

ASCENT RESOURCES UTICA HOLDINGS, LLC

Condensed Consolidated Financial Statements (Unaudited)

As of September 30, 2022 and December 31, 2021 and for the Three and Nine Months Ended September 30, 2022 and 2021.

ASCENT RESOURCES UTICA HOLDINGS, LLC
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GLOSSARY OF COMMONLY USED TERMS

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

“2022 Notes” means 10.00% senior unsecured notes due 2022.

“2025 Second Lien Term Loans” means second lien term loans due 2025.

“2026 Notes” means 7.00% senior unsecured notes due 2026.

“2027 Notes” means 9.00% senior unsecured notes due 2027.

“2028 Notes” means 8.25% senior unsecured notes due 2028.

“2029 Notes” means 5.875% senior unsecured notes due 2029.

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

“*bbls/d*” means barrels of crude oil, condensate or NGL per day.

“*bcf*” means billion cubic feet of natural gas.

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

“*bcfe/d*” means billion cubic feet of natural gas equivalent per day.

“*btu*” means British thermal units, a measure of heating value.

“*Credit Facility*” means our senior secured revolving credit facility.

“*Convertible Notes*” means convertible notes due 2021.

“*DD&A*” means depreciation, depletion and amortization.

“*gross*” means:

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

“*LIBOR*” means London Interbank Offered Rate.

“*mbbls*” means thousand barrels of crude oil, condensate or NGL.

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

“*mcf*” means thousand cubic feet of natural gas.

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

“*mmbtu*” means million British thermal units.

“*mmbtu/d*” means million British thermal units per day.

“*mmcf*” means million cubic feet of natural gas.

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

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

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

“*net*” means:

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

“*NGL*” means natural gas liquids.

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

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

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

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

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

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

“*SOFR*” means Secured Overnight Financing Rate.

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

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

“*WTI*” means West Texas Intermediate.

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

<i>(\$ in thousands)</i>	September 30, 2022	December 31, 2021
Current Assets:		
Cash and cash equivalents	\$ 8,124	\$ 5,674
Accounts receivable – natural gas, oil and NGL sales ^(a)	769,425	453,464
Accounts receivable – joint interest and other	36,719	8,309
Short-term derivative assets	4,076	6,866
Other current assets	9,974	9,012
Total Current Assets	828,318	483,325
Property and Equipment:		
Natural gas and oil properties, based on successful efforts accounting	10,331,895	9,383,879
Other property and equipment	39,014	36,318
Less: accumulated depreciation, depletion and amortization	(3,719,561)	(3,225,844)
Property and Equipment, net	6,651,348	6,194,353
Other Assets:		
Long-term derivative assets	2,469	522
Other long-term assets	49,097	46,241
Total Assets	\$ 7,531,232	\$ 6,724,441
Current Liabilities:		
Accounts payable	\$ 72,981	\$ 86,812
Accrued interest	57,060	45,929
Short-term derivative liabilities	1,635,824	648,873
Other current liabilities ^(b)	683,588	517,953
Total Current Liabilities	2,449,453	1,299,567
Long-Term Liabilities:		
Long-term debt, net	2,909,287	2,588,248
Long-term derivative liabilities	996,375	435,022
Other long-term liabilities	109,118	104,796
Total Long-Term Liabilities	4,014,780	3,128,066
Commitments and contingencies (Note 11)		
Member's Equity	1,066,999	2,296,808
Total Liabilities and Member's Equity	\$ 7,531,232	\$ 6,724,441

- (a) Including related party accounts receivable - NGL sales of \$15.3 million and \$20.5 million as of September 30, 2022 and December 31, 2021, respectively.
- (b) Including related party other current liabilities of \$104.2 million and \$96.5 million as of September 30, 2022 and December 31, 2021, respectively.

