77	2.50

	2023				2022				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	\$ 1.75	\$ 1.65	\$ 1.55	\$ 1.51	\$ 2.71	\$ 2.70	\$ 2.63	\$ 1.83	\$ 2.23	\$ 1.96	\$ 2.75	\$ 2.48
Low	1.44	1.46	1.35	1.38	2.20	2.35	1.49	1.39	1.61	1.82	1.88	2.12
NAV	2.52	2.96	3.49	3.55	2.77	2.75	2.68	2.61	2.52	2.57	2.68	2.69

**Stock Performance Graph**

The following graph compares the cumulative total return on our common stock with the cumulative total return of the NYSE Composite Index and the S&P 500 Index for the five years ended December 31, 2023. This comparison assumes \$100.00 was invested in our common stock at the closing price of our common stock on December 31, 2018 and in the comparison groups and assumes the reinvestment of all cash dividends on the ex-dividend date prior to any tax effect. The stock price performance shown on the graph below is not necessarily indicative of future price performance.



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As a RIC, we are required to distribute to our stockholders, in a timely manner, at least 90% of our taxable net investment income each year. If we do not distribute, in a timely manner, 98.2% of our taxable net capital gains and 90% of our taxable net investment income each year (as well as any portion of the respective 2% balances not distributed in the previous year), we will be subject to a 4% non-deductible federal excise tax on certain undistributed income of regulated investment companies. Under the 1940 Act, we are not permitted to pay dividends to stockholders unless we meet certain asset coverage requirements. If taxable net investment income is retained, we will be subject to federal income and excise taxes. We reserve the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as long-term capital gains and our stockholders will be able to claim their proportionate share of the federal income taxes paid by the Fund on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their fund shares by the difference between their undistributed capital gains and their tax credit.

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We invest in companies that are believed to have a high potential for capital appreciation, and we intend to realize the majority of our profits upon the sale of our investments in portfolio companies. Consequently, most of the companies in which we invest do not have established policies of paying annual dividends. However, a portion of the investments in portfolio securities held by the Fund consists of interest-bearing subordinated debt securities or dividend-paying preferred stock.

### **Item 6. [Reserved]**

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*We are incorporating by reference Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2022 Annual Report on Form 10-K for management's discussion and analysis of financial condition and results of operations for the fiscal year 2022 compared to fiscal year 2021.*

#### **Overview**

Equus is a BDC that provides financing solutions for privately held middle market and small capitalization companies. We began operations in 1983 and have been a publicly traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income. Consistent with our announced intention to transform Equus into an operating company or a permanent capital vehicle, on November 1, 2022, our shareholders have previously authorized our Board to withdraw our BDC election and, although this authorization has since expired, on February 28, 2023, we expect to receive a further authorization from our stockholders in the future. Nevertheless, we will not withdraw this election unless and until we have entered into a definitive agreement to convert Equus into an operating company or a permanent capital vehicle. Further, we will also require a subsequent affirmative vote from holders of a majority of our outstanding voting shares to enter into any such definitive agreement or change the nature of our business. See *Significant Developments – Authorization to Withdraw BDC Election* above.

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As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of the Fund's total assets in "qualifying assets," including securities of private U.S. companies, certain public U.S. companies with a total market capitalization not in excess of \$250 million, cash, cash equivalents, U.S. government securities and short-term high-quality debt investments. Equus is a RIC under Subchapter M of the Code. To qualify as a RIC, we must meet certain source of income and asset diversification requirements. If we comply with the provisions of Subchapter M, the Fund generally does not have to pay corporate-level income taxes on any income that is distributed to our stockholders.

**Investment Income.** We generate investment income from interest payable on the debt securities that the Fund holds, dividends received on equity interests in our portfolio companies and capital gains, if any, realized upon sales of equity and, to a lesser extent, debt securities in the investment portfolio. Our equity investments may include shares of common and preferred stock, membership interests in limited liability companies and warrants to purchase additional equity interests. These equity securities may or may not pay dividends, and the exercise prices of warrants that we acquire in connection with debt investments, if any, vary by investment. Our debt investments in portfolio companies may be in the form of senior or subordinated loans and may be unsecured or have a first or second lien on some or all of the assets of the borrower. Our loans typically have a term of three to seven years and bear interest at fixed or floating rates. Interest on these debt securities is generally payable either quarterly or semiannually. Some promissory notes held by the Fund provide that a portfolio company may elect to pay interest in cash or provide that discount interest may accrue in the form of original issue discount or payment-in-kind (PIK) over the life of the notes by adding unpaid interest amounts to the principal balance. Amortization of principal on our debt investments is generally deferred for several years from the date of initial investment. The principal amount of these debt securities and any accrued but unpaid interest generally will become due at maturity. We also earn interest income at market rates on investments in short-term marketable securities. From time to time, we generate income in the form of commitment, origination, structuring, and extension fees in connection with our investments. We recognize all such fees when earned.

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**Expenses.** Currently, our primary operating expenses include director fees and expenses, professional fees, compensation expense, and general and administrative fees. During 2023, 2022 2021 and 2020, 2021, we did not incur any non-recurring expenses.

**Non-Operating Subsidiary.** We have established Equus Total Return (Canada) Inc. as a wholly-owned subsidiary to facilitate payments to Canadian personnel and contractors who provide services to the Fund. We consider Equus Total Return (Canada) Inc. a disregarded entity for accounting purposes, inasmuch as it does not have active operations.

**Operating Activities.** We use cash to make new investments and follow-on investments in our existing portfolio companies. We record these investments at cost on the applicable trade date. Realized gains or losses are computed using the specific identification method. On an ongoing basis, we carry our investments in our financial statements at fair value, as determined by our board of directors. See “*Critical Accounting Policies – Valuation of Investments*” below. As of December 31, 2022 December 31, 2023, we had invested 37.6% 43.7% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. At that time, we had invested 100% in membership interests in limited liability companies.

**Commitments.** Under certain circumstances, we make follow-on investments in some of our portfolio companies. As of December 31, 2022 December 31, 2023, we had no \$1.7 million in outstanding commitments in our portfolio companies.

**Financing Activities.** From time to time, we use leverage to finance a portion of our investments. We then repay such debt from the sale of portfolio securities. Under the 1940 Act, we have the ability to borrow funds and issue debt securities or preferred stock that are referred to as senior securities, subject to certain restrictions, including an overall limitation on the amount of outstanding debt, or leverage, relative to equity of 1.5:1. Because of the nature and size of our portfolio investments, we periodically borrow funds to make qualifying investments in order to maintain our qualification as a RIC. During 2022 2023 and 2021, 2022, we borrowed such funds by accessing a margin account with a securities brokerage firm. We invest the proceeds of these margin loans in high-quality securities such as U.S. Treasury securities until they are repaid. We refer to these high-quality investments as “restricted assets” because they are not generally available for investment in portfolio companies under the terms of borrowing. If, in the future, we cannot borrow funds to make such qualifying investments at the end of any future quarter, we may not qualify as a RIC and would become subject to corporate-level income tax on our net investment income and realized capital gains, if any. In addition, our distributions to stockholders would be taxable as ordinary dividends to the extent paid from earnings and profits. See “*Federal Income Tax Considerations*.”

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**Distributions.** So long as we remain a BDC, save for minor exceptions we will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

**Possible Share Repurchase.** As a closed-end BDC, our shares of common stock are not redeemable at the option of stockholders, and our shares currently trade at a discount to their net asset value. Our Board has determined that it would be in the best interests of our stockholders to reduce or eliminate this market value discount. Accordingly, we have been authorized to, and may from time to time, repurchase shares of our outstanding common stock (including by means of tender offers or privately negotiated transactions) in an effort to reduce or eliminate this market discount or to increase the net asset value of our shares. We are not required to undertake, and we have not previously undertaken, any such share repurchases, nor do we further anticipate taking any such action in 2023, 2024.

### 2016 Equity Incentive Plan

On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan (“Incentive Plan”). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund.

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The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards are each subject to a vesting requirement over a 3-year period unless the recipient thereof is terminated or removed from their position as a director or executive officer without "cause", or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. We account for share-based compensation using the fair value method, as prescribed by ASC 718, Compensation—Stock Compensation. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term. **In connection with these Inasmuch as all existing awards under the Incentive Plan became fully-vested prior to 2021, we recorded no compensation expense of \$0, \$0, and \$0.08 million, respectively, relating to awards made under the Incentive Plan for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021.**

### Critical Accounting Estimates

We follow the accounting and reporting guidance in FASB Accounting Standards Codification Topic 946 "*Financial Services – Investment Companies*." Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

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### **Valuation of Investments**

**For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:**

1. Each portfolio company or investment is reviewed by our investment professionals;
2. With respect to investments with a fair value exceeding \$2.5 million that have been held for more than one year, we engage independent valuation firms to assist our investment professionals. These independent valuation firms conduct independent valuations and make their own independent assessments;
3. Our Management produces a report that summarizes each of our portfolio investments and recommends a fair value of each such investment as of the date of the report;
4. The Audit Committee of our Board reviews and discusses the preliminary valuation of our portfolio investments as recommended by Management in their report and any reports or recommendations of the independent valuation firms, and then approves and recommends the fair values of our investments so determined to our Board for final approval; and
5. The Board discusses valuations and determines the fair value of each portfolio investment in good faith based on the input of our Management, the respective independent valuation firm, as applicable, and the Audit Committee.

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During the first twelve months after an investment is made, we rely on the original investment amount to determine the fair value unless significant developments have occurred during this twelve-month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions).

Investments are valued utilizing a yield analysis, enterprise value ("EV") analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company's securities in order of their preference relative to one another (i.e., "waterfall" allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate.

For this purpose, we consider capitalization rates for similar enterprises as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company's assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in fair value pricing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

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Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis assuming a hypothetical current sale of the security to determine if a debt security has been impaired. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security if less than the cost of the investment.

We will record unrealized depreciation on investments when we determine that the fair value of a security is less than its cost basis and will record unrealized appreciation when we determine that the fair value is greater than its cost basis.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$15.7 million \$40.9 million and \$13.0 million \$15.7 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities. As of December 31, 2019, one of our portfolio investments, MVC Capital, Inc., was publicly listed on the NYSE with 563,894 common shares. In the fourth quarter of 2020, we disposed of these shares, together with additional shares of MVC that were received as dividends during the first three quarters of that year.

We adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of private securities, generally determined on a quarterly basis or as announced in a press release, and report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications, including *Barron's* and *The Wall Street Journal*.

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### **Federal Income Taxes**

Because we are not required to satisfy RIC requirements as a BDC, we may seek to grow the Fund as a BDC but not necessarily as a RIC. If we continue as a RIC, we will need to comply with the requirements of the Code necessary for us to qualify as a RIC. So long as we comply with these requirements, we generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. For the year ended December 31, 2022, we have not accrued any income or excise tax. For the year ended December 31, 2021, we accrued \$38,000 in corporate level income tax and excise tax in lieu of making a distribution of net capital gains for the sale of PalletOne, Inc. This tax was paid in March 2022. We may borrow money from time to time to maintain our status as a RIC under the Code. See "Overview – Financing Activities" above.

### **Interest Income Recognition**

We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We accrete or amortize discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

### **Payment in Kind Interest**

We may have loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, we must pay out to our stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments.

## **Current Market Conditions**

U.S. GDP increased at an annualized rate of 2.7% 3.3% in the fourth quarter of 2022, 2023, substantially higher than consensus estimates for the quarter. GDP growth in the fourth quarter of 2023 also compared favorably to an annualized increase of 7.0% 2.7% for the fourth quarter of 2021, and 3.2% 2022, although down from 4.9% for the third quarter of 2022, 2023. Overall, GDP growth was 2.1% 2.5% for all of 2022, as compared to 5.9% 2.1% for all of 2021, 2022. The slower GDP growth in 2022 the fourth quarter of 2023 was largely due to decreases in private inventory investment, federal government spending, residential fixed investment, and consumer spending, exports, and inventories, spending. The Conference Board is projecting negative GDP growth of 1.2% for the first three quarters of 2023 2024 and an overall projected increase of only 0.3% 1.4% for the entire year, increasing to 1.6% in 2024, 2025. The Congressional Budget Office is predicting 0.1% 1.5% GDP growth for 2023, 2024. (Sources: Bureau of Economic Analysis; The Conference Board, The Wall Street Journal; Board; Congressional Budget Office).

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As of February 2023, the U.S. unemployment rate stood at 3.4% 3.7%, and has remained largely stable for a considerable period, fluctuating between 3.4% and 3.8% for the lowest since 1969. previous 24 months. Most economists, however, do not project this level to continue, as recessionary headwinds and lower growth forecasts suggest an increase during the remainder of 2023, 2024. Moreover, the labor participation rate remains at approximately 62.5%, below the pre-pandemic high of 63.3% of February 2020. Most of the recent employment gains in 2022 and 2023 were due to gains in the leisure and hospitality industry, healthcare, construction, and social assistance. (Sources: *Bureau of Labor Statistics*; *Forbes*; *Trading Economics*).

Consumer Beginning in 2021 and continuing through 2022, consumer prices which had largely been held increased the most in check during the pandemic, began to rise steadily beginning in the second half of 2021. By the third quarter of 2022, inflation had increased to an annualized rate four decades, reaching a high of 8.3%, before steadily declining throughout 2023, finishing the highest in over four decades, before tapering in the fourth quarter and rounding out 2022 year at 6.5% for the entire year. The slight downward 3.4%. This trend has continued into January 2023, 2024, where the U.S. Bureau of Labor Statistics reported an annualized rate of 6.4% 3.1%. In view of lower growth projections and other economic headwinds, most analysts predict consumer price increases to taper further to approximately 2.4% for all of 2024. (Sources: *U.S. Bureau of Labor Statistics*; *Trading Economics* *Forbes*).

Global merger and acquisition activity in 2022 2023 was \$3.6 trillion \$3.1 trillion, a 28% 14% drop from \$3.6 trillion in 2022 which itself was 28% lower than 2021's all-time high of \$5.0 trillion, with larger M&A transactions dropping by 31% compared to 2021. Technology, Biotechnology, energy, and healthcare were the sectors that experienced the most significant dealmaking activity during the year. Higher interest rates costs of capital were the principal cause of the continued decline in dealmaking, which slowed considerably dealmaking. Most analysts expect consolidation activity in the second half 2024 to increase slightly as a result of 2022, pent up demand and stable interest rates. (Source: *Dealogic*; *Wall Street Journal*).

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Private equity firms experienced a similar slowdown in activity during 2023 which continued a downward trend from 2022 with investment activity falling and the highs experienced during the Covid-19 pandemic. Nevertheless, there remains ample undeployed cash, and strong, acquisitive companies, as well as emerging companies in the AI space, appear to \$1.3 trillion, a 38.6% decrease from \$2.21 trillion in 2021. First round investments comprised the best positioned as some of the largest component of PE activity, amounting to \$452.3 billion across approximately 16,000 transactions. Technology, media, and telecommunications were again the industries most represented in candidates for private equity transactions activity in 2022, 2024. (Source: PWC; Bloomberg)

During 2022, 2023, our net asset value decreased from \$2.69 per share as of December 31, 2021 to \$2.61 per share as of December 31, 2022 to \$3.55 per share as of December 31, 2023. As of December 31, 2021, December 31, 2022, our common stock was trading at a 11.6% 45.2% discount to our net asset value as compared to 45.2% 59.2% as of December 31, 2022 December 31, 2023.

Over the past several years, we have executed certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and realize certain of our portfolio investments. Specifically, we changed the composition of our Board of Directors and Management, terminated certain of our follow-on investments, internalized the management of the Fund, suspended our managed distribution policy, modified our investment strategy to pursue shorter term liquidation opportunities, pursued non-cash investment opportunities, and sold certain of our legacy and underperforming investment holdings. We believe these actions continue to be necessary to protect capital and liquidity in order to preserve and enhance shareholder value. Because our Management is internalized, certain of our expenses should not increase commensurate with an increase in the size of the Fund and, therefore, if we remain a BDC, we expect to achieve efficiencies in our cost structure if we are able to grow the Fund.

### Liquidity and Capital Resources

The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems that certain money market funds, U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents (See Note 2 to the financial statements.)

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We generate cash primarily from maturities, sales of securities and borrowings, as well as capital gains realized upon the sale of portfolio investments. We use cash primarily to make additional investments, either in new companies or as follow-on investments in the existing portfolio companies and to pay the dividends to our stockholders.

Because of the nature and size of the portfolio investments, we may periodically borrow funds to make qualifying investments to maintain our tax status as a RIC. We often borrow such funds by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If the Fund is unable to borrow funds to make qualifying investments, it may no longer qualify as a RIC. The Fund would then be subject to corporate income tax on its net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends.

The Fund has the ability to borrow funds and issue forms of senior securities representing indebtedness or stock, such as preferred stock, subject to certain restrictions. Net taxable investment income and net taxable realized gains from the sales of portfolio investments are intended to be distributed at least annually, to the extent such amounts are not reserved for payment of expenses and contingencies or to make follow-on or new investments.

The Fund reserves the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as long-term capital gains and stockholders will be able to claim their proportionate share of the federal income taxes paid on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

We are evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. We have followed valuation techniques in a consistent manner; however, we are cognizant of current market conditions that might affect future valuations of portfolio securities. We believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months. If we effect a Consolidation of the Fund as described under “*Significant Developments – Authorization to Withdraw BDC Election*” above, we may utilize some or a substantial portion of our current liquidity in connection with a contemplated transaction as payment of the purchase price and to pay associated legal, due diligence, accounting, and other fees. Further, we may borrow funds from financial institutions or other providers of debt capital to provide and pay for a part of the consideration and expenses necessary to effect a conversion of Equus into an operating company.

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Year Ended December 31, 2022 December 31, 2023

As of December 31, 2022 December 31, 2023, we had total assets of \$41.7 million \$93.5 million, of which \$15.7 million \$40.9 million were invested in portfolio investments and \$19.3 million \$6.5 million were invested in cash and cash equivalents.

As of December 31, 2022 December 31, 2023, we also had \$6.1 million \$45.4 million of temporary cash investments U.S. Treasury bills and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$6.0 million \$45.0 million was invested in U.S. Treasury bills and \$0.06 million \$0.4 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on January 3, 2023 January 4, 2024 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2023 February 4, 2024.

*Operating Activities.* We used \$7.7 million \$51.4 million in cash for operating activities in 2022. In 2022, we made a \$0.2 million investment 2023 principally due to \$8.3 million in the form of a cash advance investments, \$4.3 million in a portfolio company. We paid fees to our professional advisers, directors, banks advisors, director and others of \$3.6 million. other, \$17.0 million increase in unrealized appreciation, along with \$38.9 million increase in net investments in U.S. Treasury bills.

*Financing Activities.* We provided \$3.5 million \$39.1 million in cash from financing activities for 2022, 2023, principally in connection with borrowings on margin.. We did not declare any dividends in 2022.

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**Year Ended December 31, 2021** **2023**.

As of December 31, 2021, we had total assets of \$39.7 million, of which \$13.0 million were invested in portfolio investments and \$23.5 million were invested in cash and cash equivalents.

As of December 31, 2021, we also had \$2.5 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$2.5 million was invested in U.S. Treasury bills and \$0.02 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on January 4, 2022 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2022.

**Operating Activities.** We provided \$21.1 million in cash for operating activities in 2021. In 2021, we made a \$0.3 million investment in the form of a cash advance in a portfolio company. We paid fees to our professional advisers, directors, banks and others of \$3.4 million, while realizing a gain of \$0.4 million from the disposition of one portfolio company.

**Financing Activities.** We used \$21.5 million in cash from financing activities for 2021. We did not declare any dividends in 2021.

**Year Ended December 31, 2020**

As of December 31, 2020, we had total assets of \$58.8 million, of which \$7.0 million were invested in portfolio investments and \$23.6 million were invested in cash and cash equivalents.

As of December 31, 2020, we also had \$24.2 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$24.0 million was invested in U.S. Treasury bills and \$0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured on January 5, 2021 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2021.

**Operating Activities.** We provided \$24.6 million in cash for operating activities in 2020. In 2020, we made a non-cash equity conversion of \$0.6 million and a \$0.3 million investment in the form of a cash advance in a portfolio company. We paid fees to our professional advisers, directors, banks and others of \$5.2 million, while realizing net capital gains of \$18.5 million from the disposition of three portfolio companies.

**Financing Activities.** We used \$5.0 million in cash from financing activities for 2020. We did not declare any dividends in 2020.

### Results of Operations Investment Income and Expense

**Year Ended December 31, 2022** **December 31, 2023** as compared to **Year Ended December 31, 2021** **December 31, 2022**

Total income from portfolio securities was **unchanged** at \$0.3 million for 2023 and \$0 for 2022 and 2021, 2022.

Compensation expense was **comparable** increased to \$1.9 million in 2023 from 2021 to 2022, at \$1.6 million.

Professional liability expense increase to \$0.7 million in 2022 from \$0.5 million in 2021, primarily due to a increase in premiums, 2022.

As a result of the factors described above, net investment loss after expenses was **relatively unchanged** at \$3.6 million \$4.0 million for 2022 2023 as compared to a net investment loss of \$3.5 million \$3.6 million in 2021, 2022.

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**Year Ended December 31, 2021 as compared to Year Ended December 31, 2020**

Total income from portfolio securities was \$0 for 2021, compared to \$0.3 million in 2020. The decrease was due to the sale of interest-bearing securities in 2020.

Compensation expense in 2021 totaled \$1.6 million, a decrease of \$1.5 million. Compensation expense in 2020 was \$3.1 million. The 2020 amount included bonus accruals of \$990,000, which amount will be paid out over the next three fiscal years. The difference in compensation expense from 2020 to 2021 was a result of bonuses earned in connection with dispositions of certain of the Fund's portfolio investments in 2020.

Professional fees decreased to \$0.7 million in 2021 from \$1.1 million in 2020, primarily due to a decrease in consulting and legal fees.

General and administrative expenses were comparable from 2020 to 2021 and were \$0.14 million and \$0.17 million respectively.

As a result of the factors described above, net investment loss after expenses was \$3.4 million for 2021 as compared to a net investment loss of \$4.9 million in 2020.

**Year Ended December 31, 2020 as compared to Year Ended December 31, 2019**

Total income from portfolio securities was comparable from 2019 to 2020 and were \$0.3 million respectively.

Compensation expense in 2019 was \$1.7 million. Compensation expense in 2020 totaled \$3.1 million, an increase of \$1.4 million. This amount included bonus accruals of \$990,000, which amount will be paid out over the next three fiscal years. The difference in compensation expense from 2019 to 2020 was a result of bonuses earned in connection with dispositions of certain of the Fund's portfolio investments in 2020.

Professional fees increased to \$1.1 million in 2020 from \$1.0 million in 2019, primarily due to an increase in consulting and legal fees.

General and administrative expenses were comparable from 2019 to 2020 and were \$0.2 million respectively.

As a result of the factors described above, net investment loss after expenses was \$4.9 million for 2020 as compared to a net investment loss of \$3.4 million in 2019.

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**Summary of Portfolio Investment Activity**

**Year Ended December 31, 2023**

During 2023, we made an \$8.3 million investment in Morgan E&P, LLC.

The following table includes summarizes investment activity during the year ended December 31, 2023 (in thousands):

Portfolio Company	Investment Activity				Total	
	New Investments		Existing Investments			
	Cash	Non-Cash	Follow-On Cash	PIK		
Morgan E&P, LLC	\$ 8,253	\$ —	\$ —	\$ —	\$ 8,253	
	\$ 8,253	\$ —	\$ —	\$ —	\$ 8,253	

**Year Ended December 31, 2022**

During 2022, we made a \$0.15 million follow-on investment in Equus Energy, LLC.

The following table includes summarizes investment activity during the year ended December 31, 2022 (in thousands):

Portfolio Company	Investment Activity				Total	
	New Investments		Existing Investments			
	Cash	Non-Cash	Follow-On Cash	PIK		
Equus Energy, LLC	\$ —	\$ —	\$ 150	\$ —	\$ 150	
	\$ —	\$ —	\$ 150	\$ —	\$ 150	

**Year Ended December 31, 2021**

During 2021, we made a \$0.35 million non-cash follow-on investment in Equus Energy, LLC.

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The following table includes summarizes investment activity during the year ended December 31, 2021 (in thousands):

Portfolio Company	Investment Activity				Total	
	New Investments		Existing Investments			
	Cash	Non-Cash	Follow-On Cash	PIK		
Equus Energy, LLC	\$ —	\$ —	\$ 350	\$ —	\$ 350	
	—————	—————	—————	—————	—————	
	\$ —	\$ —	\$ 350	\$ —	\$ 350	

**Year Ended December 31, 2020**

During 2020, we received 19,164 shares of MVC in the form of stock dividend payments.