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

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

<i>(\$ in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Revenues:				
Natural gas	\$ 1,625,516	\$ 656,562	\$ 3,653,047	\$ 1,534,239
Oil	52,715	43,480	184,684	136,235
NGL ^(a)	54,759	64,888	192,314	172,749
Commodity derivative loss	(1,100,991)	(1,512,044)	(3,680,972)	(2,276,477)
Total Revenues	631,999	(747,114)	349,073	(433,254)
Operating Expenses:				
Lease operating expenses	26,826	21,099	74,019	59,323
Gathering, processing and transportation expenses ^(b)	258,868	244,668	734,943	704,364
Taxes other than income	12,728	9,928	34,150	29,316
Exploration expenses	15,365	22,274	45,789	57,306
General and administrative expenses	26,535	13,885	53,635	42,977
Depreciation, depletion and amortization	192,484	151,902	494,534	439,121
Total Operating Expenses	532,806	463,756	1,437,070	1,332,407
Income (Loss) from Operations	99,193	(1,210,870)	(1,087,997)	(1,765,661)
Other Income (Expense):				
Interest expense, net	(57,553)	(44,996)	(152,305)	(127,806)
Change in fair value of contingent payment right	3,656	(1,544)	(1,347)	(20,328)
Losses on purchases or exchanges of debt	—	—	—	(3,822)
Other income	1,244	975	2,029	1,320
Total Other Expense	(52,653)	(45,565)	(151,623)	(150,636)
Net Income (Loss)	\$ 46,540	\$ (1,256,435)	\$ (1,239,620)	\$ (1,916,297)

- (a) Including related party NGL revenues of \$22.7 million, \$29.8 million, \$78.9 million and \$81.3 million for the three and nine months ended September 30, 2022 and 2021, respectively.
- (b) Including related party gathering, processing and transportation expenses of \$171.4 million, \$158.5 million, \$483.4 million and \$462.7 million for the three and nine months ended September 30, 2022 and 2021, respectively.

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

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

<i>(\$ in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Balance, Beginning of Period	\$ 1,011,545	\$ 2,441,479	\$ 2,296,808	\$ 3,102,590
Contributions from Member	8,914	816	13,965	2,801
Distributions to Member	—	—	(4,154)	(3,234)
Net income (loss)	46,540	(1,256,435)	(1,239,620)	(1,916,297)
Balance, End of Period	\$ 1,066,999	\$ 1,185,860	\$ 1,066,999	\$ 1,185,860

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

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

	Nine Months Ended	
	September 30,	
<i>(\$ in thousands)</i>	2022	2021
Cash Flows from Operating Activities:		
Net loss	\$ (1,239,620)	\$ (1,916,297)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	494,534	439,121
Loss on commodity derivatives	3,680,972	2,276,477
Settlements of commodity derivatives	(1,528,811)	(278,112)
Impairment of unproved natural gas and oil properties	44,118	53,458
Non-cash interest expense	11,541	13,734
Stock-based compensation	13,965	2,801
Change in fair value of contingent payment right	1,347	20,328
Losses on purchases or exchanges of debt	—	3,810
Other	78	104
Changes in operating assets and liabilities	(177,753)	(59,964)
Net Cash Provided by Operating Activities	1,300,371	555,460
Cash Flows from Investing Activities:		
Natural gas and oil capital expenditures	(735,687)	(441,486)
Cash paid for acquisition	(250,882)	—
Additions to other property and equipment	(1,537)	(329)
Net Cash Used in Investing Activities	(988,106)	(441,815)
Cash Flows from Financing Activities:		
Proceeds from Credit Facility borrowings	3,520,000	1,250,000
Repayment of Credit Facility borrowings	(3,210,000)	(1,660,000)
Proceeds from issuance of long-term debt	—	400,000
Repayment of long-term debt	—	(84,173)
Cash paid for debt issuance costs	(16,852)	(7,221)
Settlements of commodity derivatives	(297,911)	(11,188)
Cash paid to restructure commodity derivatives	(300,000)	—
Other	(5,052)	(3,852)
Net Cash Used in Financing Activities	(309,815)	(116,434)
Net Increase (Decrease) in Cash and Cash Equivalents	2,450	(2,789)
Cash and Cash Equivalents, Beginning of Period	5,674	8,843
Cash and Cash Equivalents, End of Period	\$ 8,124	\$ 6,054
Supplemental disclosures of cash flow information:		
Interest paid, net of capitalized interest	\$ 129,514	\$ 94,436
Supplemental disclosures of significant non-cash investing activities:		
Increase in accrued capital expenditures	\$ 1,493	\$ 41,863

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

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

Our accompanying unaudited condensed consolidated financial statements and notes were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, and intercompany accounts and balances have been eliminated. Accordingly, certain information and disclosures normally included in complete consolidated financial statements prepared in accordance with GAAP have been omitted. The unaudited condensed consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2021.