**During 2020, we made a \$0.6 million non-cash follow-on investment in Equus Energy, LLC.**

The following table includes summarizes investment activity during the year ended December 31, 2020 (in thousands):

Portfolio Company	Investment Activity				Total	
	New Investments		Existing Investments			
	Cash	Non-Cash	Follow-On Non-cash	PIK		
MVC Capital, Inc.	\$ —	\$ —	\$ —	\$ 156	\$ 156	
Equus Energy, LLC	—	—	561	—	561	
	—————	—————	—————	—————	—————	
	\$ —	\$ —	\$ 561	\$ 156	\$ 717	

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### Realized Gains and Losses

#### **Year Ended December 31, 2023**

We realized capital gains of \$34 thousand as a result of disposition of U.S. Treasury bills.

#### **Year Ended December 31, 2022**

We realized capital gains of \$1.0 thousand as a result of disposition of **temporary cash investments**, U.S. Treasury bills.

#### **Year Ended December 31, 2021**

During 2021, we received a combination of escrowed and contingent payments of \$3.8 million from the sale of our interest in PalletOne, Inc. in December 2020, realizing a capital gain of \$0.4 million.

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### **Year Ended December 31, 2020**

During 2020, we liquidated our investment in 5<sup>th</sup> Element Tracking, LLC, receiving \$1.2 million in cash, realizing a capital loss of \$0.3 million. We sold our shares in MVC Capital, Inc. for approximately \$4.5 million in cash, realizing a capital loss of \$2.5 million. We also sold our interest in PalletOne, Inc., receiving \$18.2 million in cash, \$3.4 million in a combination of escrowed and contingent payments, realizing a capital gain of \$21.3 million.

Changes in Unrealized Appreciation of Portfolio Securities

### **Year Ended December 31, 2023**

During 2023, we recorded an increase of \$17.0 million in net unrealized appreciation, from an unrealized appreciation of \$7.5 million at December 31, 2022 to a net unrealized appreciation of \$24.5 million at December 31, 2023. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Morgan E&P, LLC of \$22.6 million, principally due to substantial increases in Morgan's reserves and the reclassification of certain of its proved reserves from undeveloped to producing. The increase in the fair value of Morgan was offset by the decrease in fair value of our holding in Equus Energy, LLC of \$5.7 million, principally due to decreases in the forward curve for natural gas and its effect on the economic prospects of Equus Energy regarding future development of its gas properties.

### **Year Ended December 31, 2022**

During 2022, we recorded an increase of \$2.5 million in net unrealized appreciation, from an unrealized appreciation of \$5.0 million at December 31, 2021 to a net unrealized appreciation of \$7.5 million at December 31, 2022. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Equus Energy, LLC of \$2.65 million, principally due to an increase in the cost basis of this investment, as well as increases in oil and gas prices, as well as increases in the short- and long-term forward pricing curves for these commodities during 2022.

### **Year Ended December 31, 2021**

During 2021, we recorded an increase of \$5.6 million in net unrealized appreciation, from an unrealized depreciation of \$0.6 million at December 31, 2020 to a net unrealized appreciation of \$5.0 million at December 31, 2021. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Equus Energy, LLC of \$6.0 million, principally due to an increase in the cost basis of this investment, as well as increases in oil and gas prices, as well as increases in the short- and long-term forward pricing curves for these commodities during 2021.

### **Year Ended December 31, 2020**

During 2020, we recorded a decrease of \$26.0 million in net unrealized appreciation, from \$25.4 million at December 31, 2019 to a net unrealized depreciation of \$0.6 million at December 31, 2020. Such change in unrealized appreciation resulted primarily from the following changes:

- (i) Transfer of unrealized depreciation to realized loss of our holdings in MVC of \$1.7 million in connection with the sale of our shares of MVC;
- (ii) Transfer of unrealized appreciation to realized gain of our holdings in PalletOne, Inc. of \$26.1 million in connection with the sale of our common shares of PalletOne, Inc.; and
- (iii) Decrease in the fair value of our holdings in Equus Energy, LLC of \$1.6 million, principally due to decreases in gas prices and decreases in the short- and long-term forward pricing curve for oil.

Portfolio Securities

As of December 31, 2022 December 31, 2023, we had active investments in the following portfolio company companies:

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### **Morgan E&P, LLC**

Morgan E&P, LLC (“Morgan”) was organized by the Fund on April 3, 2023 as a Delaware limited liability company and a wholly-owned subsidiary of the Fund. On May 22, 2023, Morgan completed the acquisition of 4,747.52 net acres, in the Bakken/Three Forks formation in the Williston Basin of North Dakota, and acquired approximately 1,100 additional acres on September 26, 2023. The acreage and associated mineral rights were acquired from Pro Energy I LLC (“Pro Energy”), a company whose principals have decades of oil and gas experience and who have themselves drilled over 1,800 horizontal wells in the Williston Basin over a 10-year period. In May 2023, we entered into an agreement with Morgan to provide it up to \$10.0 million in senior debt financing, subject to a schedule of disbursements and draws that we determine. As of December 31, 2023, we advanced Morgan \$8.3 million under this facility (See *Subsequent Events* below where we increased the total amount of the facility to \$10.5 million and where we advanced, subsequent to year-end, an additional \$2.0 million under the facility). During 2023, Morgan substantially increased its reserves, completed the drilling of two new wells, and also reclassified certain of its proved reserves from undeveloped to producing. As a result, the fair value of this holding was \$22.6 million at December 31, 2023.

### **Equus Energy, LLC**

We formed Equus Energy, as a wholly-owned subsidiary of the Fund, to make investments in companies in the energy sector, with particular emphasis on income-producing oil& gas properties. In December 2011, we contributed \$250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional \$6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of \$6.6 million in working interests presently represented by 136 producing and non-producing oil and gas wells, including associated development rights of approximately 21,520 acres situated on 10 separate properties in Texas and Oklahoma. On September 30, 2020, the Fund provided an additional \$0.6 million in capital to Equus Energy for the purpose of additional working capital. On June 30, 2021, the Fund provided an additional \$0.35 million in capital to Equus Energy for the purpose of additional working capital. On December 31, 2022, the Fund provided an additional \$0.15 million in capital to Equus Energy for the purpose of additional working capital. The working interests held by Equus Energy range from a *de minimis* amount to 50% of the leasehold production of these wells. The wells are operated by a number of experienced operators such as Burk Royalty, which has operating responsibility for leasehold interests in the Conger Field, representing approximately one-third of the producing well interests. The assets were purchased from Warren American Oil Company, LLC, a Tulsa-based oil and gas firm. Following sharp price decreases of oil and gas in the first and second quarters of 2020, short and long-term prices of oil began to recover in the second half of the year. As a result, The fair value of this our holding increased to \$15.7 million in Equus Energy decreased from \$15.65 million at December 31, 2022 from \$13.0 million to \$10.0 million at December 31, 2021. December 31, 2023, principally due to decreases in the forward curve for natural gas and its effect on the economic viability of Equus Energy's gas reserves for future development.

### Off Balance Sheet Arrangements

We had an operating lease for office space that expired in September 2014. Our current office space lease since December 31, 2020 is on a month-to-month basis. Rent expense, inclusive of common area maintenance costs, was \$90,000 \$94,000 for the year ended December 31, 2022 December 31, 2023.

### Contractual Obligations

As of December 31, 2022 December 31, 2023, we had no \$1.7 million in outstanding commitments to our portfolio company investments.

### Dividends

So long as we remain a BDC, we will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

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### Subsequent Events

Our Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting the following subsequent events:

On January 3, 2023 January 4, 2024, our holding in \$6.0 million \$45.0 million in U. S. Treasury Bills matured and we repaid our year-end margin loan.

On February 26, 2024, we amended our credit facility with Morgan and increased the total amount that may be drawn under the facility from \$10.0 to \$10.5 million. Also, during February and March 2024, we advanced Morgan an additional \$2.2 million under this facility.

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates with respect to investments in debt securities and outstanding debt payable, as well as changes in marketable equity security prices. In the future, we may invest in companies outside the United States, including in Europe and Asia, which would give rise to exposure to foreign currency value fluctuations. We do not use derivative financial instruments to mitigate any of these risks. The return on investments is generally not affected by foreign currency fluctuations.

Our investments in portfolio securities consist of some fixed-rate debt securities. Since the debt securities are generally priced at a fixed rate, changes in interest rates do not directly affect interest income. In addition, changes in market interest rates are not typically a significant factor in the determination of fair value of these debt securities, since the securities are generally held to maturity. We determine their fair values based on the terms of the relevant debt security and the financial condition of the issuer.

A major portion of our investment portfolio consists of equity investments in private companies. Modest changes in public market equity prices generally do not significantly impact the estimated fair value of these investments. However, significant changes in market equity prices can have a longer-term effect on valuations of private companies, which could affect the carrying value and the amount and timing of gains or losses realized on these investments. A small portion of the investment portfolio may also consist of common stocks in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair value of these securities.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Energy” includes one two portfolio company companies and was 44.4% 84.6% of our net asset value, 37.6% 43.7% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of December 31, 2022 December 31, 2023. Changes in business or industry trends or in the financial condition, results of operations, or the market’s assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

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**Item 8. Financial Statements and Supplementary Data**

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### Report of Independent Registered Public Accounting Firm

#### Shareholders and Board of Directors

Equus Total Return, Inc.

Houston, Texas

#### Opinion on the Financial Statements

We have audited the accompanying balance sheets of Equus Total Return, Inc. (the "Fund"), including the schedules of investments, as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, the related statements of operations, changes in net assets, and cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, and the related notes and financial statement schedule listed in the Table of Contents in Item 15(a)(1) (collectively referred to as the "financial financial statements") and the selected per share data and ratios for each of the five years in the period then ended. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, and the results of its operations, changes in net assets and its cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, and the selected per share data and ratios for each of the five years in the period then ended, **December 31, 2022**, in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

These financial statements and the selected per share data and ratios are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements and the selected per share data and ratios based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the selected per share data and ratios are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and the selected per share data and ratios, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and the selected per share data and ratios. Our procedures included confirmation of securities owned as of **December 31, 2022** **December 31, 2023**, and **2021, 2022** by correspondence with the custodians. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the selected per share data and ratios. We believe that our audits provide a reasonable basis for our opinion.

#### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

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### Valuation of Control Investment

#### **The Fund's Control Investment at fair value was \$15.65 million at December 31, 2022.**

As described in Note 3 to the financial statements, the Fund's control investment portfolio is comprised has a total estimated fair value of \$40.9 million at December 31, 2023, which includes \$32.6 million of limited liability company investments. These limited liability company investments which has have been determined to be a Level 3 investment investments and utilizes utilize inputs that are unobservable and significant to the fair value measurement. Management engaged an independent third-party firm to assist in the determination of the fair value estimate of the Fund's Control Investment. limited liability company Investments.

We identified the valuation of the Control Investment Fund's limited liability company investments as a critical audit matter. The principal considerations for our determination are significant judgments involved in the determination of (i) the valuation techniques utilized to value this investment such as these investments which include the guideline transaction method, guideline public company method and the discounted cash flow method, and (ii) the use of unobservable inputs in these valuation techniques which include acreage value, proved reserve multiple, daily production multiple and discount rate. Auditing these elements was complex because it involved especially subjective auditor judgment, including the extent of specialized skills and knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the completeness and accuracy of the underlying information used as inputs in both the guideline transaction method, guideline public company method and the discounted cash flow method.
- Testing mathematical accuracy of the discounted cash flow method.
- Utilizing personnel with specialized knowledge and skill in valuation to assist in: (i) evaluating the appropriateness of the valuation models used, applied to each limited liability company investment (ii) evaluating whether unobservable inputs, such as including the acreage value, proved reserve multiple, daily production multiple, and discount rate were reasonable, and (iii) testing mathematical accuracy of the guideline transaction method and guideline public company method.

/s/ BDO USA, LLP P.C.

We have served as the Company's auditor since 2014.

Houston, Texas

March 28, 2023

April 1, 2024

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**EQUUS TOTAL RETURN, INC.  
BALANCE SHEETS**

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>(in thousands, except shares and per share amounts)</b>		
Assets		
Investments in portfolio securities at fair value:		
Control investments (cost at \$16,364 and \$8,111, respectively)	\$ 40,853	\$ 15,650
Total investments in portfolio securities at fair value	40,853	15,650
U.S. Treasury bills	44,955	5,998
Cash and cash equivalents	6,533	19,224
Restricted cash	450	60
Accounts receivable from affiliates	139	350
Accrued interest	225	—
Other assets	393	382
Total assets	<u>93,547</u>	<u>41,664</u>
Liabilities and net assets		
Accounts payable	172	107
Accrued compensation	29	321
Accounts payable to related parties	104	1
Borrowing under margin account	44,955	5,998
Total liabilities	<u>45,260</u>	<u>6,427</u>
Commitments and contingencies (See Note 6)		
Net assets		
Common stock, \$.001 par value per share; 100,000,000 shares authorized as of December 31, 2023 and December 31, 2022, respectively, and 13,586,173 and 13,518,146 shares outstanding as of December 31, 2023 and December 31, 2022, respectively		
Preferred stock, \$.001 par value per share; 10,000,000 shares authorized as of December 31, 2023 and December 31, 2022 respectively		
Common stock, par value	\$ 14	\$ 13
Capital in excess of par value	74,785	74,685
Accumulated deficit	(26,512)	(39,461)
Total net assets	<u>\$ 48,287</u>	<u>\$ 35,237</u>
Shares of common stock issued and outstanding, \$.001 par value, 100,000 and 50,000 shares authorized, respectively	<u>13,586</u>	<u>13,518</u>
Net asset value per share	<u>\$ 3.55</u>	<u>\$ 2.61</u>

The accompanying notes are an integral part of these financial statements

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**EQUUS TOTAL RETURN, INC.**  
**BALANCE SHEETS STATEMENTS OF OPERATIONS**

	<b>December 31, 2022</b>	<b>December 31, 2021</b>	
<b>(in thousands, except shares and per share amounts)</b>			
Assets			
Investments in portfolio securities at fair value:			
Control investments (cost at \$8,111 and \$7,961, respectively)	\$ 15,650	\$ 13,000	
Total investments in portfolio securities at fair value	15,650	13,000	
Temporary cash investments	5,998	2,500	
Cash and cash equivalents	19,224	23,465	
Restricted cash	60	25	
Accounts receivable from affiliates	350	350	
Other assets	382	376	
Total assets	41,664	39,716	
Liabilities and net assets			
Accounts payable	107	46	
Accrued compensation	321	792	
Accounts payable to related parties	1	13	
Borrowing under margin account	5,998	2,500	
Total liabilities	6,427	3,351	
Commitments and contingencies (see Note 6)			
Net assets			
Common stock, \$.001 par value per share; 100,000,000 and 50,000,000 shares authorized and 13,518,000 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively			
Preferred stock, \$.001 par value per share; 10,000,000 and 5,000,000 shares authorized, respectively			
Common stock, par value	\$ 13	\$ 13	
Capital in excess of par value	74,685	74,685	
Accumulated deficit	(39,461)	(38,333)	
Total net assets	<u>\$ 35,237</u>	<u>\$ 36,365</u>	
Net asset value per share	<u>\$ 2.61</u>	<u>\$ 2.69</u>	
<b>Year Ended December 31,</b>			
<b>(in thousands, except per share amounts)</b>			
Investment income:	<b>2023</b>	<b>2022</b>	<b>2021</b>
Interest and dividend income:			
Control investments	\$ 225	\$ —	\$ —
Total interest and dividend income	225	—	—
Interest from U.S. Treasury bills	24	—	—
Total investment income	249	—	—
Expenses:			
Compensation expense	1,937	1,564	1,632
Professional fees	1,110	815	720
Professional liability expenses	661	720	517
Director fees and expenses	334	325	329
General and administrative expenses	133	130	140
Mailing, printing and other expenses	71	56	87
Taxes	13	15	25
Interest expense	25	4	3
Total expenses	<u>4,284</u>	<u>3,629</u>	<u>3,453</u>
Net investment loss	<u>(4,035)</u>	<u>(3,629)</u>	<u>(3,453)</u>
Net realized gain:			
Escrow receivable	—	—	429
U.S. Treasury bills	34	1	—
Net realized gain	<u>34</u>	<u>1</u>	<u>429</u>
Net unrealized appreciation of portfolio securities:			
Control investments	16,950	2,500	5,650
Net change in net unrealized appreciation of portfolio securities	<u>16,950</u>	<u>2,500</u>	<u>5,650</u>

Income Taxes			
Federal and state income, excise and other taxes	—	—	(38)
Net increase (decrease) in net assets resulting from operations	\$ 12,949	\$ (1,128)	\$ 2,588
Net increase (decrease) in net assets resulting from operations per share:			
Basic and diluted	\$ 0.96	\$ (0.08)	\$ 0.19
Weighted average shares outstanding:			
Basic and diluted	13,526	13,518	13,518

The accompanying notes are an integral part of these financial statements

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**EQUUS TOTAL RETURN, INC.**  
**STATEMENTS OF OPERATIONS CHANGES IN NET ASSETS**

(in thousands, except per share amounts)	Year Ended December 31,		
	2022	2021	2020
<b>Investment income:</b>			
Interest and dividend income:			
Non-affiliate investments - related party	\$ —	\$ —	\$ 291
Total interest and dividend income	—	—	291
Interest from temporary cash investments	—	—	3
Other income - director fees	—	—	24
Total investment income	—	—	318
<b>Expenses:</b>			
Compensation expense	1,564	1,632	3,155
Professional fees	815	720	1,107
Director fees and expenses	325	329	335
Professional liability expenses	720	517	283
General and administrative expenses	130	140	168
Mailing, printing and other expenses	56	87	86
Taxes	15	25	22
Interest expense	4	3	27
Total expenses	3,629	3,453	5,183
Net investment loss	(3,629)	(3,453)	(4,865)
<b>Net realized gain (loss):</b>			
Affiliate investments	—	—	21,287
Non-affiliate investments - related party	—	—	(2,486)
Non-affiliate investments	—	—	(266)
Escrow receivable	—	429	—
Temporary cash investments	1	—	8
Net realized gain (loss)	1	429	18,543
<b>Net unrealized appreciation (depreciation) of portfolio securities:</b>			
Control investments	2,500	5,650	(1,561)
Affiliate investments	—	—	(26,150)
Non-affiliate investments - related party	—	—	1,741
Net change in net unrealized appreciation (depreciation) of portfolio securities	2,500	5,650	(25,970)
<b>Income Taxes</b>			
Federal and state income, excise and other taxes	—	(38)	—
Net increase (decrease) in net assets resulting from operations	\$ (1,128)	\$ 2,588	\$ (12,292)
<b>Net increase (decrease) in net assets resulting from operations per share:</b>			
Basic and diluted	\$ (0.08)	\$ 0.19	\$ (0.91)
<b>Weighted average shares outstanding:</b>			
Basic and diluted	13,518	13,518	13,518

(in thousands)	Common Stock				
	Number of Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Total Net Assets
Balances as of January 1, 2021	13,518	\$ 13	\$ 56,142	\$ (22,378)	\$ 33,777
Recharacterization of net capital gains	—	—	18,543	(18,543)	—
Net increase in net assets resulting from operations	—	—	—	2,588	2,588
Balances as of December 31, 2021	13,518	13	74,685	(38,333)	36,365

Net decrease in net assets resulting from operations	—	—	—	(1,128)	(1,128)
Balances as of December 31, 2022	13,518	13	74,685	(39,461)	35,237
Issuance of shares	68	1	100	—	101
Net increase in net assets resulting from operations	—	—	—	12,949	12,949
Balances as of December 31, 2023	<u>13,586</u>	<u>\$ 14</u>	<u>\$ 74,785</u>	<u>\$ (26,512)</u>	<u>\$ 48,287</u>

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

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**EQUUS TOTAL RETURN, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands)	Common Stock				Accumulated Deficit	Total Net Assets
	Number of Shares	Par Value	Capital in Excess of Par Value			
Balances as of January 1, 2020	13,518	13	56,062	(10,086)	45,989	
Share-based incentive compensation	—	—	80	—	80	
Net decrease in net assets resulting from operations	—	—	—	(12,292)	(12,292)	
Balances as of December 31, 2020	13,518	13	56,142	(22,378)	33,777	
Recharacterization of net capital gains	—	—	18,543	(18,543)	—	
Net increase in net assets resulting from operations	—	—	—	2,588	2,588	
Balances as of December 31, 2021	13,518	13	74,685	(38,333)	36,365	
Net decrease in net assets resulting from operations	—	—	—	(1,128)	(1,128)	
Balances as of December 31, 2022	13,518	\$ 13	\$ 74,685	\$ (39,461)	\$ 35,237	

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

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**EQUUS TOTAL RETURN, INC.**  
**STATEMENTS OF CASH FLOWS**

<b>(in thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Reconciliation of (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net (decrease) increase in net assets resulting from operations	\$ (1,128)	\$ 2,588	\$ (12,292)
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net realized (gain) loss:			
Affiliate investments	—	—	(21,287)
Non-affiliate investments -related party	—	—	2,486
Non-affiliate investments	—	—	266
Escrow receivable	—	(429)	—
Temporary cash investments	(1)	—	(8)
Net change in unrealized appreciation of portfolio securities:			
Control investments	(2,500)	(5,650)	1,561
Affiliate investments	—	—	26,150
Non-affiliate investments -related party	—	—	(1,741)
Share-based incentive compensation	—	—	80
Purchase of portfolio securities	(150)	(350)	(561)
Dividends exchanged for portfolio securities	—	—	(156)
Net proceeds from dispositions of portfolio securities		429	26,791
(Purchases) sales of temporary cash investments, net	(3,497)	21,500	4,997
Changes in operating assets and liabilities:			
Accounts receivable from affiliates	—	—	350
Accrued interest and dividend receivable	—	—	489
Accrued esrow receivable	—	3,413	(3,413)
Other assets	(6)	(195)	(40)
Accounts payable and accrued liabilities	(410)	(206)	(23)
Accounts payable to related parties	(12)	11	963
Net cash (used in) provided by operating activities	<u>(7,704)</u>	<u>21,111</u>	<u>24,614</u>
Cash flows from financing activities:			
Borrowings under margin account	16,997	2,500	104,001
Repayments under margin account	<u>(13,499)</u>	<u>(24,000)</u>	<u>(108,992)</u>
Net cash provided by (used in) financing activities	<u>3,498</u>	<u>(21,500)</u>	<u>(4,991)</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,206)</u>	<u>(390)</u>	<u>19,623</u>
Cash and cash equivalents and restricted cash at beginning of period	<u>23,490</u>	<u>23,879</u>	<u>4,256</u>
Cash and cash equivalents and restricted cash at end of period	<u><u>\$ 19,284</u></u>	<u><u>\$ 23,490</u></u>	<u><u>\$ 23,879</u></u>
Non-cash operating and financing activities:			
Accrued interest or dividends exchanged for portfolio securities - related party	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 489</u></u>
Supplemental disclosure of cash flow information:			
Interest paid	<u><u>\$ 4</u></u>	<u><u>\$ 4</u></u>	<u><u>\$ 14</u></u>
Income taxes paid	<u><u>\$ 53</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 12</u></u>

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

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**EQUUS TOTAL RETURN, INC.**  
**STATEMENTS OF CASH FLOWS**

(in thousands)	Year Ended December 31,		
	2023	2022	2021
Reconciliation of increase (decrease) in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net increase (decrease) in net assets resulting from operations	\$ 12,949	\$ (1,128)	\$ 2,588
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net realized (gain):			
Escrow receivable	—	—	(429)
U.S. Treasury bills	(34)	(1)	—
Net change in unrealized appreciation of portfolio securities:			
Control investments	(16,950)	(2,500)	(5,650)
Purchase of portfolio securities	(8,253)	(150)	(350)
Net proceeds from dispositions of portfolio securities	—	—	429
(Purchases) sales of U.S. Treasury bills, net	(38,923)	(3,497)	21,500
Changes in operating assets and liabilities:			
Accounts receivable from affiliates	211	—	—
Accrued interest and dividend receivable	(225)	—	—
Accrued escrow receivable	—	—	3,413
Other assets	(11)	(6)	(195)
Accounts payable and accrued liabilities	(227)	(410)	(206)
Accounts payable to related parties	103	(12)	11
Net cash (used in) provided by operating activities	(51,359)	(7,704)	21,111
Cash flows from financing activities:			
Borrowings under margin account	85,923	16,997	2,500
Repayments under margin account	(46,966)	(13,499)	(24,000)
Issuance of common stock	101	—	—
Net cash provided by (used in) financing activities	39,058	3,498	(21,500)
Net (decrease) in cash and cash equivalents	(12,301)	(4,206)	(390)
Cash and cash equivalents and restricted cash at beginning of period	19,284	23,490	23,879
Cash and cash equivalents and restricted cash at end of period	\$ 6,983	\$ 19,284	\$ 23,490
Supplemental disclosure of cash flow information:			
Interest paid	\$ 25	\$ 4	\$ 4
Income taxes paid	\$ 13	\$ 53	\$ 25

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

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**EQUUS TOTAL RETURN, INC.**  
SELECTED PER SHARE DATA AND RATIOS

	Year ended December 31,					Year ended December 31,				
	2022	2021	2020	2019	2018	2023	2022	2021	2020	2019
Investment income	\$ —	\$ —	\$ 0.02	\$ 0.03	\$ 0.04	\$ 0.02	\$ —	\$ —	\$ 0.02	\$ 0.03
Expenses	0.27	0.26	0.38	0.28	0.31	0.33	0.27	0.26	0.38	0.28
Net investment loss	(0.27)	(0.26)	(0.36)	(0.25)	(0.27)	(0.31)	(0.27)	(0.26)	(0.36)	(0.25)
Net realized gain (loss)	0.00	0.03	1.37	(0.20)	—	0.00	0.00	0.03	1.37	(0.20)
Net change in unrealized appreciation of portfolio securities	0.19	0.42	(2.05)	0.58	0.36	1.25	0.19	0.42	(2.05)	0.58
Net change in unrealized depreciation of portfolio securities - related party	—	—	0.13	0.03	(0.09)	—	—	—	0.13	0.03
Net increase (decrease) in net assets resulting from operations	(0.08)	0.19	(0.91)	0.16	—	0.94	(0.08)	0.19	(0.91)	0.16
Capital transactions: Shares issued for portfolio securities	—	—	0.01	0.02	0.04	—	—	—	0.01	0.02
Dilutive effect of shares issued						—	—	—	—	—
Decrease in net assets resulting from capital transactions	—	—	0.01	0.02	0.04	—	—	—	0.01	0.02
Net increase (decrease) in net assets	(0.08)	0.19	(0.90)	0.18	0.04	0.94	(0.08)	0.19	(0.90)	0.18

Net assets at beginning of period	2.69	2.50	3.40	3.22	3.18	2.61	2.69	2.50	3.40	3.22
Net assets at end of period, basic and diluted	\$ 2.61	\$ 2.69	\$ 2.50	\$ 3.40	\$ 3.22	\$ 3.55	\$ 2.61	\$ 2.69	\$ 2.50	\$ 3.40
Weighted average number of shares outstanding during period, in thousands	13,518	13,518	13,518	13,518	13,518	13,526	13,518	13,518	13,518	13,518
Market price per share:										
Beginning of period	\$ 2.38	\$ 2.16	\$ 1.82	\$ 1.96	\$ 2.40	\$ 1.43	\$ 2.38	\$ 2.16	\$ 1.82	\$ 1.96
End of period	\$ 1.43	\$ 2.38	\$ 2.16	\$ 1.82	\$ 1.96	\$ 1.45	\$ 1.43	\$ 2.38	\$ 2.16	\$ 1.82
Selected information and ratios:										
Ratio of expenses to average net assets	10.14 %	9.77 %	13.00 %	8.36 %	9.33 %	10.26 %	10.14 %	9.77 %	13.00 %	8.36 %
Ratio of net investment loss to average net assets	(10.14 %)	(9.77 %)	(12.20 %)	(7.58 %)	(8.22 %)	(9.66 %)	(10.14 %)	(9.77 %)	(12.20 %)	(7.58 %)
Ratio of net increase (decrease) in net assets resulting from operations to average net assets	(3.15 %)	7.38 %	(30.82 %)	4.86 %	0.12 %	31.01 %	(3.15 %)	7.38 %	(30.82 %)	4.86 %
Total return on market price (1)	(39.92 %)	10.19 %	18.68 %	(7.14 %)	(18.33 %)	1.40 %	(39.92 %)	10.19 %	18.68 %	(7.14 %)

<sup>(1)</sup>Total return = [(ending market price per share + year-to-date dividends paid - beginning market price per share) / beginning market price per share].

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

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**EQUUS TOTAL RETURN, INC.**  
**SCHEDULE OF INVESTMENTS**  
DECEMBER 31, 2023  
*(in thousands, except share data)*

Name and Location of Portfolio Company <sup>(1)</sup>	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value <sup>(2)</sup>
<b>Control Investments: Majority-owned <sup>(3)</sup>:</b>						
Equus Energy, LLC <sup>(4)</sup> Houston, TX	Energy	December 2011	Member interest (100%)		\$ 8,111	\$ 10,000
Morgan E&P, LLC <sup>(4)</sup> Houston, TX	Energy	April 2023	Member interest (100%) 12% senior secured promissory note due 5/26 <sup>(5)</sup>	\$ 8,253	8,253 8,253	22,600 30,853
<b>Total Control Investments: Majority-owned (represents 47.6% of total investments at fair value)</b>					<b>\$ 16,364</b>	<b>\$ 40,853</b>
<b>U.S. Treasury Bills</b>						
U.S. Treasury Bill	Government	December 2023	UST 0% 1/24	44,955	44,955 44,955	44,955 44,955
<b>Total U.S. Treasury bills (represents 52.4% of total investments at fair value)</b>					<b>\$ 61,319</b>	<b>\$ 85,808</b>
<b>Total Investments</b>						

<sup>(1)</sup> Under Section 55 (a) of the 1940 Act, qualifying assets must represent at least 70% of total assets at the time of acquisitions of any non-qualifying assets. As of none of the Fund's total assets were considered non-qualifying assets. See Note 3 to the financial statements, Valuation of Investments.

<sup>(2)</sup> See Note 3 to the financial statements, Valuation of Investments.

<sup>(3)</sup> Majority-owned investments are generally defined under the Investment Company Act of 1940 as companies in which we own more than 50% of the voting secu

<sup>(4)</sup> Level 3 Portfolio Investments

<sup>(5)</sup> Income-producing

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**SCHEDULE OF INVESTMENTS – (Continued)**  
**DECEMBER 31, 2023**  
*(in thousands, except share data)*

Our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the “Securities Act”). We typically negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As a business development company (“BDC”), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the Investment Company Act of 1940 (the “1940 Act”). Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2023, we had invested 43.7% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2023, none of our investments are considered non-qualifying assets as all of our investments are in enterprises that are considered eligible portfolio companies the 1940 Act. We provide significant managerial assistance to our portfolio companies that comprise 100% of the total value of the investments in portfolio securities as of December 31, 2023.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. The value of one segment called “Energy” includes our two remaining portfolio companies and was 70.1% of our net asset value, 50.4% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of December 31, 2023. Changes in business or industry trends or in the financial condition, results of operations, or the market’s assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2023 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	\$ 8,111	\$ 32,600	67.5 %
Secured and subordinated debt	8,253	8,253	17.1 %
<b>Total</b>	<b>\$ 16,364</b>	<b>\$ 40,853</b>	<b>84.6 %</b>

The following is a summary by industry of the Fund’s investments in portfolio securities as of December 31, 2023 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	\$ 40,853	84.6 %
<b>Total</b>	<b>\$ 40,853</b>	<b>84.6 %</b>

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**EQUUS TOTAL RETURN, INC.**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2022**  
*(in thousands, except share data)*

Name and Location of Portfolio Company	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value <sup>(1)</sup>
<b>Control Investments: Majority-owned<sup>(2)</sup>:</b>						
Equus Energy, LLC <sup>(3)</sup>						
Houston, TX	Energy	December 2011	Member interest (100%)	\$ 8,111	\$ 8,111	\$ 15,650
<b>Total Control Investments: Majority-owned (represents 72.3% of total investments at fair value)</b>					<b>\$ 8,111</b>	<b>\$ 15,650</b>
<b>Temporary Cash Investments</b>						
U.S. Treasury Bill	Government	December 2022	UST 0% 1/23	5,998	5,998	5,998
<b>Total Temporary Cash Investments (represents 27.7% of total investments at fair value)</b>					<b>5,998</b>	<b>5,998</b>
<b>Total Investments</b>					<b>\$ 14,109</b>	<b>\$ 21,648</b>
Name and Location of Portfolio Company <sup>(1)</sup>	Industry	Date of Initial Investment	Investment	Principal	Cost of Investment	Fair Value <sup>(2)</sup>
<b>Control Investments: Majority-owned<sup>(3)</sup>:</b>						
Equus Energy, LLC <sup>(4)</sup>						
Houston, TX	Energy	December 2011	Member interest (100%)	\$	\$ 8,111	\$ 15,650
<b>Total Control Investments: Majority-owned (represents 72.3% of total investments at fair value)</b>					<b>\$ 8,111</b>	<b>\$ 15,650</b>
<b>Temporary Cash Investments</b>						
U.S. Treasury Bill	Government	December 2022	UST 0% 1/23	5,998	5,998	5,998
<b>Total Temporary Cash Investments (represents 27.7% of total investments at fair value)</b>					<b>5,998</b>	<b>5,998</b>
<b>Total Investments</b>					<b>\$ 14,109</b>	<b>\$ 21,648</b>

<sup>(1)</sup> Under Section 55 (a) of the 1940 Act, qualifying assets must represent at least 70% of total assets at the time of acquisitions of any non-qualifying assets. As of none of the Fund's total assets were considered non-qualifying assets. See Note 3 to the financial statements, Valuation of Investments.

<sup>(2)</sup> See Note 3 to the financial statements, Valuation of Investments. Majority owned

<sup>(3)</sup> Majority-owned investments are generally defined under the Investment Company Act of 1940 Act as companies in which we own more than 50% of the voting securities of the company. secu

<sup>(4)</sup> Level 3 Portfolio Investment Investments

<sup>(5)</sup> Income-producing

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

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SCHEDULE OF INVESTMENTS – (Continued)  
DECEMBER 31, 2022  
(in thousands, except share data)

Our portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933 (hereafter, the “Securities Act”) or other relevant regulatory authority. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As an investment company classified as a business development company (“BDC”) under the Investment Company Act of 1940 (hereafter, the “1940 Act”), we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2022, we had invested 37.6% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2022, all of our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to a portfolio company that comprises 100% of the total value of the investments in portfolio securities as of December 31, 2022.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user, issuer. The value of one segment called ‘Energy’ includes one portfolio company and was 44.4% of our net asset value, 37.6% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of December 31, 2022. Changes in business or industry trends or in the financial condition, results of operations, or the market’s assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2022 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	\$ 8,111	\$ 15,650	44.4%
<b>Total</b>	<b>\$ 8,111</b>	<b>\$ 15,650</b>	<b>44.4%</b>

The following is a summary by industry of the Fund’s investments in portfolio securities as of December 31, 2022 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	\$ 15,650	44.4%
<b>Total</b>	<b>\$ 15,650</b>	<b>44.4%</b>

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

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<b>EQUUS TOTAL RETURN, INC.</b> <b>SCHEDULE OF INVESTMENTS</b> <b>DECEMBER 31, 2021</b> <i>(in thousands, except share data)</i>						
<b>Control Investments: Majority-owned<sup>(2)</sup>:</b>						
<b>Name and Location of Portfolio Company</b>	<b>Industry</b>	<b>Date of Initial Investment</b>	<b>Investment</b>	<b>Principal</b>	<b>Cost of Investment</b>	<b>Fair Value<sup>(1)</sup></b>
<b>Control Investments: Majority-owned<sup>(2)</sup>:</b>						
Equus Energy, LLC <sup>(3)</sup>						
Houston, TX	Energy	December 2011	Member interest (100%) \$	7,961	\$ 7,961	\$ 13,000
<b>Total Control Investments: Majority-owned (represents 83.9% of total investments at fair value)</b>					<b>7,961</b>	<b>13,000</b>
<b>Temporary Cash Investments</b>						
U.S. Treasury Bill	Government	December 2021	UST 0% 1/22	2,500	2,500	2,500
<b>Total Temporary Cash Investments (represents 16.1% of total investments at fair value)</b>					<b>2,500</b>	<b>2,500</b>
<b>Total Investments</b>					<b>\$ 10,461</b>	<b>\$ 15,500</b>

<sup>(1)</sup>See Note 3 to the financial statements, Valuation of Investments.

<sup>(2)</sup>Majority owned investments are generally defined under the 1940 Act as companies in which we own more than 50% of the voting securities of the company.

<sup>(3)</sup>Level 3 Portfolio Investment.

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

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SCHEDULE OF INVESTMENTS – (Continued)

DECEMBER 31, 2021

(in thousands, except share data)

Our portfolio securities are restricted from public sale without prior registration under the Securities Act or other relevant regulatory authority. We negotiate certain aspects of the method and timing of the disposition of our investment in each portfolio company, including registration rights and related costs.

As a BDC, we may invest up to 30% of our assets in non-qualifying portfolio investments, as permitted by the 1940 Act. Specifically, we may invest up to 30% of our assets in entities that are not considered “eligible portfolio companies” (as defined in the 1940 Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the 1940 Act, and publicly-traded entities with a market capitalization exceeding \$250 million. As of December 31, 2021, we had invested 32.7% of our assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. As of December 31, 2021, our investments are in enterprises that are considered eligible portfolio companies under the 1940 Act. We provide significant managerial assistance to a portfolio company that comprises 100% of the total value of the investments in portfolio securities as of December 31, 2021.

We are classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single user. The value of one segment called “Energy” includes one portfolio company and was 35.7% of our net asset value, 32.7% of our total assets and 100% of our investments in portfolio company securities (at fair value) as of December 31, 2021. Changes in business or industry trends or in the financial condition, results of operations, or the market’s assessment of any single portfolio company will affect the net asset value and the market price of our common stock to a greater extent than would be the case if we were a “diversified” company holding numerous investments.

Our investments in portfolio securities consist of the following types of securities as of December 31, 2021 (in thousands):

Type of Securities	Cost	Fair Value	Fair Value as Percentage of Net Assets
Limited liability company investments	\$ 7,961	\$ 13,000	35.7 %
Total	\$ 7,961	\$ 13,000	35.7 %

The following is a summary by industry of the Fund’s investments in portfolio securities as of December 31, 2021 (in thousands):

Industry	Fair Value	Fair Value as Percentage of Net Assets
Energy	\$ 13,000	35.7 %
Total	\$ 13,000	35.7 %

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

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EQUUS TOTAL RETURN, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023, 2022 2021 AND 2020 2021

(1) ORGANIZATION AND BUSINESS PURPOSE

**About the Company**—Equus Total Return, Inc. (“we,” “us,” “our,” “Equus” the “Company” and the “Fund”), a Delaware corporation, was formed by Equus Investments II, L.P. (the “Partnership”) on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. Our shares trade on the New York Stock Exchange (“NYSE”) under the symbol ‘EQS’. On August 11, 2006, our shareholders approved the change of the Fund’s investment strategy to a total return investment objective. This strategy seeks to provide the highest total return, consisting of capital appreciation and current income. In connection with this strategic investment change, the shareholders also approved the change of name from Equus II Incorporated to Equus Total Return, Inc. On January 20, 2021, holders of a majority of the outstanding common stock of the Fund approved the restatement of our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 to 100,000,000, and the number of our authorized shares of preferred stock from 5,000,000 to 10,000,000. As of December 31, 2022 December 31, 2023, we had 13,518,146 13,586,173 shares of common stock outstanding and no shares of preferred stock outstanding.

We attempt to maximize the return to stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value between \$5.0 million and \$75.0 million, although we may engage in transactions with smaller or larger investee companies from time to time. We seek to invest primarily in companies pursuing growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses or special situations. Our income-producing investments consist principally of debt securities including subordinated debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. Given market conditions over the past several years and the performance of our portfolio, our Management and Board of Directors believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

We elected to be treated as a BDC under the Investment Company Act of 1940 Act (“1940 Act”), although our shareholders have previously authorized us to withdraw this election prior to February 28, 2023 and, although such authorization has expired, will likely do so again in the future. We currently qualify as a regulated investment company (“RIC”) for federal income tax purposes and, therefore, are not required to pay corporate income taxes on any income or gains that we distribute to our stockholders. We have certain wholly owned taxable subsidiaries (“Taxable Subsidiaries”) each of which holds one or more portfolio investments listed on our Schedules of Investments. The purpose of these Taxable Subsidiaries is to permit us to hold certain income-producing investments or portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross revenue for income tax purposes must consist of investment income. Absent the Taxable Subsidiaries, a portion of the gross income of these income-producing investments or of any LLC (or other pass-through entity) portfolio investment, as the case may be, would flow through directly to us for the 90% test. To the extent that such income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and, therefore, cause us to incur significant federal income taxes. The income of the LLCs (or other pass-through entities) owned by Taxable Subsidiaries is taxed to the Taxable Subsidiaries and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. We do not consolidate the Taxable Subsidiaries for income tax purposes, with the exception of Texas Margins Tax, which is an entity level tax. The Taxable Subsidiaries may generate income tax expense because of the Taxable Subsidiaries’ ownership of the portfolio companies. We reflect any such income tax expense on our Statements of Operations.

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### **(2) LIQUIDITY AND FINANCING ARRANGEMENTS**

As of December 31, 2023, we had cash and cash equivalents of \$6.5 million. We had \$40.9 million of our net assets of \$48.3 million invested in portfolio securities. We also had \$45.4 million of U.S. Treasury bills and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$45.0 million was invested in U.S. Treasury bills and \$0.4 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured January 4, 2024 and we subsequently repaid this margin loan. The margin interest was paid on February 4, 2024.

As of December 31, 2022, we had cash and cash equivalents of \$19.3 million. We had \$15.7 million of our net assets of \$35.2 million invested in portfolio securities. We also had \$6.0 million of temporary cash investments U.S. Treasury bills and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$6.0 million was invested in U.S. Treasury bills and \$0.06 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured January 3, 2023 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2023.

As of December 31, 2021, we had cash and cash equivalents of \$23.5 million. We had \$13.0 million of our net assets of \$36.4 million invested in portfolio securities. We also had \$2.5 million of temporary cash investments and restricted cash, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, \$2.5 million was invested in U.S. Treasury bills and \$0.02 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills matured January 4, 2022 and we subsequently repaid this margin loan. The margin interest was paid on February 3, 2022.

During 2022 2023 and 2021, 2022, we borrowed sufficient funds to maintain the Fund's RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on the Fund's net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. If we continue to be a BDC, failure to continue to qualify as a RIC could be material to us and our stockholders.

None of our cash deposits are insured by the FDIC in excess of \$250,000.

### **(3) SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements:

**Earnings Per Share**—Basic earnings per share is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted-average number of shares of common stock outstanding for the period. Other potentially dilutive common stock, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

**Use of Estimates**—The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Although we believe the estimates and assumptions used in preparing these financial statements and related notes are reasonable in light of known facts and circumstances, actual results could differ from those estimates. We have identified valuation of investments and revenue recognition as our most critical accounting estimates.

**Consolidation**—In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Investment Companies, codified in Accounting Standards Committee ("ASC") 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

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**Valuation of Investments**—For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

1. Each portfolio company or investment is reviewed by our investment professionals;
2. With respect to investments with a fair value exceeding \$2.5 million that have been held for more than one year, we engage independent valuation firms to assist our investment professionals. These independent valuation firms conduct independent valuations and make their own independent assessments;
3. Our Management produces a report that summarizes each of our portfolio investments and recommends a fair value of each such investment as of the date of the report;
4. The Audit Committee of our Board reviews and discusses the preliminary valuation of our portfolio investments as recommended by Management in their report and any reports or recommendations of the independent valuation firms, and then approves and recommends the fair values of our investments so determined to our Board for final approval; and
5. The Board discusses valuations and determines the fair value of each portfolio investment in good faith based on the input of our Management, the respective independent valuation firm, as applicable, and the Audit Committee.

During the first twelve months after an investment is made, we rely on the original investment amount to determine the fair value unless significant developments have occurred during this twelve-month period which would indicate a material effect on the portfolio company (such as results of operations or changes in general market conditions).

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in fair value pricing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

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Our general intent is to hold our loans to maturity when appraising our privately held debt investments. As such, we believe that the fair value will not exceed the cost of the investment. However, in addition to the previously described analysis involving allocation of value to the debt instrument, we perform a yield analysis assuming a hypothetical current sale of the security to determine if a debt security has been impaired. The yield analysis considers changes in interest rates and changes in leverage levels of the portfolio company as compared to the market interest rates and leverage levels. Assuming the credit quality of the portfolio company remains stable, the Fund will use the value determined by the yield analysis as the fair value for that security if less than the cost of the investment.

We record unrealized depreciation on investments when we determine that the fair value of a security is less than its cost basis, and will record unrealized appreciation when we determine that the fair value is greater than its cost basis.

**Fair Value Measurement**—Fair value is 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3—Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Investments for which prices are not observable are generally private investments in the debt and equity securities of operating companies. One of the primary valuation methods used to estimate the fair value of these Level 3 investments is the discounted cash flow method (although a liquidation analysis, option theoretical, or other methodology may be used when more appropriate). The discounted cash flow approach to determine fair value (or a range of fair values) involves applying an appropriate discount rate(s) to the estimated future cash flows using various relevant factors depending on investment type, including comparing the latest arm's length or market transactions involving the subject security to the selected benchmark credit spread, assumed growth rate (in cash flows), and capitalization rates/multiples (for determining terminal values of underlying portfolio companies). The valuation based on the inputs determined to be the most reasonable and probable is used as the fair value of the investment. The determination of fair value using these methodologies may take into consideration a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment and anticipated financing transactions after the valuation date.

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To assess the reasonableness of the discounted cash flow approach, the fair value of equity securities, including warrants, in portfolio companies may also consider the market approach—that is, through analyzing and applying to the underlying portfolio companies, market valuation multiples of publicly-traded firms engaged in businesses similar to those of the portfolio companies. The market approach to determining the fair value of a portfolio company's equity security (or securities) will typically involve: (1) applying to the portfolio company's trailing twelve months (or current year projected) EBITDA, a low to high range of enterprise value to EBITDA multiples that are derived from an analysis of publicly-traded comparable companies, in order to arrive at a range of enterprise values for the portfolio company; (2) subtracting from the range of calculated enterprise values the outstanding balances of any debt or equity securities that would be senior in right of payment to the equity securities we hold; and (3) multiplying the range of equity values derived therefrom by our ownership share of such equity tranche in order to arrive at a range of fair values for our equity security (or securities). Application of these valuation methodologies involves a significant degree of judgment by Management.

Due to the inherent uncertainty of determining the fair value of Level 3 investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we might realize significantly less than the value at which such investment had previously been recorded. With respect to Level 3 investments, where sufficient market quotations are not readily available or for which no or an insufficient number of indicative prices from pricing services or brokers or dealers have been received, we undertake, on a quarterly basis, our valuation process as described above.