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

Reclassifications

Certain immaterial reclassifications have been made to our September 30, 2021 condensed consolidated financial statements to conform to the presentation used for the September 30, 2022 condensed consolidated financial statements.

Adopted and Recently Issued Accounting Pronouncements

No accounting standards were issued or adopted during the nine months ended September 30, 2022 that had a material impact on our condensed consolidated financial statements.

Subsequent Events

As of November 9, 2022, the date the condensed consolidated financial statements were issued, we completed our evaluation of material subsequent events for disclosure, and no items were noted.

2. Revenue from Contracts with Customers

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

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

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

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

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

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

Under our sales contracts, customers are invoiced after our performance obligations have been satisfied, generally when control of the product has been transferred to the customer, at which point payment is unconditional. Accordingly, we have no contract assets or contract liabilities associated with our revenues from contracts with customers. As of September 30, 2022 and December 31, 2021, receivables from contracts with customers were \$769.4 million and \$453.5 million, respectively, and were reported in accounts receivable – natural gas, oil and NGL sales on the condensed consolidated balance sheets.

3. Acquisition

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

4. Property and Equipment

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

<i>(\$ in thousands)</i>	September 30, 2022	December 31, 2021
Proved natural gas and oil properties	\$ 9,632,912	\$ 8,560,861
Unproved natural gas and oil properties	698,983	823,018
Other property and equipment	39,014	36,318
Total Property and Equipment	10,370,909	9,420,197
Accumulated depreciation, depletion and amortization	(3,719,561)	(3,225,844)
Property and Equipment, net	<u>\$ 6,651,348</u>	<u>\$ 6,194,353</u>

5. Debt

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

<i>(\$ in thousands)</i>	September 30, 2022	December 31, 2021
Credit Facility ^(a)	\$ 805,000	\$ 495,000
Second lien term loans due November 2025 ^(b)	549,822	549,822
7.00% senior notes due November 2026	600,000	600,000
9.00% senior notes due November 2027	348,294	348,294
8.25% senior notes due December 2028	300,000	300,000
5.875% senior notes due June 2029	400,000	400,000
Net debt issuance costs	(12,435)	(13,675)
Net debt discounts	(81,394)	(91,193)
Total Long-Term Debt, net	<u>\$ 2,909,287</u>	<u>\$ 2,588,248</u>

(a) The interest rate was 4.94% and 2.35% as of September 30, 2022 and December 31, 2021, respectively.

(b) The interest rate was 11.46% and 10.00% as of September 30, 2022 and December 31, 2021, respectively.

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

Credit Facility

On June 30, 2022, we amended our credit agreement (the “Amendment”) to increase the borrowing base under our Credit Facility from \$2.5 billion to \$3.0 billion, and to increase the elected commitment from \$1.85 billion to \$2.0 billion, of which \$250.0 million is authorized for letters of credit. The maturity date was extended from April 1, 2024 to June 30, 2027, which will accelerate to August 2, 2026 if an amount greater than or equal to \$150.0 million of the 2026 Notes are outstanding as of that date. The Credit Facility is secured by liens on substantially all of our assets, including our natural gas and oil properties. The borrowing base under our Credit Facility is subject to a semiannual redetermination on or about April 1 and October 1 of each year primarily based on the estimated value and future net cash flows of our proved natural gas, oil and NGL reserves and the value of our commodity hedge positions as determined by lenders under the Credit Facility at their discretion. Additionally, we may request an interim redetermination of the borrowing base in certain circumstances, including acquisitions of proved reserves in excess of certain thresholds. As of September 30, 2022, we had \$805.0 million of borrowings outstanding and \$169.2 million of letters of credit issued under the Credit Facility.