We assess the levels of the investments at each measurement date, and transfers between levels are recognized on the subsequent measurement date closest in time to the actual date of the event or change in circumstances that caused the transfer. There were no transfers to or from Level 3 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

As of December 31, 2023, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

(in thousands)	Total	Fair Value Measurements as of December 31, 2023				
		Quoted Prices in Active		Significant		Other
		Markets	for	Identical	Observable Inputs	Unobservable Inputs
		Assets		(Level 2)	(Level 2)	(Level 3)
Control investments	\$ 40,853	\$ —		\$ —	\$ 40,853	
Total investments	40,853	—		—	—	40,853
U.S. Treasury bills	44,955	44,955		—	—	—
Total investments	\$ 85,808	\$ 44,955		\$ —	\$ —	\$ 40,853

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As of December 31, 2022, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

Fair Value Measurements as of December 31, 2022						
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets				
		Markets	for	Identical	Significant	Other
		Assets			Observable Inputs	Unobservable Inputs
Control investments	\$ 15,650	\$ —			\$ —	\$ 15,650
Total investments	15,650	—			—	15,650
U.S. Treasury bills	5,998	5,998			—	—
Total investments	\$ 21,648	\$ 5,998			\$ —	\$ 15,650

Fair Value Measurements as of December 31, 2022						
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets				
		Active Markets	for	Identical	Significant	Other
		Assets			Observable	Unobservable
Assets					Inputs	Inputs
Investments:						
Control investments	\$ 15,650	\$ —			\$ —	\$ 15,650
Total investments	15,650	—			—	15,650
Temporary cash investments	5,998	5,998			—	—
Total investments and temporary cash investments	\$ 21,648	\$ 5,998			\$ —	\$ 15,650

The following table provides a reconciliation of fair value changes during 2023 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

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As of December 31, 2021, investments measured at fair value on a recurring basis are categorized in the tables below based on the lowest level of significant input to the valuations:

<i>(in thousands)</i>	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of January 1, 2023	\$ 15,650	\$ —	\$ —	\$ 15,650
Change in unrealized appreciation	16,950	—	—	16,950
Purchases of portfolio securities	8,253	—	—	8,253
Fair value as of December 31, 2023	<u>\$ 40,853</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 40,853</u>

<i>(in thousands)</i>	Fair Value Measurements as of December 31, 2021			
	Quoted Prices in			
	Active Markets		Significant Other	
	for Identical Assets		Observable Inputs	
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Investments:				
Control investments	\$ 13,000	\$ —	\$ —	\$ 13,000
Total investments	13,000	—	—	13,000
Temporary cash investments	2,500	2,500	—	—
Total investments and temporary cash investments	<u>\$ 15,500</u>	<u>\$ 2,500</u>	<u>\$ —</u>	<u>\$ 13,000</u>

The following table provides a reconciliation of fair value changes during 2022 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

<i>(in thousands)</i>	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of January 1, 2022	\$ 13,000	\$ —	\$ —	\$ 13,000
Change in unrealized appreciation	2,500	—	—	2,500
Purchases of portfolio securities	150	—	—	150
Fair value as of December 31, 2022	<u>\$ 15,650</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,650</u>

<i>(in thousands)</i>	Fair value measurements using significant unobservable inputs			
	(Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of January 1, 2022	\$ 13,000	\$ —	\$ —	\$ 13,000
Change in unrealized appreciation	2,500	—	—	2,500
Purchases of portfolio securities	150	—	—	150
Fair value as of December 31, 2022	<u>\$ 15,650</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,650</u>

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The following table provides a reconciliation of fair value changes during 2021 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

(in thousands)	Fair Value Measurements as of December 31, 2021				
	Quoted Prices in				
	Active Markets		Significant Other		Significant
	for Identical		Observable		Unobservable
	Assets		Inputs		Inputs
(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)	
Assets					
Investments:					
Control investments	\$ 13,000	\$ —	\$ —	\$ 13,000	
Total investments	13,000	2,500	—	13,000	
Temporary cash investments	2,500	2,500	—	—	
Total investments and temporary cash investments	<u>\$ 15,500</u>	<u>\$ 2,500</u>	<u>\$ —</u>	<u>\$ 13,000</u>	

The following table provides a reconciliation of fair value changes during 2020 for all investments for which we determine fair value using significant unobservable (Level 3) inputs:

(in thousands)	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of January 1, 2020	\$ 8,000	\$ 26,500	\$ 977	\$ 35,477
Realized gain (loss)	—	21,287	(266)	21,021
Change in unrealized appreciation	(1,561)	(26,150)	—	(27,711)
Purchases of portfolio securities	561	—	—	561
Proceeds from sales/dispositions	—	(21,637)	(711)	(22,348)
Fair value as of December 31, 2020	<u>\$ 7,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,000</u>

(in thousands)	Fair value measurements using significant unobservable inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-affiliate Investments	Total
Fair value as of January 1, 2021	\$ 7,000	\$ —	\$ —	\$ 7,000
Change in unrealized appreciation	5,650	—	—	5,650
Purchases of portfolio securities	350	—	—	350
Fair value as of December 31, 2021	<u>\$ 13,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,000</u>

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in discount rates, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase/(decrease) in market yields, discount rates, or an increase/(decrease) in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a corresponding increase/(decrease), respectively, in the fair value of certain of our investments. In the case of our holding holdings in Morgan and Equus Energy, we may also consider acreage value, proved reserve multiples, daily production multiples, and discount rates.

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Finally, industry trends, market forecasts, and comparable transactions in sectors in which we hold a Level 3 investment are also taken into account when assessing the value of these investments.

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The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of December 31, 2023:

<i>(in thousands)</i>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>		
				<b>Minimum</b>	<b>Maximum</b>	<b>Weighted Average</b>
<b>Limited liability company investments</b>						
Equus Energy, LLC	\$ 10,000	Guideline Transaction Method	Acreage Value (per acre)	\$ 1,500	\$ 11,000	\$ 4,062
			Proved Reserve Multiple	4.2x	10.9x	9.0x
			Daily Production Multiple	19,577.2x	47,197.76x	41,648.4x
		Discounted Cash Flow	Discount Rate	12.8%	12.8%	12.8%
Morgan E&P, LLC	22,600	Guideline Public Company Method	Proved Reserve Multiple	10,180x	13,953x	12,067x
		Guideline Transaction Method	Daily Production Multiple	44,054x	58,025x	51,040x
			Proved Reserve Multiple	8,878x	12,716x	10,797x
			Daily Production Multiple	32,565x	59,790x	46,178x
		Discounted Cash Flow	Discount Rate	10.9%	12.9%	11.90%
<b>Senior debt</b>						
Morgan E&P, LLC	8,253	Yield analysis	Discount for lack of marketability	11.13%	12.0%	11.57%
	\$ 40,853					

The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of December 31, 2022:

<i>(in thousands)</i>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>		
				<b>Minimum</b>	<b>Maximum</b>	<b>Weighted Average</b>
<b>Limited liability company investments</b>						
	\$ 15,650	Guideline Transaction Method	Acreage Value (per acre)	\$ 1,500	\$ 11,000	\$ 4,062
			Proved Reserve Multiple	4.0x	9.5x	8.2x
			Daily Production Multiple	18,578.7x	47,513.7x	40,284.4x
		Discounted Cash Flow	Discount Rate	11.0%	11.0%	11.0%

The following table summarizes the significant non-observable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of December 31, 2021:

<i>(in thousands)</i>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>			<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>		
				<b>Minimum</b>	<b>Maximum</b>	<b>Weighted Average</b>				<b>Minimum</b>	<b>Maximum</b>	<b>Weighted Average</b>
<b>Limited liability company investments</b>												
	\$ 13,000	Guideline Transaction Method	Acreage Value (per acre)	\$ 1,500	\$ 10,000	\$ 5,750						
			Proved Reserve Multiple	3.6x	7.3x	7.2x						
			Daily Production Multiple	15,425.3x	37,215.1x	36,900.6x						
Equus Energy, LLC							\$ 15,650	Guideline Transaction Method	Acreage Value (per acre)	\$ 1,500	\$ 11,000	\$ 4,062
									Proved Reserve Multiple	4.0x	9.5x	8.2x
									Daily Production Multiple	18,578.7x	47,513.7x	40,284.4x
									Discounted Cash Flow	Discount Rate	11.0%	11.0%

The various weighted averages in the table above were determined based on acreage, reserves, production and, in the case of discount rates, an arithmetic average of minimum and maximum rates. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to \$15.7 million and \$13.0 million as of December 31, 2022 and 2021, respectively, our fair value determinations may materially differ from the values that would have been used had a ready market existed for the securities.

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We adjust our net asset value for the changes in the value of our publicly held securities, if applicable, and material changes in the value of private securities, generally determined on a quarterly basis or as announced in a press release, and report those amounts to Lipper Analytical Services, Inc. Our net asset value appears in various publications, including *Barron's* and *The Wall Street Journal*.

**Escrowed Receivables, at Estimated Fair Value**— In December 2020, we sold our interest in PalletOne, Inc (“PalletOne”). A portion of the proceeds from the sale was placed in a cash escrow account to secure the representations and warranties made to the purchaser. The escrow receivable was valued at \$3.4 million as of December 31, 2020.

During 2021, we received \$3.8 million in cash from PalletOne. We recognized a capital gain of \$0.4 million due to the change in our estimated fair value of this receivable.

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**Investment Transactions**—Investment transactions are recorded at fair value on the **accrual method**, **trade date**. Current-period changes in fair value of investments are reflected as a component of the net unrealized appreciation of portfolio securities on the Statements of Operations. The net change in unrealized appreciation primarily reflects the change in investment fair values as of the last business day of the reporting period, including the reversal of previously recorded unrealized gains or losses for investments sold during the period. Realized gains or losses are recognized as the difference between the net proceeds received (excluding prepayment fees, if any) and the amortized cost basis of the investment using the specific identification method without regard to unrealized gains or losses previously recognized, and include investments written off during the period, net of recoveries. As of December 31, 2023, we have no assets going through **foreclosure**. Realized gains and losses on investments sold are computed on a specific identification basis.

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in companies in which the Fund owns more than 25% of the voting securities or maintains greater than 50% of the board representation. Under the 1940 Act, “Affiliate Investments” are defined as those non-control investments in companies in which we own between 5% and 25% of the voting securities. Under the 1940 Act, “Non-affiliate Investments” are defined as investments that are neither Control Investments nor Affiliate Investments.

**Interest and Dividend Income Recognition**—We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We accrete or amortize discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities. We stop accruing interest on investments when we determine that interest is no longer collectible. We may also impair the accrued interest when we determine that all or a portion of the current accrual is uncollectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognize any additional interest income. We will write off uncollectible interest upon the occurrence of a definitive event such as a sale, bankruptcy, or reorganization of the relevant portfolio interest. Dividend income is recorded as dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution.

**Payment in Kind Interest (PIK)**—We may make loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, we must pay out to stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments. We will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

**Cash Flows and Cash Equivalents and Restricted Cash**—For purposes of the Statements of Cash Flows, we consider all **includes** unrestricted demand deposits at highly rated financial institutions and highly liquid **temporary cash** investments purchased with an original maturity **maturities** of three months or **less**. The Company’s cash balances may exceed Federal Deposit Insurance Corporation (“FDIC”) insured limits from time to be **cash equivalents**, **time**. Although the Company bears risk to amounts in excess of those insured by the FDIC, it does not anticipate any losses as a result due to the financial position and creditworthiness of the depository institutions in which those deposits are held. We include our investing activities within cash flows from operations. We exclude “**Restricted Cash and Temporary Cash Investments**” used for purposes of complying with RIC requirements from cash equivalents.

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The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the consolidated balance sheet that sums to the total of the same amounts shown in the consolidated statement of cash flows as of **December 31, 2022** **December 31, 2023, 2021** **2022** and **2020: 2021**:

	<b>December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Cash and cash equivalents at end of period	\$ 19,224	\$ 23,465	\$ 23,639
Restricted cash at end of period	60	25	240
<b>Cash and cash equivalents and restricted cash at end of period</b>	<b>\$ 19,284</b>	<b>\$ 23,490</b>	<b>\$ 23,879</b>
	<b>December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents at end of period	\$ 6,533	\$ 19,224	\$ 23,465
Restricted cash at end of period	450	60	25
<b>Cash and cash equivalents and restricted cash at end of period</b>	<b>\$ 6,983</b>	<b>\$ 19,284</b>	<b>\$ 23,490</b>

**Taxes**—Although we are not required to maintain our RIC status as a BDC, historically, we have nevertheless complied with the requirements of the Code necessary to qualify as a RIC and, as such, are generally not subject to federal income taxes on otherwise taxable income (including net realized capital gains) if distributed to stockholders. For the year ended **December 31, 2022** **December 31, 2023**, no tax accrual for income or excise tax was made. For the year ended December 31, 2021, we accrued a \$0.04 million in corporate level income and excise tax in lieu of making a distribution of the net capital gain for the sale of PalletOne, Inc. This tax was paid in March 2022. We borrow money from time to time to maintain our tax status under the Code as a RIC. See Note 1 for discussion of Taxable Subsidiaries and see Note 2 for further discussion of the Fund's RIC borrowings.

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All corporations incorporated in the State of Delaware are required to file an Annual Report and to pay a franchise tax. As a result, we paid Delaware Franchise tax in the amount of \$0.03 million for the year ended December 31, 2023, \$0.02 million for the year ended December 31, 2022, \$0.03 million for the year ended December 31, 2021 and \$0.02 million for the years ended December 31, 2020, respectively.

Texas margin tax applies to legal entities conducting business in Texas. The margin tax is based on our Texas sourced taxable margin. The tax is calculated by applying a tax rate to a base that considers both revenue and expenses and therefore has the characteristics of an income tax. For the year ended December 31, 2022 December 31, 2023, no state income tax is expected. No state income tax was due for the years ended December 31, 2021 December 31, 2022 and 2020, 2021.

**Distributable Earnings**—The components that make up distributable earnings (accumulated undistributed deficit) on the Balance Sheet as of December 31, 2022 December 31, 2023 and 2021 2022 are as follows:

	December 31, 2023	December 31, 2022	
Accumulated undistributed net investment losses	\$ (51,465)	\$ (47,430)	
Unrealized appreciation of portfolio securities, net	24,489	7,539	
Accumulated undistributed net capital gains	464	430	
Accumulated deficit	<u>\$ (26,512)</u>	<u>\$ (39,461)</u>	
	As of December 31, 2022	As of December 31, 2021	
Accumulated undistributed net investment losses	\$ (47,430)	\$ (43,801)	
Unrealized appreciation of portfolio securities, net	7,539	5,039	
Accumulated undistributed net capital gains	430	429	
Accumulated deficit	<u>\$ (39,461)</u>	<u>\$ (38,333)</u>	

**Share-Based Incentive Compensation**—On June 13, 2016, our shareholders approved the adoption of our 2016 Equity Incentive Plan (“Incentive Plan”). On January 10, 2017, the SEC issued an order approving the Incentive Plan and certain awards intended to be made thereunder. The Incentive Plan is intended to promote the interests of the Fund by encouraging officers, employees, and directors of the Fund and its affiliates to acquire or increase their equity interest in the Fund and to provide a means whereby they may develop a proprietary interest in the development and financial success of the Fund, to encourage them to remain with and devote their best efforts to the business of the Fund, thereby advancing the interests of the Fund and its stockholders. The Incentive Plan is also intended to enhance the ability of the Fund and its affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Fund. The Incentive Plan permits the award of restricted stock as well as common stock purchase options. The maximum number of shares of common stock that are subject to awards granted under the Incentive Plan is 2,434,728 shares. The term of the Incentive Plan will expire on June 13, 2026. On March 17, 2017, we granted awards of restricted stock under the Plan to certain of our directors and executive officers in the aggregate amount of 844,500 shares. The awards are each subject to a vesting requirement over a 3-year period unless the recipient thereof is terminated or removed from their position as a director or executive officer without “cause”, or as a result of constructive termination, as such terms are defined in the respective award agreements entered into by each of the recipients and the Fund. As of December 31, 2020, all shares were vested. We account for share-based compensation using the fair value method, as prescribed by ASC 718, *Compensation—Stock Compensation*. Accordingly, for restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant and amortize the fair value of the awards as share-based compensation expense over the requisite service period, which is generally the vesting term. For Inasmuch as all existing awards under the Incentive Plan became fully-vested prior to 2021, we recorded no compensation expense relating to awards made under the Incentive Plan for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, we recorded compensation expense of \$0, \$0, and \$0.08 million, respectively, in connection with these awards, 2021.

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### (4) RELATED PARTY TRANSACTIONS AND AGREEMENTS

Except as noted below, as compensation for services to the Fund, each Independent Director receives an annual fee of \$40,000 paid quarterly in arrears, a fee of \$2,000 for each meeting of the Board of Directors or committee thereof attended in person, a fee of \$1,000 for participation in each telephonic meeting of the Board or committee thereof, and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. The chair of each of our standing committees (audit, compensation, and nominating and governance) also receives an annual fee of \$50,000, payable quarterly in arrears. We may also pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on the Board of Directors. We may also pay other one-time or recurring fees to members of our Board of Directors in special circumstances. None of our interested directors receive annual fees for their service on the Board of Directors.

In respect of services provided to the Fund by members of the Board not in connection with their roles and duties as directors, the Fund pays a rate of \$300 per hour for services rendered. During the years ended December 31, 2020 we paid Kenneth I. Denos, P.C., a professional corporation owned by Kenneth I. Denos, a director of the Fund, \$349,725, for services provided to the Fund on an hourly basis pursuant to a month-to-month agreement. Effective November 1, 2020, we entered into a written agreement with Mr. Denos providing, in lieu of an hourly fee, base compensation of \$360,000 per annum, as well as various annual and periodic bonuses based upon achievement of certain criteria, such as transformative acquisitions made by the Fund, and a percentage of the amount received in connection with the disposition of the Fund's existing portfolio investments, as well as a percentage of the net amount received in connection with the disposition of future portfolio investments.

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### (5) FEDERAL INCOME TAX MATTERS

As a RIC, our tax liability is dependent upon whether an election is made to distribute taxable investment income and capital gains above any statutory requirement. For the year ended December 31, 2022, we have incurred net investment losses and no net capital gains or losses. As such, no income or excise tax was accrued or paid. While we incurred net investment losses and had net realized capital gains for the year ended December 31, 2021, we accrued \$0.04 million in corporate level income and excise tax in lieu of making a distribution. This tax is was paid in March 2022.

Our year-end for determining capital gains for purposes of Section 4982 of the Internal Revenue Service Code (the "Code") is October 31.

In general, we may take certain adjustments to the classification of net assets as a result of permanent book-to-tax differences, which may include differences in the book and tax basis of certain assets and liabilities, and undistributed net capital gains for which we have loss carryforwards, among other items. During the year ended December 31, 2021, according and pursuant to ASC 946-20-50, we recharacterized \$18.5 million in accumulated undistributed net capital gains for which we had loss carryforwards, among other items. Accordingly, this recharacterization has increased capital in excess of par and decreased accumulated deficit. .

There are were no material book-to-tax differences for net investment income/losses, realized gains or unrealized appreciation/depreciation. For the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, there are no capital loss carryforwards. For the years ended December 31, 2020, we had approximately \$0.3 million in capital losses of which can be carried forward indefinitely.

Reclassification of returns of capital had no material book to tax differences for the three years ended December 31, 2022 December 31, 2023 and therefore has no material book to tax differences impacting accumulated earnings during that three-year period.

We believe that any aggregate exposure for uncertain tax positions should not have a material impact on our financial statements as of December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022. An uncertain tax position is measured as the largest amount of tax return benefits that does not have a greater than 50% likelihood of being realized upon ultimate settlement. We have not recorded an adjustment to our financial statements related to any uncertain tax positions. We will continue to evaluate our tax positions and recognize any future impact of uncertain tax positions as a charge to income in the applicable period in accordance with promulgated standards.

The Fund's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to expenses during the period that the Fund takes an uncertain tax position through resolution with the taxing authorities or expiration of the applicable statute of limitations.

All of the Fund's federal and state tax returns for 2019 2020 through 2022 2023 remain open to examination (the State of Texas may be longer). examination. We believe that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date.

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### (6) COMMITMENTS AND CONTINGENCIES

*Lease Commitments.* We had an operating lease for office space that expired in September 2014. Our current office space lease is month-to-month. Rent expense under the operating lease agreement, inclusive of common area maintenance costs, was \$90,000, \$90,000, and \$104,000 \$93,000 for the years ended December 31, 2022 December 31, 2023, December 31, 2021 December 31, 2022, and December 31, 2020 December 31, 2021, respectively. We have no other leases.

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*Portfolio Companies.* As of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, we had **\$0** **\$1.7 million** and **\$0.15 million** **\$0** in outstanding commitments to our portfolio company investments. Under certain circumstances, we may be called on to make follow-on investments in certain portfolio companies. If we do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, our equity interest in the estimated fair value of the portfolio company could be reduced. Follow-on investments may include capital infusions which are expenditures made directly to the portfolio company to ensure that operations are completed, thereby allowing the portfolio company to generate cash flows to service the debt.

*Legal Proceedings.* From time to time, the Fund is also a party to certain proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon the Fund's financial condition or results of operations.

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(7) PORTFOLIO SECURITIES

2023 Portfolio Activity

The following table summarizes significant investment activity during the year ended December 31, 2023 (in thousands):

Portfolio Company	Investment Activity					Total	
	New Investments		Existing Investments				
	Cash	Non-Cash	Follow-On Cash	PIK			
Morgan E&P, LLC	\$ 8,253	\$ —	\$ —	\$ —	\$ —	\$ 8,253	
	\$ 8,253	\$ —	\$ —	\$ —	\$ —	\$ 8,253	

During 2023, we recorded an increase of \$17.0 million in net unrealized appreciation, from an unrealized appreciation of \$7.5 million as of December 31, 2022 to a net unrealized appreciation of \$24.5 million as of December 31, 2023. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Morgan E&P, LLC of \$22.6 million, principally due to substantial increases in Morgan's reserves and the reclassification of certain of its proved reserves from undeveloped to producing. The increase in the fair value of Morgan was offset by the decrease in fair value of our holding in Equus Energy, LLC of \$5.7 million, principally due to decreases in the forward curve for natural gas and its effect on the economic prospects of Equus Energy regarding future development of its gas properties.

2022 Portfolio Activity

The following table summarizes significant investment activity during the year ended December 31, 2022 (in thousands):

Portfolio Company	Investment Activity					Total	
	New Investments		Existing Investments				
	Cash	Non-Cash	Follow-On Cash	PIK			
Equus Energy, LLC	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ 150	
	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ 150	

Portfolio Company	Investment Activity					Total	
	New Investments		Existing Investments				
	Cash	Non-Cash	Follow-On Cash	PIK			
Equus Energy, LLC	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ 150	
	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ 150	

During 2022, we recorded an increase of \$2.5 million in net unrealized appreciation, from an unrealized appreciation of \$5.0 million as of December 31, 2021 to a net unrealized appreciation of \$7.5 million as of December 31, 2022. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Equus Energy, LLC of \$2.65 million, principally due to increases in the cost basis of this investment, as well as increases in oil and gas prices, as well as increases in the short- and long-term forward pricing curves for these commodities during 2022.

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### 2021 Portfolio Activity

During 2021, we received \$3.8 million in cash from the escrow receivable related to the sale of PalletOne. We recognized a capital gain of \$0.4 million due to the settlement of the escrow receivable in connection with this sale.

The following table summarizes significant investment activity during the year ended December 31, 2021 (in thousands):

Portfolio Company	Investment Activity				
	New Investments		Existing Investments		
	Cash	Non-Cash	Follow-On Cash	PIK	Total
Equus Energy, LLC	\$ —	\$ —	\$ 350	\$ —	\$ 350
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ —	\$ —	\$ 350	\$ —	\$ 350

During 2021, we recorded an increase of \$5.6 million in net unrealized appreciation, from an unrealized depreciation of \$0.6 million as of December 31, 2020 to a net unrealized appreciation of \$5.0 million as of December 31, 2021. Such change in unrealized appreciation resulted primarily from the increase in the fair value of our holdings in Equus Energy, LLC of \$6.0 million, principally due to an increase in the cost basis of this investment, as well as increases in oil and gas prices, as well as increases in the short- and long-term forward pricing curves for these commodities during 2021.

### 2020 Portfolio Activity

During 2020, we liquidated our investment in 5<sup>th</sup> Element Tracking, LLC, receiving \$1.2 million in cash, realizing a capital loss of \$0.3 million. During 2020, we received 19,164 shares of MVC in the form of stock dividend payments. We sold our shares in MVC Capital, Inc. for approximately \$4.5 million in cash, realizing a capital loss of \$2.5 million. We also sold our interest in PalletOne, Inc., receiving \$18.2 million in cash, \$3.4 million in escrow, realizing a capital gain of \$21.3 million. We also realized capital gains of \$8 thousand as a result of disposition of temporary cash investments.

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The following table summarizes significant investment activity during the year ended December 31, 2020 (in thousands):

Portfolio Company	Investment Activity					Total	
	New Investments		Existing Investments				
	Cash	Non-Cash	Follow-On Non-cash	PIK			
MVC Capital, Inc.	\$ —	\$ —	\$ —	\$ 156	\$ 156	\$ 156	
Equus Energy, LLC	—	—	561	—	—	561	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
	\$ —	\$ —	\$ 561	\$ 156	\$ 717		

During 2020, we recorded a decrease of \$26.0 million in net unrealized appreciation, from \$25.4 million as of December 31, 2019 to a net unrealized depreciation of \$0.6 million as of December 31, 2020. Such change in unrealized appreciation resulted primarily from the following changes:

- (i) Transfer of unrealized depreciation to realized loss of our holdings in MVC of \$1.7 million in connection with the sale of our shares of MVC;
- (ii) Transfer of unrealized appreciation to realized gain of our holdings in PalletOne, Inc. of \$26.1 million in connection with the sale of our common shares of PalletOne, Inc.; and,
- (iii) Decrease in the fair value of our holdings in Equus Energy, LLC of \$1.6 million, principally due to decreases in gas prices and decreases in the short- and long-term forward pricing curve for oil.

(8) EQUUS ENERGY, LLC

Equus Energy, LLC (“Equus Energy”) was formed in November 2011 as a wholly-owned subsidiary of the Fund to make investments in companies in the energy sector, with particular emphasis on income-producing oil & gas properties. In December 2011, we contributed \$250,000 to the capital of Equus Energy. On December 27, 2012, we invested an additional \$6.8 million in Equus Energy for the purpose of additional working capital and to fund the purchase of \$6.6 million in working interests presently consisting of 136 producing and non-producing oil and gas wells. On September 30, 2020, the Fund provided an additional \$0.6 million in capital to Equus Energy for the purpose of additional working capital. On June 30, 2021, the Fund provided an additional \$0.35 million in capital to Equus Energy for the purpose of additional working capital. On December 31, 2022, the Fund provided an additional \$0.15 million in capital to Equus Energy for the purpose of additional working capital. The working interests include associated development rights of approximately 21,320 acres situated on 9 separate properties in Texas and Oklahoma. The working interests range from a *de minimis* amount to 50% of the leasehold that includes these wells.

The wells are operated by a number of operators, including Burk Royalty, which has operating responsibility for all of Equus Energy’s 22 producing well interests located in the Conger Field, a productive oil and gas field on the edge of the Permian Basin that has experienced successful gas and hydrocarbon extraction in multiple formations. Equus Energy, which holds a 50% working interest in each of these Conger Field wells, is seeking to effect a recompletion program of existing Conger Field wells to the Wolfcamp formation, a zone containing oil as well as gas and natural gas liquids. Part of Equus Energy’s acreage rights described above also includes a 50% working interest in possible new drilling to the base of the Canyon formation (appx. 8,500 feet) on 2,400 acres in the Conger Field. Also included in the interests acquired by Equus Energy are working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,000 acres located in the area known as the “Eagle Ford Shale” play.

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Below is selected financial information from the audited financial statements of Equus Energy as of December 31, 2022 December 31, 2023 and 2021, 2022, and for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021 (in thousands):

**EQUUS ENERGY, LLC and SUBSIDIARY**  
**Condensed Consolidated Balance Sheets**

	December 31	December 31	December 31,	December
	2022	2021	2023	31, 2022
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 205	\$ 640	\$ 71	\$ 205
Accounts receivable	208	215	167	208
Other current assets	12	—	—	12
<b>Total current assets</b>	<b>425</b>	<b>855</b>	<b>238</b>	<b>425</b>
Oil and gas properties	8,155	8,097	8,173	8,155
Less: accumulated depletion, depreciation and amortization	(8,095)	(8,093)	(8,097)	(8,095)
<b>Net oil and gas properties</b>	<b>60</b>	<b>4</b>	<b>77</b>	<b>60</b>
<b>Total assets</b>	<b>\$ 485</b>	<b>\$ 859</b>	<b>\$ 315</b>	<b>\$ 485</b>
<b>Liabilities and member's deficit</b>				
<b>Current liabilities:</b>				
Accounts payable and other	\$ 110	\$ 103	\$ 105	\$ 110
Due to affiliate	350	350	126	350
<b>Total current liabilities</b>	<b>460</b>	<b>453</b>	<b>231</b>	<b>460</b>
Asset retirement obligations	216	214	233	216
<b>Total liabilities</b>	<b>676</b>	<b>667</b>	<b>464</b>	<b>676</b>
<b>Total member's (deficit) equity</b>	<b>(191)</b>	<b>192</b>		
<b>Total member's deficit</b>			<b>\$ (149)</b>	<b>\$ (191)</b>
<b>Total liabilities and member's (deficit) equity</b>	<b>\$ 485</b>	<b>\$ 859</b>		
<b>Total liabilities and member's deficit</b>			<b>\$ 315</b>	<b>\$ 485</b>
		<b>7163</b>		
			<b>Total liabilities and member's deficit</b>	

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**EQUUS ENERGY, LLC and SUBSIDIARY**  
**Condensed Consolidated Statements of Operations**

	Year Ended December 31,		
	2022	2021	2020
Operating revenue	\$ 1,063	\$ 855	\$ 482
Operating expenses			
Direct operating expenses	420	595	659
Gain on sale of oil and gas properties	—	(22)	—
Depletion, depreciation, amortization and accretion	4	7	26
Impairment of oil and gas properties	—	32	253
Salaries	383	—	—
Professional fees	713	306	236
General and administrative	76	6	7
Total operating expenses	<u>1,596</u>	<u>924</u>	<u>1,181</u>
Net loss	<u>\$ (533)</u>	<u>\$ (69)</u>	<u>\$ (699)</u>
	Year Ended December 31,		
	2023	2022	2021
Operating revenue	\$ 646	\$ 1,063	\$ 855
Operating expenses			
Direct operating expenses	504	420	595
Gain on sale of oil and gas properties	—	—	(22)
Depletion, depreciation, amortization and accretion	4	4	7
Impairment of oil and gas properties	—	—	32
Salaries	324	383	—
Professional fees	654	713	306
General and administrative	117	75	6
Total operating expenses	<u>1,603</u>	<u>1,596</u>	<u>924</u>
Loss from operations	<u>(958)</u>	<u>(533)</u>	<u>(69)</u>
Non-operating income			
Other income	<u>1,000</u>	<u>—</u>	<u>—</u>
Total other income	<u>1,000</u>	<u>—</u>	<u>—</u>
Net income (loss)	<u>\$ 42</u>	<u>\$ (533)</u>	<u>\$ (69)</u>

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EQUUS ENERGY, LLC and SUBSIDIARY  
Condensed Consolidated Statements of Cash Flows

	<u>Year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (533)	\$ (69)	\$ (699)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depletion, depreciation and amortization	2	—	19
Gain on sale of oil and gas properties	—	(22)	—
Accretion expense	2	7	7
Impairment	—	32	253
Changes in operating assets and liabilities:			
Accounts receivable	7	(138)	(12)
Prepaid expenses and other current assets	(12)	—	34
Accounts payable and accrued liabilities	7	(127)	146
Net cash used in operating activities	<u>(527)</u>	<u>(317)</u>	<u>(252)</u>
<b>Cash flows from investing activities:</b>			
Investment in oil & gas properties	(58)	(36)	(30)
Sale of oil & gas properties	—	22	—
Net cash used in investing activities	<u>(58)</u>	<u>(14)</u>	<u>(30)</u>
<b>Cash flows from financing activities:</b>			
Capital contribution	150	350	—
Due to parent	—	—	350
Net cash provided by investing activities	150	350	350
Net increase (decrease) in cash	(435)	19	68
Cash and cash equivalents at beginning of period	640	621	553
Cash and cash equivalents at end of period	<u>\$ 205</u>	<u>\$ 640</u>	<u>\$ 621</u>
<b>Non-cash operating and financing activities:</b>			
Conversion of related party payable to member's (deficit) equity	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 561</u>

	<u>Year ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 42	\$ (533)	\$ (69)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depletion, depreciation and amortization	2	2	—
Gain on sale of oil and gas properties	—	—	(22)
Accretion expense	2	2	7
Impairment	—	—	32
Changes in operating assets and liabilities:			
Accounts receivable	41	7	(138)
Prepaid expenses and other current assets	12	(12)	—
Accounts payable and accrued liabilities	(5)	7	(127)
Due to parent	<u>(224)</u>	<u>—</u>	<u>—</u>
Net cash provided by (used in) operating activities	<u>(130)</u>	<u>(527)</u>	<u>(317)</u>
<b>Cash flows from investing activities:</b>			
Investment in oil & gas properties	(18)	(58)	(36)
Sale of oil & gas properties	—	—	22
Net cash used in investing activities	<u>(18)</u>	<u>(58)</u>	<u>(14)</u>
<b>Cash flows from financing activities:</b>			
Capital contribution	—	150	350
Net cash (used in) provided by investing activities	—	150	350
Net (decrease) increase in cash	<u>(134)</u>	<u>(435)</u>	<u>19</u>

Cash and cash equivalents at beginning of period	205	640	621
Cash and cash equivalents at end of period	<u>\$ 71</u>	<u>\$ 205</u>	<u>\$ 640</u>

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**(9) MORGAN E&P, LLC**

Morgan E&P, LLC (“Morgan”) was organized by the Fund on April 3, 2023 as a Delaware limited liability company and a wholly-owned subsidiary of the Fund. On May 22, 2023, Morgan completed the acquisition of 4,747.52 net acres, in the Bakken/Three Forks formation in the Williston Basin of North Dakota, and acquired approximately 1,100 additional acres on September 26, 2023. The acreage and associated mineral rights were acquired from Pro Energy I LLC (“Pro Energy”).

Under the terms of the Purchase and Sale Agreement entered into by Morgan and Pro Energy, Morgan is required to drill and complete a minimum of six wells within 18 months of receiving the first drilling permits. The average cost of drilling a new horizontal well is approximately \$8.2 million.

In May 2023, we entered into an agreement with Morgan to provide it up to \$10.0 million in senior debt financing, subject to a schedule of disbursements and draws that we determine. As of December 31, 2023, Morgan had drawn \$8.3 million under this facility. (See *Subsequent Events* below where we increased the total amount of the facility to \$10.5 million and where we advanced, subsequent to year-end, an additional \$2.0 million under the facility).

Below is summarized audited condensed consolidated financial information for Morgan E&P, LLC as of December 31, 2023 and for the period from inception (April 3, 2023) through December 31, 2023, respectively, (in thousands):

<u>MORGAN E&amp;P, LLC</u>		<u>Condensed Balance Sheets</u>	<u>December 31, 2023</u>
Assets:			
Cash and cash equivalents		\$ 2,441	
Oil and gas receivables:			
Revenue receivables		464	
Joint interest billing receivables		1,391	
Prepays and other current assets		133	
Current assets		<u>4,428</u>	
Property, plant and equipment			
Oil and gas properties, net-full cost method		10,326	
Operating lease - right-of-use assets		270	
Other property, plant and equipment, net		46	
Total property, plant and equipment - net		<u>10,643</u>	
Total assets		<u>\$ 15,071</u>	
Liabilities and member's deficit			
Current liabilities			
Accounts payable		\$ 2,372	
Revenue payable		221	
Prepayments from working interest owners		122	
Current portion of lease liabilities		28	
Due to parent		13	
Accrued liabilities		5,383	
Total current liabilities		<u>8,129</u>	
Long-term liabilities			
Asset retirement obligations		4	
Long-term operating lease liabilities		254	
Note payable - Due to parent		8,253	
Long-term accrued liabilities		225	
Total long-term liabilities		<u>8,736</u>	
Total liabilities		<u>16,875</u>	
Retained deficit		<u>(1,804)</u>	
Total member's deficit		<u>\$ (1,804)</u>	
Total liabilities and member's deficit		<u>\$ 15,071</u>	

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<u>MORGAN E&amp;P, LLC</u> <u>Condensed Statements of Operations</u>		<u>From inception (April 3, 2023) to December 31, 2023</u>
Oil and gas revenues		\$ 270
Operating costs and expenses		
Lease operating expense	268	
Production and ad valorem taxes	27	
Depreciation, depletion, and amortization	60	
General and administrative	1,510	
Total operating costs and expenses	<u>1,865</u>	
Loss from operations		<u>(1,595)</u>
Other income (expense)		
Interest income	16	
Interest expense	<u>(225)</u>	
Total other income and expenses, net	<u>(209)</u>	
Net loss	<u><u>(1,804)</u></u>	

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		<u>MORGAN E&amp;P, LLC</u>	<u>Condensed Statements of Cash Flows</u>	<u>From inception</u>	<u>(April 3, 2023) through</u>	<u>December 31, 2023</u>
Cash flows from operating activities:						
Net loss				\$	(1,804)	
Adjustments to reconcile net income to cash flows used in operating activities:						
Depreciation, depletion, amortization				60		
Amortization of right-of-use assets				12		
Changes in operating assets and liabilities:						
Revenue receivables				(464)		
Joint interest billing receivables				(291)		
Prepays and other current assets				(133)		
Accounts payable				85		
Revenue payable				221		
Prepayments from working interest owners				1,701		
Accounts payable - Due to parent				13		
Accrued liabilities				1,035		
Net cash provided used in operating activities					436	
Cash flows from investing activities:						
Additions to oil and gas properties				(5,700)		
Acquisition of oil and gas properties				(500)		
Additions to other property, plant and equipment				(48)		
Net cash used in investing activities					(6,248)	
Cash flows from financing activities:						
Proceeds from note payable - Due to parent				8,253		
Net cash used by financing activities					8,253	
Net change in cash				2,441		
Cash and cash equivalents at beginning of period					—	
Cash and cash equivalents at end of period				\$	2,441	

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### [\(9\)\(10\) RECENT ACCOUNTING PRONOUNCEMENTS](#)

**Recent Accounting Standards**—We consider the applicability and impact of all accounting standard updates (“ASU”) issued by the Financial Accounting Standards Board (“FASB”). ASUs not listed below were assessed and either determined to be not applicable or expected to have minimal impact on our financial statements.

**Accounting Standards Not Yet Adopted**—In November 2023, FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures”. The amendments in this ASU require improved reportable segment information on an annual and interim basis, primarily through enhanced disclosures about significant segment expenses. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2023, and interim periods for fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures”. The amendments in this ASU require improved annual income tax disclosures surrounding rate reconciliation, income taxes paid, and other disclosures. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

**Accounting Standards Recently Adopted**—In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820) - Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions”, which was issued to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The new guidance is effective for interim and annual periods beginning after December 15, 2023. The Company is currently evaluating the impact of the new standard on the Company's financial statements and related disclosures.

**Accounting Standards Recently Adopted**—In May 2020, the SEC adopted rule amendments that will impact the requirement of investment companies, including BDCs, to disclose the financial statements of certain of their portfolio companies or acquired funds (the “Final Rules”). The Final Rules adopted a new definition of “significant subsidiary” set forth in Rule 1-02(w)(2) of Regulation S-X under the Securities Act. Rules 3-09 and 4-08(g) of Regulation S-X require investment companies to include separate financial statements or summary financial information, respectively, in such investment company's periodic reports for any portfolio company that meets the definition of “significant subsidiary.” The Final Rules amend the definition of “significant subsidiary” in a manner that is intended to more accurately capture those portfolio companies that are more likely to materially impact the financial condition of an investment company. The Final Rules became effective on January 1, 2021, but voluntary compliance was permitted in advance of the effective date. The Company elected to comply with the Final Rules effective June 30, 2020 which reduced the requirement for the Company to provide separate audited financial statements and summarized financial information for its controlled portfolio companies going forward.

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In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes. The new standard is effective for the Company beginning on January 1, 2021. There was no impact on the financial statements or financial statement disclosures.

### **(10) (11) SUBSEQUENT EVENTS**

Our Management performed an evaluation of the Fund's activity through the date the financial statements were issued, noting the following subsequent events:

On **January 3, 2023** **January 4, 2024**, our holding in **\$6.0 million** **\$45.0 million** in U. S. Treasury Bills matured and we repaid our year-end margin loan.

On February 26, 2024, we amended our credit facility with Morgan and increased the total amount that may be drawn under the facility from \$10.0 to \$10.5 million. Also, during February and March 2024, we advanced Morgan an additional \$2.2 million under this facility.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

**None.**

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**Item 9A. Controls and Procedures**

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This section includes information concerning the controls and controls evaluation referred to in those certifications and should be read in conjunction with the certifications for a more complete understanding of the topics presented.

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### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Fund, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2022 December 31, 2023. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

### Report of Management Report on Internal Control Over Financial Reporting

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal The Fund's internal control over financial reporting includes, among others, those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide Fund including, in particular, the fair value of portfolio investments held by the Fund.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable assurance possibility that transactions are recorded as necessary to permit preparation a material misstatement of a company's annual or interim consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures will not be prevented or detected on a timely basis.

Management performed an assessment of the Fund are being made only in accordance with authorizations of Management and directors effectiveness of the Fund; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the financial statements.

We assessed our internal control over financial reporting as of December 31, 2022 December 31, 2023, the end of our most recent fiscal year. We based our assessment on upon criteria established in Internal Control-Integrated Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework" published in 2013. Our ("COSO"). Based on this assessment, included evaluation of such elements as management has concluded that the design and operating effectiveness of key Fund did not maintain effective internal control over financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed both by a third-party consultant and our accounting department as of December 31, 2023, due to the material weaknesses described below.

Based on our assessment, we have concluded that A material weakness was identified in our internal control over financial reporting was effective as relating to the design and operation of management review over the valuation of the end Fund's portfolio investment, including management's review procedures over the completeness and accuracy of the fiscal year underlying data and information supplied to provide third parties assisting management by recommending a range of reasonable assurance regarding fair values.

Although this material weakness did not result in a material misstatement of our consolidated financial statements for the reliability periods presented, there is a possibility that, had the material weakness continued undetected, it could have led to a material misstatement of portfolio fair values and related disclosures. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

Management believes that the financial statements included in this Annual Report on Form 10-K present fairly in all material respects the Fund's financial condition, results of its operations, changes in its net assets and its cash flows for the periods presented. We believe that the audited consolidated financial statements included in this Annual Report on Form 10-K are accurate.

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We have begun the process of, and we are focused on, enhancing effective internal control measures to improve our internal control over financial reporting and remediate the preparation material weaknesses. Our internal control remediation efforts include the following:

- Enhancing existing controls that address the completeness and accuracy of underlying data and information supplied to third parties assisting management in its determination of fair value and in the performance of management review controls over the valuation of the Fund's portfolio securities; and
- Enhancing policies and procedures to improve the precision of review and evidence of review procedures performed to demonstrate effective design and operation of such controls.

We believe our planned actions to enhance our processes and controls will address the material weakness, but these actions are subject to ongoing management evaluation, and we will need a period of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results execution to demonstrate remediation. We are committed to the continuous improvement of our assessment have been reviewed with the Audit Committee of internal control over financial reporting and will continue to diligently review our Board of Directors, internal control over financial reporting.

There have been were no other changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2022 December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

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### **Item 9C. Disclosure Regarding Foreign ~~Jursdictions~~ Jurisdictions that Prevent Inspections.**

*Not Applicable.*

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information about our Directors and Executive Officers, our Audit Committee and the Nominating and Corporate Governance Committee, our code of ethics applicable to the principal executive officer and principal financial officer, and Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference to our Definitive Proxy Statement for the 2023 2024 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, on or prior to April 30, 2023 April 30, 2024 (the “2023 “2024 Proxy Statement”).

We have adopted a code of business conduct and ethics applicable to our directors, officers (including our principal executive officer, principal financial officer and controller) and employees, known as the Code of Business Conduct and Ethics. A copy of the Code of Business Conduct and Ethics is available to any person, without charge, upon request addressed to Equus Total Return, Inc., Attention: Corporate Secretary, 700 Louisiana Street, 48<sup>th</sup> Floor, Houston, TX 77002. In the event that we amend or waive any of the provisions of the Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, or controller, we intend to disclose the same on our website at [www.equuscap.com](http://www.equuscap.com).

### **Item 11. Executive Compensation**

Information regarding Executive Compensation is incorporated by reference to our 2023 2024 Proxy Statement.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans is incorporated by reference to our 2023 2024 Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

Information regarding Certain Relationships and Related Transactions is incorporated by reference to our 2023 2024 Proxy Statement.

### **Item 14. Principal Accountant Fees and Services**

Information regarding Principal Accountant Fees and Services is incorporated by reference to our 2023 2024 Proxy Statement.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules**

(a)(1) The following financial statement schedules are filed herewith:

**Schedule 12-14 Investments in and Advances to Affiliates**

### **Item 16. Form 10-K Summary**

*Not Included.*

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**SCHEDULE 12-14**  
**EQUUS TOTAL RETURN, INC.**  
**SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**

(in thousands)

Portfolio Company	Investment <sup>(a)</sup>	Year Ended						As of	
		December 31,						December 31, 2022	
		2022		As of December 31, 2021		Fair Value	Gross Additions <sup>(b)</sup>	Gross Reductions <sup>(c)</sup>	Decrease in Unrealized Appreciation / Depreciation
<b>Control Investments: Majority-owned</b>									
Equus Energy, LLC	Member interest (100%)	\$ —	\$ 13,000	\$ 150	\$ —	\$ 2,500	\$ 15,650		
<b>Total Control Investments: Majority-owned</b>									
<b>Total Control Investments</b>		\$ —	\$ 13,000	\$ 150	\$ —	\$ 2,500	\$ 15,650		
<hr/>									
(in thousands)									
Portfolio Company	Investment <sup>(a)</sup>	Year Ended			As of				
		December 31, 2022			December 31, 2022				
				As of				Fair	
				December 31, 2021					
<b>Control Investments: Majority-owned</b>									
Equus Energy, LLC	Member interest (100%)	\$ —	\$ 13,000	\$ 150	\$ —	\$ 2,500	\$ 15,650		
<b>Total Control Investments: Majority-owned</b>		—	13,000	150	—	2,500	15,650		
<b>Total Control Investments</b>		—	13,000	150	—	2,500	15,650		

This schedule should be read in conjunction with our Financial Statements, including our *Schedule of Investments* and Notes 3 and 4 to the Financial Statements.

(a) Common stock, warrants, options and equity interests are generally non-income producing and restricted. In some cases, preferred stock may also be non-income producing. The principal amount for debt and the number of shares of common stock and preferred stock is shown in the Schedule of Portfolio Securities as of December 31, 2021 December 31, 2023.

(b) Gross additions include increases in investments resulting from new portfolio company investments, paid-in-kind interest or dividends, the amortization of discounts and fees, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(c) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(d) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was a control investment (more than 25% owned) or an affiliate investment (5% to 25% owned), respectively. All dividend income is non-cash unless otherwise noted.

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(a)(2) Exhibits

3. Articles of Incorporation and by-laws.

- (a) [Restated Certificate of Incorporation of the Fund, as amended. \[Incorporated by reference to Exhibit 3\(a\) to Registrant's Current Report on Form 8-K filed on January 21, 2021.\]](#)
- (b) [Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated. \[Incorporated by reference to Exhibit 3\(b\) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.\]](#)
- (c) [Amended and Restated Bylaws of the Fund. \[Incorporated by reference to Exhibit 3\(b\) to Registrant's Current Report on Form 8-K filed on December 16, 2010 December 23, 2010.\]](#)

10. Material Contracts.

- (a) [Safekeeping Agreement between the Fund and Amegy Bank dated August 16, 2008. \[Incorporated by reference to Exhibit 10\(c\) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.\]](#)
- (b) [Form of Indemnification Agreement between the Fund and certain of its directors and officers. \[Incorporated by reference to Exhibit 10\(d\) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.\]](#)
- (c) [Form of Release Agreement between the Fund and certain of its officers and former officers. \[Incorporated by reference to Exhibit 10\(h\) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.\]](#)
- (d) [Code of Ethics of the Fund \(Rule 17j-1\). \[Incorporated by reference to Exhibit 10\(f\) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.\]](#)
- (e) [2016 Equity Incentive Plan, adopted June 13, 2016 \[Incorporated by reference to Exhibit 1 to Registrant's Definitive Proxy Statement filed on May 5, 2016.\]](#)

23. Consent of Experts and Counsel \*

- (1) [Consent of Independent Accountants, BDO USA, LLP PC.](#)

31. Rule 13a-14(a)/15d-14(a) Certifications \*

- (1) [Certification by Chief Executive Officer](#)
- (2) [Certification by Chief Financial Officer](#)

32. Section 1350 Certification \*

- (1) [Certification by Chief Executive Officer](#)
- (2) [Certification by Chief Financial Officer](#)

97. Policy Relating to Recovery of Erroneously Awarded Compensation \*

- (1) [Equus Total Return, Inc. Compensation Recoupment Policy](#)

99. Equus Energy, LLC and Subsidiary and Morgan E&P, LLC \*

- (1) [Consolidated Financial Statements of Equus Energy, LLC and Subsidiary as of December 31, 2022 December 31, 2023 and 2021 2022 and for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021](#)
- (2) [\[Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 10-K filed on March 28, 2023.\]\[Financial Statements of Morgan E&P, LLC as of December 31, 2023 for the period from inception \\(April 3, 2023\\) through December 31, 2023\]\(#\)](#)

\* Filed herewith

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned, thereunto duly authorized.

EQUUS TOTAL RETURN, INC.

Date: **March 28, 2023** **April 1, 2024**

**/s/ JOHN A. HARDY**

John A. Hardy  
Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<b>/s/ FRASER ATKINSON</b> Fraser Atkinson	Director	<b>March 28, 2023</b> <b>April 1, 2024</b>
<b>/s/ KENNETH I. DENOS</b> Kenneth I. Denos	Director, Secretary and Chief Compliance Officer	<b>March 28, 2023</b> <b>April 1, 2024</b>
<b>/s/ HENRY W. HANKINSON</b> Henry W. Hankinson	Director	<b>March 28, 2023</b> <b>April 1, 2024</b>
<b>/s/ ROBERT L. KNAUSS</b> Robert L. Knauss	Director	<b>March 28, 2023</b> <b>April 1, 2024</b>
<b>/s/ JOHN A. HARDY</b> John A. Hardy	Director, Chief Executive Officer (Principal Executive Officer)	<b>March 28, 2023</b> <b>April 1, 2024</b>
<b>/s/ L'SHERYL D. HUDSON</b> L'Sheryl D. Hudson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	<b>March 28, 2023</b> <b>April 1, 2024</b>

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**EXHIBIT 23.1**

Consent of Independent Registered Public Accounting Firm

Equus Total Return, Inc.  
Houston, Texas

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. **333-216676** **333-216676**) of Equus Total Return, Inc. of our report dated **March 28, 2023** **April 1, 2024**, relating to the financial statements and schedule, which appear in Form 10-K.