Under the Credit Facility agreement, we may borrow either term benchmark loans or alternate base rate loans, and as of September 30, 2022, all of the borrowings under the Credit Facility were term benchmark loans. Term benchmark loans bear interest at a rate per annum equal to the term SOFR plus 0.10%, plus an applicable margin ranging from 2.00% to 3.00% per annum based on Credit Facility utilization. Principal amounts borrowed are payable on the maturity date and may be repaid prior to the maturity date without any premium or penalty. Interest is payable at the end of the applicable interest period. We were subject to a weighted average rate of 4.94% per annum as of September 30, 2022. Prior to the Amendment, the Credit Facility agreement provided for borrowing either alternate base rate loans or Eurodollar loans, and prior to June 30, 2022, all of the borrowings under the Credit Facility were Eurodollar loans.

Under the Credit Facility agreement, we are subject to commitment fees payable to the administrative agent for the unutilized portion of our available elected commitment, the rate of which ranges from 0.375% to 0.50% based on Credit Facility utilization. Additionally, we are subject to letter of credit participation fees payable to the administrative agent which escalate based on applicable margins, ranging from 2.00% to 3.00% per annum, in accordance with the Credit Facility utilization. We are also subject to a letter of credit fronting fee that is payable to the issuing bank at a rate of 0.125% per annum of the balance of outstanding letters of credit issued.

We had \$22.3 million and \$11.0 million in unamortized debt issuance costs associated with the Credit Facility as of September 30, 2022 and December 31, 2021, respectively, which are presented as part of other long-term assets on the condensed consolidated balance sheets. We recorded a loss of \$2.0 million for the nine months ended September 30, 2022 associated with the write off of certain deferred charges related to the Amendment, which is included in interest expense on the condensed consolidated statements of operations.

Second Lien Term Loans

Our 2025 Second Lien Term Loans mature on November 1, 2025, and interest is payable quarterly at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor. Due to the 3-month LIBOR being 2.46% for the applicable interest period, we were subject to a rate of 11.46% per annum as of September 30, 2022. The 2025 Second Lien Term Loans are secured by second liens on substantially all of our assets, including our natural gas and oil properties. Our obligations under the 2025 Second Lien Term Loans are fully and unconditionally guaranteed, jointly and severally, by our current material subsidiaries and will be so guaranteed by any of our future material subsidiaries. We may redeem some or all of the 2025 Second Lien Term Loans at redemption prices ranging from 105.00% to 100.00% at any time on or after April 13, 2023. At any time prior to April 13, 2023, we may redeem some or all of the 2025 Second Lien Term Loans at a price of 100.00% plus a make-whole premium (as defined in the term loan credit agreement), and we may redeem up to 40% of the aggregate principal amount of 2025 Second Lien Term Loans at a price of 105.00% with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Upon the occurrence of a change of control (as defined in the term loan credit agreement), we are required to offer to repurchase all or any part of the 2025 Second Lien Term Loans at a price of 101.00%, plus accrued and unpaid interest.

Senior Notes

2026 Notes. Our 2026 Notes mature on November 1, 2026, and interest is payable on May 1 and November 1 of each year. We may redeem some or all of the 2026 Notes at redemption prices ranging from 103.50% to 100.00%, plus accrued and unpaid interest to, but excluding, the redemption date. Upon the occurrence of a change of control (as defined in the indenture), we are required to offer to repurchase all or any part of the 2026 Notes at a price of 101.00%, plus accrued and unpaid interest.

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

2027 Notes. Our 2027 Notes mature on November 1, 2027, and interest is payable on May 1 and November 1 of each year. Unless and until a Triggering Event (as defined below) has occurred and we have paid all consideration payable in respect thereof, we may redeem some or all of the 2027 Notes (i) at any time prior to November 1, 2026, subject to a make-whole premium (as defined in the indenture) and (ii) on or after November 1, 2026, at a redemption price equal to 100.00% of the principal amount of 2027 Notes to be redeemed, in each case plus accrued and unpaid interest to, but excluding, the redemption date. If a Triggering Event has occurred and we have paid all consideration payable in respect thereof, we may redeem some or all of the 2027 Notes (i) at any time prior to November 1, 2023, subject to a make-whole premium and (ii) on or after November 1, 2023, at redemption prices ranging from 104.50% to 100.00%, in each case plus accrued and unpaid interest to, but excluding, the redemption date. Upon the occurrence of a change of control (as defined in the indenture), we are required to offer to repurchase all or any part of the 2027 Notes at a price of 101.00%, plus accrued and unpaid interest.