/s/ BDO USA, LLP

Houston, Texas  
**March 28, 2023** **April 1, 2024**

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.  
**R-221 (11/20)**

**EXHIBIT 31.1**

**Form of Annual Certification Required  
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934**

I, John A. Hardy, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus Total Return, Inc.;

2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) and I are 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 our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our 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 our 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. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the 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 function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls.

Date: **March 28, 2023**  
**April 1, 2024**

/s/ JOHN A. HARDY  
**John A. Hardy**  
**Chief Executive Officer**

**John A. Hardy**  
**Chief Executive Officer**

EXHIBIT 31.2

**Form of Annual Certification Required**  
**by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934**

I, L'Sheryl D. Hudson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus Total Return, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer(s) and I are 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 our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our 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 our 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. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the 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 function):

- a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls.

Date: March 28, 2023 April 1, 2024

/s/ L'SHERYL D. HUDSON

L'Sheryl D. Hudson

/s/ L'SHERYL D. HUDSON

L'Sheryl D. Hudson Chief Financial Officer

[EXHIBIT 32.1](#)

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the accompanying Annual Report of Equus Total Return, Inc. (the "Company") on Form 10-K for the period ended December 31, 2022 December 31, 2023 (the "Report"), I, John A. Hardy, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Sarbanes- Oxley Act of 2002, that:

- (1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2023 April 1, 2024

/s/ JOHN A. HARDY

John A. Hardy

Chief Executive Officer

John A. Hardy

Chief Executive Officer

[EXHIBIT 32.2](#)

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the accompanying Annual Report of EQUUS TOTAL RETURN, INC. (the "Company") on Form 10-K for the period ended December 31, 2022 December 31, 2023 (the "Report"), I, L'Sheryl D. Hudson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Sarbanes- Oxley Act of 2002, that:

- (1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2023 April 1, 2024

/s/ L'SHERYL D. HUDSON

L'Sheryl D. Hudson Chief Financial Officer

EXHIBIT 97.1

EQUUS TOTAL RETURN, INC.

COMPENSATION RECOUPMENT POLICY

1. **Persons Subject to this Policy.** This policy is applicable to all executive officers (as defined in Rule 3b-7 under the Securities Exchange Act of 1934, as amended) of Equus Total Return, Inc. (the “**Company**”). This policy will also apply to such other employees, or classes of employees, of the Company as may be determined from time to time by the Company’s Board of Directors or the Compensation Committee of the Board (collectively, the “**Board**”). Except as the Board may otherwise determine, the Compensation Committee shall administer this policy. Each person to whom this policy applies is referred to herein as a “**Covered Person**”.

2. **Definitions.**

/s/ L'SHERYL D. HUDSON

(a) “**Accounting Restatement**” means an accounting restatement for periods that end on or after the effective date of this policy due to material noncompliance of the Company with any financial reporting requirement under the U.S. federal securities laws.

(b) “**Incentive-Based Compensation**” means any incentive-based compensation, including cash, stock options, time-based and performance-based restricted stock units and other equity awards under the Company’s long-term incentive plans awarded to a Covered Person.

(c) “**Intentional Misconduct**” is intended to include reckless conduct (meaning any highly unreasonable act or omission, involving not merely simple, or even inexcusable negligence, but an extreme departure from the standards of ordinary care, and that is either known to the executive or is so obvious the executive must have been aware of it), but is not intended to include negligent conduct or grossly negligent conduct not meeting that definition. Further, the term “intentional misconduct” shall not include conduct in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of the Company.

L'Sheryl D. Hudson Chief Financial Officer

3. **Recovery of Excess Compensation.** Following an Accounting Restatement. In the event the Company is required to prepare an Accounting Restatement, the Board shall determine, in its sole discretion, the amount, if any, to seek to recover from any current or former Covered Person (without regard to any taxes paid thereon by the Covered Person) who received Incentive-Based Compensation from the Company, based on erroneous data, during the three-year period preceding the date on which the Company is required to prepare the Accounting Restatement, which amount shall in no event be greater than the difference between the amount that was received and the amount that would have been received based on the restated data.

4. **Recovery of Additional Amounts Upon an Accounting Restatement.** In addition to (and without limiting) the provisions of Section 3 above, in the event that the Board, in its sole discretion, determines that a current or former Covered Person’s acts or omissions that contributed to the circumstances requiring an Accounting Restatement involved either: (i) Intentional Misconduct; (ii) an intentional violation of any Company written policy applicable to the Covered Person including, but not limited to, the Company’s Code of Business Conduct and Ethics (the “**Code of Ethics**”) or any applicable legal or regulatory requirements in the course of the Covered Person’s employment by the Company; or (iii) fraud in the course of the Covered Person’s employment by the Company, then in each such case, the Company will use reasonable efforts to recover from such Covered Person up to 100% of the Incentive-Based Compensation (without regard to any taxes paid thereon by the Covered Person), and not just the difference referred to in Section 3.

5. **Recovery Relating to Activity That Causes Specified Financial Damage.** In the event that the Board, in its sole discretion, determines that (1) a current or former Covered Person engaged in: (i) Intentional Misconduct; (ii) an intentional violation of any Company written policy applicable to the Covered Person including, but not limited to, the Code of Ethics, or any applicable legal or regulatory requirements in the course of the Covered Person’s employment by the Company; (iii) fraud in the course of the Covered Person’s employment by the Company; or (iv) a failure effectively to supervise an associate for whom the Covered Person had management responsibilities, and (2) such activity caused material financial damage to the Company (regardless of whether the Company was required to prepare an Accounting Restatement on account of such activity), then in each such case, the Company will use reasonable efforts to recover from such Covered Person up to 100% of such Covered Person’s Incentive-Based Compensation (without regard to any taxes paid thereon by the Covered Person) from the Company during the three-year period preceding the relevant activity.

6. **Inaccurate Performance Calculation.** If the Board determines that Incentive-Based Compensation was based on performance achievement that was calculated by the Company in a materially inaccurate manner, the Board shall recover from the Covered Person all or a portion of the Incentive-Based Compensation received by such Covered Person during the three-year period preceding the date of the discovery of the materially inaccurate performance calculation.

7. **Method of Recoupment and/or Forfeiture.** The Board shall determine the method for recouping or cancelling, as the case may be, Incentive-Based Compensation hereunder, which may include, without limitation, any one or more of the following:

- (a) requiring reimbursement of cash Incentive-Based Compensation previously paid;
- (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards;
- (c) cancelling or rescinding some or all outstanding vested or unvested equity-based awards;
- (d) adjusting or withholding from unpaid compensation or other set-off;
- (e) cancelling or setting-off against planned future grants of equity-based awards; and/or
- (f) any other method permitted by applicable law or contract.

The Board is not required to take any of these steps if the Board concludes that doing so would not be in the best interests of the Company.

8. **Interpretation of Policy.** This policy will apply to Incentive-Based Compensation that is granted to a Covered Person after the adoption of this policy (or, if later, the date on which such person becomes a Covered Person). This policy will be interpreted in a manner that is consistent with any applicable rules or regulations adopted by the Securities and Exchange Commission or NYSE pursuant to Section 10D of the Securities Exchange Act of 1934 (the “**Applicable Rules**”) and any other applicable law and will otherwise be interpreted (including in the determination of amounts recoverable) in the business judgment of the Board. To the extent the Applicable Rules require recovery of incentive-based compensation in additional circumstances besides those specified above, nothing in this policy will be deemed to limit or restrict the right or obligation of the Company to recover incentive-based compensation to the fullest extent required by the Applicable Rules. Moreover, nothing in this policy shall be deemed to limit the Company’s right to terminate employment of any Covered Person, to seek recovery of other compensation paid to a Covered Person, or to pursue other rights or remedies available to the Company under applicable law.
9. **Not Exclusive.** Any recoupment, forfeiture, or cancellation under this policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, incentive or equity compensation plan or award or other agreement and any other legal rights or remedies available to the Company.
10. **No Indemnification.** The Company shall not indemnify or agree to indemnify any Covered Person against the loss of erroneously awarded compensation subject to this policy nor shall the Company pay or agree to pay any insurance premium to cover the loss of erroneously awarded compensation.
11. **Amendments.** The Board may amend, modify or terminate this policy in whole or in part at any time in its sole discretion and may adopt such rules and procedures that it deems necessary or appropriate to implement this policy or to comply with applicable laws and regulations.

Adopted by the Board of Directors to be effective as of December 1, 2023.

[EXHIBIT 99.1](#)

**Equus Energy, LLC and Subsidiary**

Consolidated Financial Statements  
As of **December 31, 2022** December 31, 2023 and **2021** 2022 and for the three years ended **December 31, 2023**

## Equus Energy, LLC and Subsidiary

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#### **Independent Auditor's Report**

Board of Managers Equus Energy, LLC Houston, Texas

##### **Opinion**

We have audited the consolidated financial statements of Equus Energy, LLC and its subsidiary (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in member's (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

##### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

##### **Substantial Doubt About the Company's Ability to Continue as a Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

##### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

##### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ BDO USA, P.C.

Houston, Texas

April 1, 2024

**Equus Energy, LLC and Subsidiary**  
**Consolidated Balance Sheets**

**December 31,**

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 71,174	\$ 205,391
Accounts receivable	167,061	207,767
Prepaid expenses and other current assets	—	11,824
<b>Total Current Assets</b>	238,235	424,982
<b>Oil and Gas Properties, net, using full cost method</b>	76,508	60,134
<b>Total Assets</b>	\$ 314,743	\$ 485,116
<b>Liabilities and Member's (Deficit) Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	\$ 104,525	\$ 109,491
Due to Parent	126,498	350,046
<b>Total Current Liabilities</b>	231,023	459,537
<b>Asset Retirement Obligations</b>	232,836	216,297
<b>Total Liabilities</b>	463,859	675,834
<b>Commitments and Contingencies (See Notes 2 and 7)</b>		
<b>Member's (Deficit) Equity</b>	\$ (149,116)	\$ (190,718)
<b>Total Liabilities and Member's (Deficit) Equity</b>	\$ 314,743	\$ 485,116

*See accompanying notes to the consolidated financial statements.*

**Equus Energy, LLC and Subsidiary**

**Consolidated Statements of Operations**

<b>Year Ended December 31,</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Operating Revenue</b>			
Oil revenue	\$ 383,582	\$ 371,241	\$ 318,209
Natural gas liquids revenue	124,351	415,873	245,219
Natural gas revenue	137,152	275,714	292,024
<b>Total Operating Revenue</b>	645,085	1,062,828	855,452
<b>Operating Expenses</b>			
Direct operating expenses	503,933	420,376	596,255
Gain on sale of oil and gas properties	—	—	(22,331)
Depletion, depreciation, amortization and accretion	3,999	3,792	6,680
Impairment of oil and gas properties	—	—	31,870
Professional fees	739,860	774,651	305,616
General and administrative	355,691	396,987	6,372
<b>Total Operating Expenses</b>	1,603,483	1,595,806	924,462
<b>Loss from Operations</b>	(958,398)	(532,978)	(69,010)
<b>Non-Operating Income</b>			
Other income	1,000,000	—	—

<b>Total Non-Operating Income</b>	1,000,000	—	—
<b>Net Income/(Loss)</b>	\$ 41,602	\$ (532,978)	\$ (69,010)

*See accompanying notes to the consolidated financial statements.*

### Equus Energy, LLC and Subsidiary

#### Consolidated Statements of Changes in Member's (Deficit) Equity

	Total Member's (Deficit) Equity
<b>Balance, January 1, 2021</b>	\$ (88,730)
Capital contribution	350,000
Net loss	(69,010)
<b>Balance, December 31, 2021</b>	\$ 192,260
Capital contribution	150,000
Net loss	(532,978)
<b>Balance, December 31, 2022</b>	\$ (190,718)
Net income	41,602
<b>Balance, December 31, 2023</b>	\$ (149,116)

*See accompanying notes to the consolidated financial statements.*

### Equus Energy, LLC and Subsidiary

#### Consolidated Statements of Cash Flows

<i>Year Ended December 31,</i>	2023	2022	2021
<b>Cash Flows from Operating Activities</b>			
Net income/(loss)	\$ 41,603	\$ (532,978)	\$ (69,010)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depletion, depreciation and amortization	2,078	1,914	—
Accretion expense	1,921	1,878	6,680
Gain on sale of oil and gas properties	—	—	(22,331)
Impairment of oil & gas properties	—	—	31,870
Changes in operating assets and liabilities:			
Accounts receivable	40,706	6,946	(137,685)
Prepaid expenses and other current assets	11,824	(11,824)	—
Accounts payable and current liabilities	(4,966)	7,290	(126,571)
Due to Parent	(223,548)	—	—
<b>Net Cash Used in Operating Activities</b>	<b>(130,382)</b>	<b>(526,774)</b>	<b>(317,047)</b>
<b>Cash Flows from Investing Activities</b>			
Sales of oil and gas properties	—	—	22,331
Investment in oil and gas properties	(3,835)	(57,962)	(35,956)
<b>Net Cash Used in Investing Activities</b>	<b>(3,835)</b>	<b>(57,962)</b>	<b>(13,625)</b>
<b>Cash Flows from Financing Activities</b>			
Capital contribution	—	150,000	350,000
<b>Net Cash Provided by Financing Activities</b>	<b>—</b>	<b>150,000</b>	<b>350,000</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(134,217)</b>	<b>(434,736)</b>	<b>19,328</b>

<b>Cash, beginning of year</b>	205,391	640,127	620,799
<b>Cash, end of year</b>	\$ 71,174	\$ 205,391	\$ 640,127

*See accompanying notes to the consolidated financial statements.*

### **Equus Energy, LLC and Subsidiary**

#### **Notes to Consolidated Financial Statements**

**December 31, 2023, 2022 and 2021**

##### **1. Nature of Operations**

Equus Energy, LLC ("Equus Energy") was formed in November 2011 as a wholly-owned subsidiary of Equus Total Return, Inc. (the "Fund") to make investments in properties in the energy sector, with a particular emphasis on income-producing oil & gas properties. In December 2011, the Fund made an initial contribution of \$250,000 to Equus Energy. On December 27, 2012, the Fund invested an additional \$6,800,000 in Equus Energy for the purpose of additional working capital and to fund the purchase of various working interests, presently consisting of 136 producing and non-producing oil and gas wells. The interests were acquired by EQS Energy Holdings, Inc., a taxable wholly-owned subsidiary of Equus Energy (Equus Energy and EQS Energy Holdings, Inc. are collectively referred to herein as the "Company"). On September 30, 2020, we converted \$561,000 in related party payable to equity for the purpose of additional working capital. On June 30, 2021, the Fund provided an additional \$350,000 in capital to Equus Energy for the purpose of additional working capital. On December 31, 2022, the Fund provided an additional \$150,000 in capital to Equus Energy for the purpose of additional working capital.

Currently owned working interests include associated development rights of approximately 21,520 acres situated on 9 separate properties in Texas and Oklahoma. The working interests range from a *de minimis* amount to 50% of the leasehold that includes these wells.

The wells are operated by a number of experienced operators, including Burk Royalty Co., LTD ("Burk"). Burk has operating responsibility for all of the Company's 40 producing and non-producing well interests located in the Conger Field, an oil and gas field on the edge of the Permian Basin. The Company has a 50% working interest in each of the leases on which the wells are located, along with working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,560 acres located in the area known as the "Eagle Ford Shale" play.

##### **Liquidity & Going Concern**

Oil prices increased significantly in 2022 commencing with the buildup and subsequent invasion of Ukraine by Russian forces in February 2022. However, since the end of the second quarter of 2022, except for a temporary increase during the 3rd quarter of 2023, oil prices have largely retreated to pre-invasion levels and stood at \$71.65 per barrel as of December 31, 2023. Natural gas liquids experienced a similar trend in 2022 and continued falling throughout the second half of the year and into the third quarter of 2023 and, as of December 31, 2023, stood at \$6.63 per MMBTU.

Natural gas prices experienced high volatility in 2022 but have been generally stable throughout 2023, finishing the year at \$2.63 per MMBTU. Nevertheless, consistently lower prices for natural gas has decreased the economic feasibility of certain of Equus Energy's well interests.

As a result, Equus Energy could see future capital expenditures postponed indefinitely, which could have a material adverse effect upon the operations and long-term financial condition of Equus Energy. The substantial decrease in natural gas spot prices has had a similar effect upon Equus Energy's revenue. This decrease, as well as the shut-in of presently uneconomic wells due to low prices and excess demand has had, and is expected to continue to have, a material adverse effect on the present and near-term cash flows of Equus Energy. The factors discussed above, therefore, raise substantial doubt about Equus Energy's ability to continue as a going concern.

As of December 31, 2023, we had \$71,174 in available cash and, under current operating and pricing conditions, we believe substantial doubt exists as to whether Equus Energy will be able to fund its operations for the next twelve months. It is possible Equus Energy will require loans or capital investment from one or more sources, or will be required to dispose of certain of its assets, to cover a potential cash shortfall. Equus Energy does not presently have any existing commitments to fund any such shortfall, should it occur, and cannot guarantee that it will be able to secure a commitment in the future.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

#### **Future Plans and Considerations**

Our plans to further enhance liquidity, which were not considered for the purposes of our assessment of whether substantial doubt is alleviated, include (i) attempt to secure equity or debt financing from one or more institutional sources, which sources may include the Fund, a commercial lender, or other investors, (ii) request that our operators shut-in additional wells, (iii) sell certain of our oil and gas holdings, or (iv) undertake a combination of the foregoing. Our plans are subject to inherent risks and uncertainties, and, accordingly, there can be no assurance that our plans can be effectively implemented and, therefore, that the conditions can be effectively mitigated.

#### **2. Summary of Significant Accounting Policies**

##### **Basis of Presentation and Consolidation**

The accompanying consolidated financial statements are prepared on the accrual basis of accounting as codified in the Financial Standards Accounting Board's ("FASB") Accounting Standards Codification ("ASC") and include the accounts of the Company. All significant intercompany balances and transactions have been eliminated.

##### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of undeveloped properties, the collectability of outstanding accounts receivable, contingencies, and the results of current and future litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, and impairment have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas. Future changes in these assumptions may affect these significant estimates materially in the near term.

##### **Receivables**

Accounts receivable primarily consists of accrued revenues from oil and gas sales. The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company recognizes a reserve on a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of any reserve may be reasonably estimated. No allowance was considered necessary as of December 31, 2023 and 2022.

In June 2016, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASC 326" or "CECL") in response to concerns raised regarding the delayed recognition of losses on financial assets that do not meet the "probable" threshold, but are expected, as of the reporting date. The new guidance under ASU 2016-13 is effective for Equus Energy, LLC and Subsidiary for the fiscal year, including interim reporting periods, beginning on January 1, 2023. The Company has concluded that the implementation of ASC 326 did not have a material impact on the Company's receivables or consolidated financial statements.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

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

The Company follows the full cost method of accounting for oil and gas properties. Under this method of accounting, all costs incurred for both successful and unsuccessful exploration and development activities, including salaries, benefits and other internal costs directly identified with these activities, and oil and gas property acquisitions are capitalized. All costs related to production, general corporate overhead or similar activities are expensed as incurred. Proved properties are amortized using the units of production method ("UOP"). The UOP calculation, in its simplest terms, multiplies the percentage of estimated proved reserves produced by the cost of those reserves. The amortization base in the UOP calculation includes the sum of proved property, net of accumulated depreciation, depletion and amortization ("DD&A"), estimated future development costs (future costs to access and develop reserves) and asset retirement costs that are not already included in oil and gas property, less related salvage value. In arriving at rates under the UOP method, the quantities of recoverable oil and natural gas reserves are established based on estimates made by the third-party geologists and engineers using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous twelve months, held flat for the life of the production, except where prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials which require significant judgment, as does the projection of future production volumes and levels of future costs, including future development costs. In addition, considerable judgment is necessary in determining when unproved properties become impaired and in determining the existence of proved reserves once a well has been drilled. All of these judgments may have significant impact on the calculation of depletion expense.

Under the full-cost method of accounting, the net book value of oil and gas properties may not exceed a calculated "ceiling." The ceiling limitation is the estimated future net cash flows from proved oil and gas reserves, discounted at ten percent per annum. Estimated future cash flows exclude future cash outflows associated with settling accrued asset retirement obligations. The estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous twelve months, held flat for the life of the production, except where prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials. Any excess of the net book value of proved oil and gas properties over the ceiling is charged to expense and reflected as additional impairment in the accompanying statements of operations. Based on calculated reserves at December 31, 2021, the unamortized costs of the Company's oil and natural gas properties exceeded the ceiling test limit; therefore, Equus Energy recorded an impairment of \$31,870 during the year ended December 31, 2021. Equus Energy did not record any impairment during the years ended December 31, 2023 and 2022.

Proceeds from the sales or disposition of oil and gas of proved and unproved properties are accounted for as a reduction of capitalized costs with no gain or loss recognized, unless such reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case the gain or loss is recognized in the statement of operations. In general, a significant alteration occurs when the deferral of gains or losses will result in an amortization rate materially different from the amortization rate calculated upon recognition of gains or losses. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

During the year ended December 31, 2021, the Company had sales of certain properties within the Needville Field in Fort Bend County, Texas. The Company evaluated the sales and the net book value related to the properties was fully written off in prior periods. The Company recognized a gain of \$22,331 from the proceeds on sale of the property. During the years ended December 31, 2023 and 2022, the Company had no sales of properties.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

#### **Revenue Recognition**

The Company recognizes revenue at the point in time when control of the promised goods is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company's revenue is generated primarily from the sale of oil, gas and natural gas liquids ("NGL") produced from working interests and to a lesser extent from royalty interests in oil and gas properties owned by the Company. As a working interest owner, the Company is responsible for the incurred production expenses proportionate to the interest stipulated in the operating agreement. As a non-operator, the Company does not manage the daily well operations, which are borne by the well operator. Sales of oil, gas and NGLs are recognized at the time control of the product is transferred to the customer.

Various arrangements amongst the nine different oil and gas properties all differ in some respects, although they do share the commonality that, as a non-operating working interest holder, the Company does not engage in the selling process, but instead relies on the operator, as their selling agent, for negotiating and determining pricing, volume, and delivery terms. Such pricing terms are often a function of a specified discount from the daily/monthly NYMEX or Henry Hub average. The discount is usually based on differentials such as distance of the field/wells from the distribution node or the buyer's storage facility, as well as the quality of the product itself (i.e., in the case of oil, its gravity).

Revenue is measured based on consideration specified in the contract with the customer, and excludes any amounts collected on behalf of third parties. The Company recognizes revenue in the amount that reflects the consideration it expects to be entitled to in exchange for transferring control of those goods to the customer. The contract consideration is typically allocated to specific performance obligations in the contract according to the terms of the contract. Each unit of oil or gas is considered a separate performance obligation under the contract. Wells are spot measured once a month to determine production and the composition of each of the products (i.e. oil, gas, NGLs) from the well. Each month the consideration obtained by the operator is allocated to the related performance obligations.

#### **Performance Obligations**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenue is recognized when performance obligations are satisfied in accordance with contractual terms, in an amount that reflects the consideration the Company expects to be entitled to in exchange for services rendered.

Depending on the contract and commodity, there are various means by which upstream entities can transfer control (i.e., at the wellhead, inlet, tailgate of the processing plant, or a location where the product is delivered to a third party). The Operator has control of the commodity before it is extracted, therefore consideration must be given to whether the transfer of control of the commodity is to the operator or to the end customer at the point of sale.

Unless special arrangements are entered into, the Company's performance obligations are generally considered performed when control of the extracted commodity transfers when it is delivered to the end customer at the agreed-upon market or index price. At the end of each month, when the performance obligation is satisfied, the variable consideration can be reasonably estimated. Variances between the Company's estimated revenue and actual payments are recorded in the month the payment is received.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

#### **Contract Balances**

Receivables from contracts with customers are recorded when the right to consideration becomes unconditional, generally when control of the product has been transferred to the customer. Under the terms of the Company's contract with the operator, the operator processes invoices to the liable parties and payments to the interest owners. Other

than trade receivables, the Company's contracts do not give rise to contract assets or liabilities under ASC 606. Receivables from oil and gas sales were \$49,523 and \$93,314 at December 31, 2023 and 2022. On January 1, 2022, the Company had outstanding receivables of \$186,723 related to oil and natural gas sales.

#### Principal vs. Agent

ASC 606 focuses on control of the specified goods and services as the overarching principle for entities to consider when determining whether they are acting as a principal or an agent.

An entity acting as a principal records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent if it does not control the promised good or service before transfer to the customer. If the entity is an agent, it records as revenue the net amount it retains for its agency services. However, due to the uncertainty of the variable pricing component and the separation of expenses billed to the Company from the consideration processed and paid by the operator, the revenue is recorded at net.

Under the Company's normal operating activity arrangements, the operator is responsible for negotiating, fulfilling and collecting the agreed-upon amount from the sale with the end customer and is, therefore, determined to be acting as agent on behalf of the Company. The principal versus agent consideration will continue to be assessed for new contracts, both within and outside the company's normal operating activities.

#### Major Customers and Concentration of Credit Risk

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all of the Company's customers are concentrated in the oil and natural gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. The Company believes the loss of any of its major purchasers would not have a long-term material adverse effect on its operations.

#### Environmental Expenditures

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed.

Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments for the liability or component is fixed or reliably determinable. No such liabilities existed or were recorded at December 31, 2023 and 2022.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

#### Asset Retirement Obligations

The initial estimated asset retirement obligation related to oil and gas properties is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated oil and gas properties on the consolidated balance sheet. If any of the assumptions used in determining the fair value of the recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in estimated plugging and abandonment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are included within the full cost pool and depleted as part of the amortization base associated oil and gas properties. Accretion on the liability is recognized over the estimated productive life of the related assets. Accretion expense for the years ended December 31, 2023, 2022 and 2021 were \$1,921, \$1,878 and \$6,680, respectively.

#### Income Taxes

For state tax purposes, EQS Energy Holdings, Inc. files a combined Texas Gross Margin filing with its direct parent Equus Energy, and a new affiliate, Morgan E&P, LLC, with their direct parent Equus Total Return, Inc. However, Equus Energy is disregarded as an entity separate from its owner for U.S. federal income tax purposes, and its activity is reported by Equus Total Return, Inc.

EQS Energy Holdings, Inc., conversely, is a taxable C-corporation that is not included in either the tax returns for Equus Energy, LLC or Equus Total Return, Inc. under U.S. federal income tax principles, and accordingly files a separate corporate income tax return.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the consolidated financial statements.

Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records deferred tax assets to the extent the Company believes these assets will more-likely-than-not be realized. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be made which would reduce the provision for income taxes.

## Equus Energy, LLC and Subsidiary

### Notes to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

ASC Topic 740-10, *Income Taxes*, provides that a tax benefit from an uncertain position may be recognized in the financial statements when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. This guidance also addresses measurement, derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. The Company has no material uncertain tax positions in its prior or current tax filings.

#### Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The guidance aims to improve the effectiveness of income tax disclosures primarily through improvements to the income tax rate reconciliation disclosure along with information on income taxes paid. The guidance is effective for the Company for fiscal years beginning after December 15, 2025 with early adoption permitted. We are currently evaluating the impact of this standard.

#### 3. Oil and Gas Properties

Oil and gas properties as of December 31, 2023 and 2022 consist of the following:

	2023	2022
Properties being depleted	\$ 8,173,325	\$ 8,154,872
Less: accumulated depreciation, depletion and impairment	(8,096,817)	(8,094,738)

<b>Oil and gas properties, net</b>	\$ 76,508	\$ 60,134
<b>4. Asset Retirement Obligations</b>		
The following summarizes the changes in the asset retirement obligation during the years ended December 31, 2023 and 2022:		
	<b>2023</b>	<b>2022</b>
Balance, beginning of year	\$ 216,297	\$ 214,419
Additions	14,618	—
Accretion	1,921	1,878
<b>Balance, end of year</b>	<b>\$ 232,836</b>	<b>\$ 216,297</b>

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**Equus Energy, LLC and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2023, 2022 and 2021**

**5. Fair Value Measurements**

Equus Energy uses various inputs in determining the fair value of certain assets and liabilities. ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy under ASC 820, including the types of Company assets or liabilities that fall under each category and the valuation methodologies used to measure fair value, are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2** - Inputs to the methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the assets or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** - Inputs to the valuation methodology are unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The inputs and methodology used for valuing the Company's assets and liabilities are not indicators of the risks associated with those assets and liabilities.

The following is a description of the valuation methodology used for assets and liabilities measured at fair value:

**Asset retirement obligation at initial recognition:** the fair value of the Company's ARO is based on the present value of future estimated cash flows, using a credit-adjusted risk free discount rate and has been categorized under ASC 820 as a Level 3 fair value assessment.

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable and other current liabilities and amounts due to parent. The carrying amounts of accounts receivable, accounts payable and other current liabilities and amounts due to parent are representative of their respective fair values due to short-term maturity of these instruments.

**6. Concentrations of Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and receivables. The Company maintains its cash with a financial institution it believes has high credit quality. The Company at times maintains bank deposits in excess of insured limits. The possibility of a loss exists if the bank holding excess deposits were to fail. Trade receivables result from oil and gas sales to a small number of purchasers. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of each customer.

**Equus Energy, LLC and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2023, 2022 and 2021**

**7. Legal Matters and Contingencies**

***Litigation and Other Legal Matters***

In 2023, the Company settled a legal dispute with a former operator of one of its properties for \$1.0 million.

In the normal course of business, the Company may be party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, employees and other matters. Although the outcome of any pending legal proceedings is unknown, the Company believes that any liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on the Company's consolidated financial positions, results of operations or liquidity.

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a loss contingency indicates that it is probable that a loss has been incurred and the amount of the liability can be reasonably estimated, then the estimated liability is accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. The Company expenses legal costs associated with contingencies as incurred.

***Environmental Contingencies***

The Company's activities are subject to local, state and federal laws and regulations governing environmental quality and pollution control in the United States. The exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing natural gas and other products, are subject to stringent environmental regulation by state and federal authorities, including the Environmental Protection Agency ("EPA"). Such regulation can increase our cost of planning, designing, installing and operating such facilities.

Significant fines and penalties may be imposed for the failure to comply with environmental laws and regulations. Some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, such as oil and natural gas related products.

At the present time, the Company believes that none of the environmental laws materially hinder nor adversely affect the Company business. The Company believes it has abided by and is currently in compliance with all applicable environmental laws.

**Equus Energy, LLC and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2023, 2022 and 2021**

**8. Income Taxes**

The provision for income taxes for the years ended December 31, 2023, 2022, and 2021 consisted of the following:

<b>Years Ended December 31,</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Current (expense) benefit:			
Federal	\$ (184,672)	\$ (85,267)	\$ (31,201)
State	(1,148)	(2,198)	(1,040)
<b>Total current (expense) benefit</b>	<b>(185,820)</b>	<b>(87,465)</b>	<b>(32,241)</b>
Deferred (expense) benefit:			
Federal	184,913	86,550	31,419
State	907	915	822
<b>Total deferred (expense) benefit</b>	<b>185,820</b>	<b>87,465</b>	<b>32,241</b>
<b>Total benefit (expense)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The components of the net deferred tax assets (liabilities) in the Company's balance sheets were as follows:

<b>As of December 31,</b>	<b>2023</b>	<b>2022</b>
Deferred tax assets:		
Oil and gas properties	\$ 683,015	\$ 715,154
Asset retirement obligation	48,895	45,422
State taxes	24,393	25,541
Net operating loss carryforwards	259,819	412,997
<b>Total Deferred Tax Assets</b>	<b>1,016,122</b>	<b>1,199,113</b>
Valuation allowance	(1,010,999)	(1,193,749)
<b>Deferred Tax Assets after Valuation Allowance</b>	<b>5,123</b>	<b>5,364</b>
Deferred tax liabilities:		
State tax deduction	(5,123)	(5,364)
<b>Deferred Tax Liabilities</b>	<b>(5,123)</b>	<b>(5,364)</b>
<b>Total net deferred tax assets (liabilities)</b>	<b>\$ —</b>	<b>\$ —</b>

The provision for income taxes varies from the maximum federal statutory rate of 21% for the years ended December 31, 2023, 2022, and 2021, respectively, as follows:

<b>Years Ended December 31,</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Income tax expense (benefit) at federal statutory rate	\$ 8,737	\$ (111,925)	\$ (9,938)
Effect of state income taxes	907	915	822
Non-deductible Equus Energy, LLC loss	176,176	198,476	41,357
Change in valuation allowance	(185,820)	(87,465)	(32,241)
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

**Equus Energy, LLC and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2023, 2022 and 2021**

Deferred income tax assets and liabilities are recorded based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. For the tax years ended December 31, 2023, 2022, and 2021 the Company's U.S Federal statutory tax rate was 21%. The Company is also subject to the Texas Gross Margin tax of .75% of modified taxable income as determined for Texas purposes. This combination results in a marginal blended tax rate of approximately 21.6%.

At each of December 31, 2023 and 2022, the tax effected amount of U.S. Federal net operating loss carryforwards ("NOLs") totaled \$259,819 and \$412,997, respectively. As of December 31, 2023, \$26,295 in NOLs will begin expiring after 2035, and the remaining \$233,524 can be carried forward indefinitely.

The Company has determined, after weighing both positive and negative evidence, that the net deferred tax asset (DTA) for the Company is not more-likely-than-not to be realizable. Therefore, valuation allowances of \$1,010,999 and \$1,193,749 were established at December 31, 2023 and 2022, respectively, to completely offset the net DTA at each year end.

During the current period, the Company has estimated a minimal amount of taxable income. However, this amount is fully offset with NOLs carried forward from years that have not expired and are usable currently without limitation. As such, the Company has not recorded any current income tax expense for the period.

As of December 31, 2023, the Company has not recorded a reserve for uncertain tax positions.

**9. Subsequent Events**

The Company evaluates events and transactions occurring after the balance sheet date but before the financial statements are available to be issued. The Company evaluated such events and transactions through April 1, 2024, the date the consolidated financial statements were available for issuance.

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**EXHIBIT 99.2**

Morgan E&P, LLC  
Financial Statements

As of December 31, 2023 and for the period from inception (April 3, 2023) to December 31, 2023

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**Equus Energy, Morgan E&P, LLC and Subsidiary**

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### **Independent Auditor's Report**

Board of Managers  
**Equus Energy, Morgan E&P, LLC**  
Houston, Texas

#### **Opinion**

We have audited the **consolidated** financial statements of **Equus Energy, Morgan E&P, LLC** and its subsidiary (collectively, the **the** "Company"), which comprise the **consolidated** balance **sheets** **sheet** as of December 31, 2022 and 2021, December 31, 2023, and the related **consolidated** statements of operations, changes in member's **(deficit)** **equity**, **deficit**, and cash flows for the **three** years then ended, period from inception (April 3, 2023) to December 31, 2023, and the related notes to the **consolidated** financial statements.

In our opinion, the accompanying **consolidated** financial statements present fairly, in all material respects, the financial position of the Company as of **December 31, 2022 and 2021, December 31, 2023**, and the results of its operations and its cash flows for the **three** years then ended period from inception (April 3, 2023) through December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our **audits** **audit** in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our **audits**. **audit**. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the **Consolidated** Financial Statements**

Management is responsible for the preparation and fair presentation of the **consolidated** financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of **consolidated** financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the **consolidated** financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the **consolidated** financial statements are **issued** or available to be issued.

#### **Auditor's Responsibilities for the **Audits** Audit of the **Consolidated** Financial Statements**

Our objectives are to obtain reasonable assurance about whether the **consolidated** financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the **consolidated** financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the **consolidated** financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the **consolidated** financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the **audits**, **audit**, significant audit findings, and certain internal control-related matters that we identified during the **audits**, **audit**.

/s/ BDO USA, **LLP** P.C.

Houston, Texas  
**March 28, 2023** April 1, 2024

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Equus Energy, Morgan E&P, LLC and Subsidiary

Consolidated Balance Sheets

December 31,	2022	2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 205,391	\$ 640,127
Accounts receivable	207,767	214,713
Prepaid expenses and other current assets	11,824	—
<b>Total Current Assets</b>	<b>424,982</b>	<b>854,840</b>
<b>Oil and Gas Properties, net, using full cost method</b>	<b>60,134</b>	<b>4,086</b>
<b>Total Assets</b>	<b>\$ 485,116</b>	<b>\$ 858,926</b>
<b>Liabilities and Member's (Deficit) Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	\$ 109,491	\$ 102,201
Due to Parent	350,046	350,046
<b>Total Current Liabilities</b>	<b>459,537</b>	<b>452,247</b>
<b>Asset Retirement Obligations</b>	<b>216,297</b>	<b>214,419</b>
<b>Total Liabilities</b>	<b>675,834</b>	<b>666,666</b>
<b>Commitments and Contingencies (See Notes 2 and 7)</b>		
<b>Member's (Deficit) Equity</b>	<b>(190,718)</b>	<b>192,260</b>
<b>Total Member's (Deficit) Equity</b>	<b>(190,718)</b>	<b>192,260</b>
<b>Total Liabilities and Member's (Deficit) Equity</b>	<b>\$ 485,116</b>	<b>\$ 858,926</b>
<b>December 31, 2023</b>		
Assets:		
Cash	\$ 2,440,727	
Revenue receivables	463,844	
Joint interest billing receivables	1,390,647	
Prepays and other current assets	132,658	
Current assets	4,427,876	
Property, plant and equipment		
Oil and gas properties, net - full cost method	10,326,070	
Operating lease right-of-use assets, net	270,334	
Other property, plant and equipment, net	46,357	
Total property, plant and equipment - net	10,642,761	
Total assets	\$ 15,070,637	
Liabilities and member's deficit		
Current liabilities		
Accounts payable	\$ 2,372,343	
Revenue payable	220,692	
Prepayments from owners	121,923	

Current portion of operating lease liabilities	27,859
Due to parent	12,994
Accrued liabilities	5,383,023
Total current liabilities	8,138,834
Long-term liabilities	
Asset retirement obligations	3,847
Long-term operating lease liabilities	254,104
Note payable - Due to parent	8,253,098
Long-term accrued liabilities	224,730
Total long-term liabilities	8,735,779
Total liabilities	16,874,613
Total member's deficit	(1,803,976)
Total liabilities and member's deficit	\$ 15,070,637

*See accompanying notes to the **consolidated** financial statements.*

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Equus Energy, Morgan E&P, LLC and Subsidiary

**Consolidated Statements Statement of Operations**

<b>Year Ended December 31,</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Operating Revenue</b>			
Oil revenues	\$ 371,241	\$ 318,209	\$ 234,407
Natural gas liquids revenues	415,873	245,219	140,606
Natural gas revenues	275,714	292,024	106,701
<b>Total Operating Revenue</b>	<b>1,062,828</b>	<b>855,452</b>	<b>481,714</b>
<b>Operating Expenses</b>			
Direct operating expenses	420,376	596,255	658,851
Gain on sale of oil and gas properties	—	(22,331)	—
Depletion, depreciation, amortization and accretion	3,792	6,680	25,629
Impairment of oil and gas properties	—	31,870	253,058
Professional fees	774,651	305,616	236,646
General and administrative	396,987	6,372	6,855
<b>Total Operating Expenses</b>	<b>1,595,806</b>	<b>924,462</b>	<b>1,181,039</b>
<b>Net Loss</b>	<b>\$ (532,978)</b>	<b>\$ (69,010)</b>	<b>\$ (699,325)</b>

	<b>From inception (April 3, 2023) to December 31, 2023</b>
Oil and gas revenue	\$ 270,279
Operating costs and expenses	
Lease operating	267,884
Production and ad valorem taxes	27,127
Depreciation, depletion, and amortization	60,430
Accretion	55
General and administrative	1,509,981
Total operating costs and expenses	1,865,477
Loss from operations	(1,595,198)
Other income (expense)	
Interest income	15,952
Interest expense	(224,730)
Total other income and expenses, net	(208,778)
Net loss	\$ (1,803,976)

See accompanying notes to the **consolidated** financial statements.

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**Equus Energy, Morgan E&P, LLC and Subsidiary**

**Consolidated Statements Statement of Changes in Member's (Deficit) EquityDeficit**

		<b>Total Member's (Deficit) Equity</b>
<b>Balance, January 1, 2020</b>		\$ 49,595
Capital conversion		561,000
Net loss		(699,325)
<b>Balance, December 31, 2020</b>		\$ (88,730)
Capital contribution		350,000
Net loss		(69,010)
<b>Balance, December 31, 2021</b>		\$ 192,260
Capital contribution		150,000
Net loss		(532,978)
<b>Balance, December 31, 2022</b>		\$ (190,718)
Balance as of April 3, 2023 (Inception)		<b>Total Member's (Deficit) Equity</b>
Net loss		—
Balance as of December 31, 2023		<u>(1,803,976)</u>
		<u><u>\$ (1,803,976)</u></u>

*See accompanying notes to the consolidated financial statements.*

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**Equus Energy, Morgan E&P, LLC and Subsidiary**  
**Consolidated Statements Statement of Cash Flows**

<b>Year Ended December 31,</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities</b>			
Net loss	\$ (532,978)	\$ (69,010)	\$ (699,325)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depletion, depreciation and amortization	1,914	—	18,949
Accretion expense	1,878	6,680	6,680
Gain on sale of oil and gas properties	—	(22,331)	—
Impairment of oil & gas properties	—	31,870	253,058
Changes in operating assets and liabilities:			
Accounts receivable	6,946	(137,685)	(11,654)
Prepaid expenses and other current assets	(11,824)	—	34,119
Accounts payable and accrued liabilities	7,290	(126,571)	146,311
<b>Net Cash Used in Operating Activities</b>	<b>(526,774)</b>	<b>(317,047)</b>	<b>(251,862)</b>
<b>Cash Flows from Investing Activities</b>			
Sales of oil and gas properties	—	22,331	—
Investment in oil and gas properties	(57,962)	(35,956)	(30,449)
<b>Net Cash Used in Investing Activities</b>	<b>(57,962)</b>	<b>(13,625)</b>	<b>(30,449)</b>
<b>Cash Flows from Financing Activities</b>			
Due to Parent	—	—	349,999
Capital contribution	150,000	350,000	—
<b>Net Cash Provided by Financing Activities</b>	<b>150,000</b>	<b>350,000</b>	<b>349,999</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>			
	(434,736)	19,328	67,688
<b>Cash and Cash Equivalents, beginning of year</b>	<b>640,127</b>	<b>620,799</b>	<b>553,111</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 205,391</b>	<b>\$ 640,127</b>	<b>\$ 620,799</b>
<b>Non-cash operating and financing activities:</b>			
Non-cash conversion of related party payable	\$ —	\$ —	\$ 561,000

	<b>From inception</b>	<b>(April 3, 2023)</b>	<b>through</b>	<b>December 31, 2023</b>
Cash flows from operating activities:				
Net loss			\$ (1,803,976)	
Adjustments to reconcile net loss to cash flows				
used in operating activities:				
Depreciation, depletion, amortization			60,430	
Amortization of right-of-use asset			11,629	
Accretion			55	
Changes in operating assets and liabilities:				
Revenue receivables			(463,844)	
Joint interest billings receivable			(290,926)	
Prepays and other current assets			(132,658)	
Accounts payable			85,035	
Revenue payable			220,692	

Prepayments from owners	1,700,955
Due to parent	12,994
Accrued liabilities	1,035,126
Net cash used in operating activities	435,512
 Cash flows from investing activities:	
Capital expenditures	(5,699,812)
Acquisition of oil and gas properties	(500,000)
Additions to other property, plant and equipment	(48,071)
Net cash used in investing activities	(6,247,883)
 Cash flows from financing activities:	
Proceeds from note payable - affiliate	8,253,098
Net cash provided by financing activities	8,253,098
 Net change in cash	2,440,727
Cash at beginning of period	—
 Cash at end of period	<u><u>\$ 2,440,727</u></u>
 Supplemental disclosure of cash flow information	
Non-cash investing and financing activities:	
Operating lease right-of-use assets additions	\$ (281,963)
Changes in capital accounts payable and capital accruals	\$ (4,181,182)
Prepayments applied to joint-interest receivables	\$ 1,579,032
Change in asset retirement obligations	\$ 3,792

*See accompanying notes to the **consolidated financial statements**.*

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### Morgan E&P, LLC

#### Equus Energy, LLC and Subsidiary Notes to Consolidated Financial Statements December December 31, 2022, 2021 and 2020

##### 1. Nature of Operations

Equus Energy, Morgan E&P, LLC ("Equus Energy" Morgan E&P" of the "Company") was formed in November 2011 April 2023 as a wholly-owned subsidiary of Equus Total Return, Inc. (the "Fund") to make investments in properties in the energy sector, with a particular emphasis on income-producing oil & gas properties. properties in the Williston Basin in North Dakota. In December 2011, May 2023, Morgan E&P and the Fund entered into a Note Purchase Agreement ("Note Purchase Agreement"), wherein the Fund agreed to provide a secured loan facility of up to \$10.0 million (see *Subsequent Events* below, where the facility was increased to \$10.5 million). In connection with the loan facility, the Fund made an initial contribution disbursement of \$250,000 \$15,000 to Equus Energy. On December 27, 2012, the Company for the acquisition of leasehold acreage within the Williston Basin and for working capital. Through the remainder of 2023, the Fund invested provided an additional \$6,800,000 in Equus Energy \$7,738,098 to Morgan E&P for the purpose purposes of additional working capital and to fund the purchase drilling and completion of various working interests, presently consisting of 136 producing and non-producing two operated horizontal oil and gas wells. The interests were acquired by EQS Energy Holdings, Inc., a taxable wholly-owned subsidiary of Equus Energy (Equus Energy and EQS Energy Holdings, Inc. are collectively referred to herein as wells in the "Company"). On September 30, 2020, we converted \$561,000 in related party payable to equity for the purpose of additional working capital. On June 30, 2021, the Fund provided an additional \$350,000 in capital to Equus Energy for the purpose of additional working capital. On December 31, 2022, the Fund provided an additional \$150,000 in capital to Equus Energy for the purpose of additional working capital Williston Basin.

Currently owned Morgan E&P's current working interests include associated development rights of approximately 21,520 5,693.97 net acres situated on 10 separate properties throughout three (3) counties in Texas and Oklahoma, North Dakota. The working interests range from a de minimis amount to 50% Company has granted Pro Energy I LLC, the seller of the leasehold that includes these wells. acreage rights and Morgan E&P's development partner, a 20% carried interest in the project after payment of operating expenses, with Morgan E&P paying all capital costs associated with drilling activity.

The wells are solely operated by a number of experienced operators, including Burk Royalty Co., LTD ("Burk"). Burk has operating responsibility for all of the Company's 40 producing well interests located in the Conger Field, an oil and gas field on the edge of the Permian Basin. The Company has a 50% working interest in each of the leases on which the wells are located, along with working interests of 7.5% and 2.5% in the Burnell and North Pettus Units, respectively, which collectively comprise approximately 13,000 acres located in the area known as the "Eagle Ford Shale" play. Morgan E&P.

#### **Liquidity & Going Concern**

The gradual recovery of the world economy following the Covid-19 pandemic, largely buoyed by fiscal and monetary stimulus, resulted in a strong recovery in energy prices through to the end of 2021, which continued through the second and third quarters of 2022. The buildup and subsequent invasion of Ukraine by Russian forces in February 2022 added additional impetus to short-term commodity price increases. Since the end of the second quarter of 2022, however, oil prices have largely retreated to pre-invasion levels. Natural gas has experienced even greater volatility in 2022, ranging from a high of \$6.50 per MMBTU to a low of \$4.48 per MMBTU during the year and, as of March 24, 2023, stands at \$2.22 per MMBTU.

As a result, Equus Energy could see future capital expenditures postponed indefinitely, which could have a material adverse effect upon the operations and long-term financial condition of Equus Energy. The substantial decrease in natural gas spot prices has had a similar effect upon Equus Energy's revenue. This decrease, as well as the shut-in of presently uneconomic wells due to low prices and excess demand has had, and is expected to continue to have, a material adverse effect on the present and near-term cash flows of Equus Energy. The factors discussed above, therefore, raise substantial doubt about Equus Energy's ability to continue as a going concern.

As of December 31, 2022, we had \$205,391 in available cash to fund operations for the next twelve months. Managements plan includes conserving existing cash. Additionally, Equus Total Return, Inc. has agreed to and will continue to provide financial support to Equus Energy for at least one year and one day past the date of this report and Equus Total Return has the ability and intent to provide the financial support. As such, in connection with continued support from Equus Total Return, management concluded this plan alleviate the substantial doubt that was raised about our ability to continue as a going concern for at least twelve months from the date the financial statements were issued.

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### **Future Plans and Considerations**

Our plans to further enhance liquidity, which were not considered for the purposes of our assessment of whether substantial doubt is alleviated, include (i) attempt to secure equity or debt financing from one or more institutional sources, which sources may include the Fund, a commercial lender, or other investors, (ii) request that its operators shut-in additional wells, (iii) sell certain of its oil and gas holdings, or (iv) undertake a combination of the foregoing. Our plans are subject to inherent risks and uncertainties, and, accordingly, there can be no assurance that our plans can be effectively implemented and, therefore, that the conditions can be effectively mitigated.

### 2. Summary of Significant Accounting Policies

#### **Basis of Presentation and Consolidation**

The accompanying **consolidated** financial statements are prepared on the accrual basis of accounting as codified in the Financial Standards Accounting Board's ("FASB") Accounting Standards Codification ("ASC") and include the accounts of the Company. **All significant intercompany balances and transactions have been eliminated.**

#### **Use of Estimates**

The preparation of **consolidated** financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the **consolidated** financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the **consolidated** financial statements.

Significant estimates include volumes of oil and natural gas reserves used in calculating depreciation and depletion of oil and gas properties, future net revenues, abandonment obligations, impairment of undeveloped unevaluated properties, the collectability of outstanding accounts receivable, receivables, contingencies, and the results of any potential current and future **litigation**. As of the end of the year and of this report date, there were known issues of collectability of amounts owed to the Company nor any outstanding litigation. Oil and natural gas reserve estimates, which are the basis for unit-of-production depreciation and depletion, and impairment have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Subsequent drilling results, testing, and production may justify revision of such estimates. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are sensitive to changes in wellhead prices of crude oil and natural gas.

The significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas. Future changes in these assumptions may affect these significant estimates materially in the near term.

### **Cash and Cash Equivalents** Morgan E&P, LLC

#### Notes to Financial Statements December 31, 2023

The Company considers cash **Revenue Receivables** and **cash equivalents to include all cash, time deposits, certificates of deposit, and all highly liquid instruments with original maturities of three months or less.**

#### **Joint Interest Billing Receivables**

Accounts receivable primarily **consists** **consist of accrued revenues** **revenue from oil and gas sales, sales and costs related to joint interest partners' working interest share.** The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company recognizes a reserve on a receivable when, based on the judgment of management, it is likely that a receivable will not be collected and the amount of any reserve may be reasonably estimated. No allowance for doubtful accounts credit losses was considered necessary as of December 31, 2022 and 2021. December 31, 2023.

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### **Oil and Gas Properties**

*The Company follows the full cost method of accounting for oil and gas properties. Under this method of accounting, all costs incurred for both successful and unsuccessful exploration and development activities, including salaries, benefits and other internal costs directly identified with these activities, and oil and gas property acquisitions are capitalized. All costs related to production, general corporate overhead or similar activities are expensed as incurred. Proved properties are amortized using the units of production method ("UOP"). The UOP calculation, in its simplest terms, multiplies the percentage of estimated proved reserves produced by the cost of those reserves. The amortization base in the UOP calculation includes the sum of proved property, net of accumulated depreciation, depletion and amortization ("DD&A"), estimated future development costs (future costs to access and develop reserves) and asset retirement costs that are not already included in oil and gas property, less related salvage value. In arriving at rates under the UOP method, the quantities of recoverable oil and natural gas reserves are established based on estimates made by the third-party geologists and engineers using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous twelve months, held flat for the life of the production, except where prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials which require significant judgment, as does the projection of future production volumes and levels of future costs, including future development costs. In addition, considerable judgment is necessary in determining when unproved properties become impaired and in determining the existence of proved reserves once a well has been drilled. All of these judgments may have significant impact on the calculation of depletion expense.*

*Under the full-cost method of accounting, the net book value of oil and gas properties may not exceed a calculated "ceiling." The ceiling limitation is the estimated future net cash flows from proved oil and gas reserves, discounted at ten percent per annum. Estimated future cash flows exclude future cash outflows associated with settling accrued asset retirement obligations. The estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous twelve months, held flat for the life of the production, except where prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials. Any excess of the net book value of proved oil and gas properties over the ceiling is charged to expense and reflected as additional impairment in the accompanying statements of operations. Based on calculated reserves at December 31, 2021 and 2020, the unamortized costs of the Company's oil and natural gas properties exceeded the ceiling test limit; therefore, Equus Energy recorded an impairment of \$31,870 and \$253,058 during the years ended December 31, 2021 and 2020. Equus Energy Morgan E&P did not record any impairment during the year ended December 31, 2022 period from inception (April 3, 2023) through December 31, 2023.*

*Proceeds from the sales or disposition of oil and gas of proved and unproved properties are accounted for as a reduction of capitalized costs with no gain or loss recognized, unless such reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case the gain or loss is recognized in the statement of operations. In general, a significant alteration occurs when the deferral of gains or losses will result in an amortization rate materially different from the amortization rate calculated upon recognition of gains or losses. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.*

*During the year ended December 31, 2021 On November 7, 2023, the Company had sales sold approximately 36.77% of certain properties within its working interests in the Needville Field in Fort Bend County, Texas. The first two (2) horizontal wells drilled, for \$100. Additionally, the Company evaluated the sales and the net book value received a prepayment of \$5,600,000 to be applied against future drilling costs related to the properties was fully written off Company's first two wells. The funds were held in prior periods. The Company recognized a gain of \$22,331 Company-controlled bank account and accounted for as prepayments from owners on the proceeds balance sheet. As capital expenditures are incurred, the amounts recorded on sale of the property. During Joint Interest Billings ("JIBs") are credited against the years ended December 31, 2022 and 2020, prepaid account until the Company had no sales of properties. full amount is realized.*

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### **Morgan E&P, LLC**

#### **Notes to Financial Statements December 31, 2023**

##### **Revenue Recognition**

*The Company recognizes revenue at the point in time when control of the promised goods is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted Accounting Standards Update ("ASU") services under ASU No. 2014-09, Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition ("ASC 605"), on January 1, 2019 using the modified retrospective transition method. The Company did not record a change to its opening retained earnings as of January 1, 2019 as there was no material change to the timing or pattern of revenue recognition due to the adoption of ASC 606.*

*The Company's revenue is generated primarily from the sale of oil, gas and natural gas liquids ("NGL") produced from working interests and to a lesser extent from royalty interests in oil and gas properties owned by the Company. As a working interest owner, the Company is responsible for the incurred production expenses proportionate to the interest stipulated in the operating agreement. As a non-operator, the operator, the Company does not manage manages the daily well operations which are borne and allocates the proportionate share of expenditures to each non-operated working interest owner through JIBs managed by the well operator, a third party accounting vendor. Sales of oil, gas and NGLs are recognized at the time control of the product is transferred to the customer, customer on a monthly basis.*

*Various arrangements amongst As the eleven different oil and gas properties all differ in some respects, although they do share the commonality that, as a non-operating working interest holder, operator, the Company does not engage in the selling process, but instead relies on the operator, as their selling agent, is responsible for negotiating and determining pricing, volume, and delivery terms, terms with its customers. Such pricing terms are often a function of a specified discount from the daily/monthly NYMEX or Henry Hub average. The discount is usually based on differentials such as distance of the field/wells from the distribution node or the buyer's storage facility, as well as the quality of the product itself (i.e., in the case of oil, its gravity).*

*Revenue is measured based on consideration specified in the contract with the customer and excludes any amounts collected on behalf of allocated to third parties, parties (royalty owners, non-operated working interest owners, unleased owners, etc.). The Company recognizes revenue in the amount that reflects the consideration it expects to be entitled to in exchange for transferring control of those goods to the customer. The contract consideration is typically allocated to specific performance obligations in the contract according to the terms of the contract. Each unit of oil or gas is considered a separate performance obligation under the contract. Wells are spot measured once a month hourly to determine production and the composition of each of the products (i.e. oil, gas, NGLs) from the well. Each month the consideration obtained by the operator is allocated to the related performance obligations.*

##### **Performance Obligations**

*A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenue is recognized when performance obligations are satisfied in accordance with contractual terms, in an amount that reflects the consideration the Company expects to be entitled to in exchange for services rendered.*

*Depending on the contract and commodity, there are various means by which upstream entities can transfer control (i.e., at the wellhead, inlet, tailgate of the processing plant, or a location where the product is delivered to a third party). The Operator has control of the commodity before it is extracted, therefore consideration must be given to whether the transfer of control of the commodity is to the operator or to the end customer at the point of sale.*

*Unless special arrangements are entered into, the Company's performance obligations are generally considered performed when control of the extracted commodity transfers when it is delivered to the end customer at the agreed-upon market or index price. At the end of each month, when the performance obligation is satisfied, the variable consideration can be reasonably estimated. Variances between the Company's estimated revenue and actual payments are recorded in the month the payment is received.*

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Morgan E&P, LLC

## Notes to Financial Statements December 31, 2023

### Contract Balances

Receivables from contracts with customers are recorded when the right to consideration becomes unconditional, which generally occurs when control of the product has been transferred to the customer. Under the terms of the Company's contract with As the operator, the operator Company processes invoices to the liable parties non-operator working interest owners and makes appropriate payments to the vendors, working interest owners, owners, royalty owners, and other contracted parties. Other than trade receivables, the Company's contracts do not give rise to contract assets or liabilities under ASC 606.

### Principal vs. Agent

ASC 606 focuses on control of the specified goods and services as the overarching principle for entities to consider when determining whether they are acting as a principal or an agent.

An entity acting as a principal records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent if it does not control the promised good or service before transfer to the customer. If the entity is an agent, it records as revenue the net amount it retains for its agency services. However, due to the uncertainty of the variable pricing component and the separation of expenses billed to the Company from the consideration processed and paid by the operator, the revenue is recorded at net.

Under the Company's normal operating activity arrangements, the Company, as operator, is responsible for negotiating, fulfilling and collecting the agreed-upon amount from the sale with the end customer and is, therefore, determined to be acting as agent on behalf of the Company, principal. The principal versus agent consideration will continue to be assessed for new contracts, both within and outside the company's Company's normal operating activities.

### Major Customers and Concentration of Credit Risk

In the exploration, development and production business, production is normally sold to relatively few customers. Substantially all All of the Company's customers are concentrated in the oil and natural gas industry and revenue can be materially affected by current economic conditions, the price of certain commodities such as crude oil and natural gas and the availability of alternate purchasers. The Company believes the loss of any of its major purchasers would not have a long-term material adverse effect on its operations.

### Environmental Expenditures

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed.

Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments for the liability or component is fixed or reliably determinable. No such liabilities existed or were recorded at December 31, 2022 and 2021. December 31, 2023.

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### **Asset Retirement Obligations**

The initial estimated asset retirement obligation related to property and equipment is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property and equipment on the consolidated balance sheet. If any of the assumptions used in determining the fair value of the recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from changes in estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of an asset's retirement. Asset retirement costs are depreciated using a systematic and rational method similar to that used for the associated property and equipment. Accretion on the liability is recognized over the estimated productive life of the related assets. Accretion expense for the years ended December 31, 2022, 2021 and 2020 were \$1,878, \$6,680, and \$6,680, respectively. December 31, 2023 was \$55.

### **Morgan E&P, LLC**

#### **Notes to Financial Statements December 31, 2023**

### **Leases**

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize on the balance sheet a right of use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months and the use of practical expedient for leases less than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect. The new guidance was adopted effective January 1, 2022. The adoption of ASU 2016-02 did not have an impact on our financial statements as we currently have no operating or finance leases. its office space located in Centennial, Colorado.

### **Income Taxes**

The Company is a single member limited liability company that has elected to be taxed as a corporation under Subchapter C of the Internal Revenue Code. For state tax purposes, EQS Energy Holdings, Inc. files the Company will file a combined Texas franchise margin tax filing with its direct parent, Equus Energy, LLC along with its ultimate parent Equus Total Return, Inc. However, Equus Energy, LLC is disregarded as an entity separate from its owner for U.S. federal income tax purposes, and its activity is reported by Equus Total Return, Inc.

EQS Energy Holdings, Inc., conversely, is a taxable C-corporation that is not included in either the tax returns for Equus Energy, LLC or Equus Total Return, Inc. under U.S. federal income tax principles, and accordingly files a separate corporate income tax return. related affiliates.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the consolidated financial statements.

Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records deferred tax assets to the extent the Company believes these assets will more-likely-than-not be realized. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be made which would reduce the provision for income taxes.

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ASC Topic 740-10, *Income Taxes*, provides that a tax benefit from an uncertain position may be recognized in the financial statements when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. This guidance also addresses measurement, derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. The Company has no material uncertain tax positions in its prior or current filings.

### Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The guidance aims to improve the effectiveness of income tax disclosures primarily through improvements to the income tax rate reconciliation disclosure along with information on income taxes paid. The guidance is effective for the Company for fiscal years beginning after December 15, 2025 with early adoption permitted. We are currently evaluating the impact of this standard.

## Morgan E&P, LLC

### Notes to Financial Statements December 31, 2023

#### 3. Note Payable – Due to Parent

The Company maintains a credit agreement with its parent organization, as amended, which provides for a maximum credit amount of \$10.0 million, which may be further increased. As of December 31, 2023, the Company had outstanding borrowings under the credit agreement of \$8,253,098 and \$1,746,902 available for future borrowings. The interest rate on borrowings under the credit agreement was 12.0% for the year ended December 31, 2023. During the first quarter of 2024, the Company requested, and the lender amended, its credit agreement to increase the facility by \$500,000 for a total of \$10,500,000. The payment terms of the credit agreement is the entire principal amount, together with all accrued but unpaid interest, shall be due and payable on the three-year anniversary date (the "Maturity Date"), which is May 12, 2026. The credit agreement is collateralized by all assets held by the Company and there are no covenants required by the lender, which is an affiliate.

#### 3.4. Oil and Gas Properties

Oil and gas properties as of December 31, 2022 and 2021 December 31, 2023 consist of the following:

	2022	2021	2023
Properties being depleted	\$ 8,154,872	\$ 8,096,910	\$ 10,384,786
Less: accumulated depreciation, depletion and impairment	8,094,738	8,092,824	(58,716)
<b>Oil and gas properties, net</b>	<b>\$ 60,134</b>	<b>\$ 4,086</b>	<b>\$ 10,326,070</b>
Oil and gas properties, net - full cost method			

#### 4.5. Asset Retirement Obligations

The fair value of a liability for Asset Retirement Obligations ("ARO") is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made, and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, an adjustment is made to the full cost pool, with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves. The Company has estimated its future ARO with respect to its operations. The ARO assets, which are carried on the balance sheet as part of the full cost pool, have been included in the Company's amortization base for the purposes of calculating depreciation, depletion and amortization expense.

The Company estimates the initial fair value of its ARO based on discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, amounts and timing of settlements; the credit-adjusted risk-free rate to be used; and inflation rates. The Company's initial recording of AROs are Level 3 fair value measurements.

The following summarizes the changes in the asset retirement obligation during the years ended December 31, 2022 and 2021: period from inception (April 3, 2023) through December 31, 2023:

	2022	2021
Balance, beginning of year	\$ 214,419	\$ 207,739
Accretion, net of settlements	1,878	6,680
<b>Balance, end of year</b>	<b>\$ 216,297</b>	<b>\$ 214,419</b>
Period from April 3, 2023 (Inception) to December 31, 2023		
Asset retirement obligation at beginning of period	\$ —	
Obligations incurred		3,792
Accretion expense		55
Asset retirement obligations at end of period	\$ 3,847	



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# Morgan E&P, LLC

## Notes to Financial Statements

### December 31, 2023

#### 5.6. Fair Value Measurements

**Equus Energy** Morgan E&P uses various inputs in determining the fair value of certain assets and liabilities. ASC 820, *Fair Value Measurements and Disclosures*, ASC 820, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy under ASC 820, including the types of Company assets or liabilities that fall under each category and the valuation methodologies used to measure fair value, are described below:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2* - Inputs to the methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the assets or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* - Inputs to the valuation methodology are unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The inputs and methodology used for valuing the Company's assets and liabilities are not indicators of the risks associated with those assets and liabilities.

The following is a description of the valuation methodology used for assets and liabilities measured at fair value:

*Asset retirement obligation at initial recognition:* **the** The Company's ARO is based on the present value of future estimated cash flows, using a credit-adjusted **risk free** **risk-free** discount rate and has been categorized under ASC 820 as a Level 3 fair value assessment.

The Company's financial instruments consist primarily of cash, **and cash equivalents**, accounts receivable, accounts payable and other current liabilities and amounts due to parent. The carrying amounts of accounts receivable, accounts payable and other current liabilities and amounts due to parent are representative of their respective fair values due to short-term maturity of these instruments.

#### 6.7. Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and receivables. The Company maintains its cash with a financial institution it believes has high credit quality. The Company at times maintains bank deposits in excess of **insured** limits. The possibility of a loss exists if the bank holding excess deposits were to fail. Trade receivables result from oil and gas sales to a small number of **purchasers**, **purchasers and cost-sharing amounts of operating and capital costs billed to partners for properties operated by the Company**. To mitigate this credit risk, the Company closely monitors the payment history and credit worthiness of each customer.

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**Morgan E&P, LLC**

**Notes to Financial Statements  
December 31, 2023**

**7.8. Legal Matters and Contingencies**

***Litigation and Other Legal Matters***

In the normal course of business, the Company may be party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, employees and other matters. Although the outcome of any pending legal proceedings is unknown, the Company believes that any liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on the Company's **consolidated** financial positions, results of operations or liquidity.

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a loss contingency indicates that it is probable that a loss has been incurred and the amount of the liability can be reasonably estimated, then the estimated liability is accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. The Company expenses legal costs associated with contingencies as incurred.

***Environmental Contingencies***

The Company's activities are subject to local, state and federal laws and regulations governing environmental quality and pollution control in the United States. The exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing natural gas and other products, are subject to stringent environmental regulation by state and federal authorities, including the Environmental Protection Agency ("EPA"). Such regulation can increase our cost of planning, designing, installing and operating such facilities.

Significant fines and penalties may be imposed for the failure to comply with environmental laws and regulations. Some environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, such as oil and natural gas related products.

At the present time, the Company believes that none of the environmental laws materially hinder nor adversely affect the Company business. The Company believes it has abided by and is currently in compliance with all applicable environmental laws.

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Morgan E&P, LLC

Notes to Financial Statements  
December 31, 2023

**8.9. Income Taxes**

The provision for income taxes for the years ended December 31, 2022, 2021, and 2020 consisted of the following:

Years Ended December 31,	2022	2021	2020
Current (expense) benefit:			
Federal	\$ (85,267)	\$ (31,201)	\$ 120,340
State	(2,198)	(1,040)	537
<b>Total current (expense) benefit</b>	<b>(87,465)</b>	<b>(32,241)</b>	<b>120,877</b>
Deferred (expense) benefit:			
Federal	86,550	31,419	(120,453)
State	915	822	(424)
<b>Total deferred (expense) benefit</b>	<b>87,465</b>	<b>32,241</b>	<b>(120,877)</b>
Total benefit (expense):			
Federal	1,283	218	(113)
State	(1,283)	(218)	113
<b>Total benefit (expense)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The components of the net deferred tax assets (liabilities) in the Company's balance sheets were as follows:

As of December 31,	2022	2021
Deferred tax assets:		
Properties	\$ 715,154	\$ 747,565
Asset retirement obligation	45,422	45,028
State taxes	25,541	26,699
Net operating loss carryforwards	412,997	462,975
<b>Total deferred tax assets</b>	<b>1,199,113</b>	<b>1,282,267</b>
Valuation allowance	(1,193,749)	(1,276,660)
Deferred tax assets after valuation allowance	5,364	5,607
Deferred tax liabilities:		
State tax deduction	\$ (5,364)	\$ (5,607)
As of December 31,	2023	
Deferred tax assets:		
Asset retirement obligation	\$ 808	
Net operating loss carryforwards	2,343,725	
Other	15,105	
<b>Total Deferred Tax Assets</b>	<b>2,359,638</b>	
Valuation allowance	(378,285)	
Deferred Tax Assets after Valuation Allowance	1,981,353	
Deferred tax liabilities:		
Oil & Gas Properties	\$ (1,981,353)	
<b>Total Deferred Tax Liabilities</b>	<b>(1,981,353)</b>	
<b>Total net deferred tax assets (liabilities)</b>		<b>—</b>

The provision for income taxes varies from the maximum federal statutory rate of 21% for the years ended December 31, 2022, December 31, 2023, 2021, and 2020, respectively, as follows:

Years Ended December 31,	2022	2021	2020	2023
<i>Income tax expense (benefit) at federal statutory rate</i>	\$ (111,925)	\$ (9,938)	\$ (146,858)	\$ (378,835)

<i>Effect of state income taxes</i>	915	822	(424)
<i>Non-deductible Equus Energy, LLC loss</i>	198,476	41,357	26,405
<i>Non-deductible Meals</i>			550
<i>Change in valuation allowance</i>	(87,465)	(32,241)	120,877
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 378,285</b>

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Deferred income tax assets and liabilities are recorded based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. For the tax years year ended December 31, 2022 December 31, 2023, and 2021, the Company's U.S Federal statutory tax rate was 21% 21%. The Company is also subject to the Texas Gross Margin tax of .75% of modified taxable income as determined for Texas purposes. This combination results in a marginal blended tax rate of approximately 21.6% 21.6%.

At each of December 31, 2022 and 2021, December 31, 2023, the tax effected amount of U.S. Federal net operating loss carryforwards ("NOLs") totaled \$412,997 and \$462,975, respectively. \$2,343,725. While these NOLs have no expiration period, they are subject to certain taxable income limitations in the future.

The Company has determined, after weighing both positive and negative evidence, that the net deferred tax asset (DTA) for the Company is not more-likely-than-not to be realizable. Therefore, a valuation allowance of \$1,193,749 and \$1,276,660 were \$378,285 was established at December 31, 2022 and 2021, respectively, December 31, 2023, to completely offset the net DTA in existence at each year end.

During the current period, the Company has estimated a minimal amount of taxable income. However, this amount is fully offset with NOLs carried forward from years that have not expired and are useable currently without limitation. loss. As such, the Company has not recorded any current income tax expense for the period.

As of December 31, 2022, December 31, 2023 the Company has not recorded determine there were no uncertain tax positions. Thus a reserve for uncertain tax positions. positions has not been recorded.

## Morgan E&P, LLC

### Notes to Financial Statements

December 31, 2023

#### 9.10. Leases

The Company determines if an arrangement is a lease at inception of the contract. If an arrangement is a lease, the present value of the related lease payments is recorded as a liability, and an equal amount is capitalized as a right-of-use asset on the Company's consolidated balance sheets. The Company elected to include payments for non-lease components associated with certain leases when determining the present value of the lease payments. Right-of-use assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The Company's estimated incremental borrowing rate, determined at the lease commencement date, is used to calculate present value. The incremental annual borrowing rate used for the year ended December 31, 2023 was 12.00% for operating leases (there were no financing leases). For these purposes, the lease term includes options to extend the lease when it is reasonably certain that the Company will exercise such options. Leases with terms of 12 months or less at inception are not recorded on the balance sheet unless there is a significant cost to terminate the lease, including the cost of removal of the leased asset. As the Company is the responsible party under these arrangements, the Company records the resulting assets and liabilities on a gross basis on its balance sheet.

During the period from inception (April 3, 2023) to December 31, 2023, the Company entered into one operating lease. Lease expense related to this lease is \$11,630 for that period and is included in the "General and administrative" line on the statement of operations. The remaining lease term for the lease is 5.25 years. The lease does not include a clause for extension, therefore any desired future occupation of the leased premises by the Company would be negotiated and completed under a new agreement with the Landlord. The Company may terminate the lease in the ordinary course of business, but would still be liable for payments on the remaining lease term. The only option the Company has to terminate the lease early would be in the event the property incurred significant damage that would require the premises to undergo restoration in excess of fifteen (15) months, which then the Company would need to provide a thirty (30) notice to terminate the lease.

The following table presents a schedule of future minimum lease payments required under the lease agreement as of December 31, 2023.

	December 31, 2023 Operating Lease
For the year ending December 31, 2024	\$ 54,564
For the year ending December 31, 2025	73,974
For the year ending December 31, 2026	75,268
For the year ending December 31, 2027	76,562
For the year ending December 31, 2028	77,856
Thereafter	19,732
Total lease payments	<hr/> \$ 377,956
Less imputed interest	(95,993)
Total lease obligations	281,963
Less current obligations	(27,859)
Long-term lease obligation	<hr/> \$ 254,104

## Morgan E&P, LLC

### Notes to Financial Statements December 31, 2023

#### 11. Asset Acquisition

On May 12, 2023, the Company entered into a Purchase and Sale Agreement ("PSA") to acquire the lease rights to 6,705.52 net acres in the Williston Basin from a private party (the "Seller"). In exchange for the rights to the leases, the Company paid the Seller a one-time payment of \$500,000 at closing. There were no other assets nor liabilities included with the acquisition. The Company has recorded the acquisition at cost on the balance sheet. The asset acquired does not meet the definition of a business as the asset is merely leases provided for the right to drill for hydrocarbons within a specified timeframe.

#### 12. Subsequent Events

The Company evaluates events and transactions occurring after the balance sheet date but before the financial statements are available to be issued. The Company evaluated such events and transactions through **March 28, 2023** **April 1, 2024**, the date the **consolidated** financial statements were available for issuance.

On February 26, 2024, the Company and the Fund entered into an amendment of the Note Purchase Agreement and increased the amount of the loan facility provided by the Fund from \$10.0 million to \$10.5 million.

Subsequent to December 31, 2023, the Company drew an additional \$2.2 million under its loan facility with the Fund, resulting in an aggregate of \$10.5 million drawn thereunder.

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