The 2027 Notes also contain a contingent payment right which entitles the holders to receive a fixed amount of cash or equity ranging from 35% to 45% of the then-outstanding aggregate principal amount of 2027 Notes, if certain triggering events (each a “Triggering Event”) occur. Triggering Event is defined to include a qualified public offering, a qualified merger or consolidation that results in our Parent’s equity holders receiving an equity interest that is listed or quoted on any national securities exchange, or a change of control. The amount paid to holders of the 2027 Notes in connection with the contingent payment right is dependent upon the timing of the first occurrence of such a Triggering Event. The contingent payment right is required to be bifurcated and accounted for at fair value, and the estimated fair value was \$86.6 million and \$85.2 million as of September 30, 2022 and December 31, 2021, respectively, and is presented as part of other long-term liabilities on the condensed consolidated balance sheets. See Note 7, *Contingent Payment Right*, for further discussion of the contingent payment right valuation. In certain instances, the contingent payment right may be replaced by a Contingent Value Right (“CVR”), which entitles the holder of the CVR to the same fixed amount of consideration upon a Triggering Event despite no longer holding the associated 2027 Notes. However, if the 2027 Notes are voluntarily sold to us prior to a Triggering Event through means of open market transactions or other negotiated transactions, the contingent payment right will expire.

2028 Notes. Our 2028 Notes mature on December 31, 2028, and interest is payable on February 1 and August 1 of each year. The net proceeds were used to repay a portion of the borrowings outstanding under the Credit Facility. We may redeem some or all of the 2028 Notes at redemption prices ranging from 104.125% to 100.00% at any time on or after February 1, 2024, plus accrued and unpaid interest to, but excluding, the redemption date. At any time prior to February 1, 2024, we may redeem some or all of the 2028 Notes at a price of 100.00% plus a make-whole premium (as defined in the indenture), and we may redeem up to 40% of the aggregate principal amount of 2028 Notes at a price of 108.25% with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Upon the occurrence of a change of control (as defined in the indenture), we are required to offer to repurchase all or any part of the 2028 Notes at a price of 101.00%, plus accrued and unpaid interest.

2029 Notes. In June 2021, we issued \$400.0 million in aggregate principal amount of 2029 Notes in a private placement to eligible purchasers. The 2029 Notes mature on June 30, 2029, and interest is payable on March 1 and September 1 of each year. The net proceeds were used to repay a portion of the borrowings outstanding under the Credit Facility. We may redeem some or all of the 2029 Notes at redemption prices ranging from 102.938% to 100.00% at any time on or after September 1, 2024, plus accrued and unpaid interest to, but excluding, the redemption date. At any time prior to September 1, 2024, we may redeem some or all of the 2029 Notes at a price of 100.00% plus a make-whole premium (as defined in the indenture), and we may redeem up to 40% of the aggregate principal amount of 2029 Notes at a price of 105.875% with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Upon the occurrence of a change of control (as defined in the indenture), we are required to offer to repurchase all or any part of the 2029 Notes at a price of 101.00%, plus accrued and unpaid interest.

2022 Notes. On April 1, 2021, we redeemed the remaining \$68.0 million of outstanding principal amount of our 2022 Notes at a price of 105.00% for \$71.4 million, plus accrued and unpaid interest, resulting in a loss of \$3.8 million, including the redemption premium and the write off of unamortized discounts and debt issuance costs.

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

Convertible Notes

On March 1, 2021, the remaining \$8.3 million of outstanding aggregate principal amount of our Convertible Notes matured and was redeemed at a 53.8% premium for \$12.8 million, plus accrued and unpaid interest.

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

Debt Covenants

The agreements governing our debt contain restrictive covenants including, but not limited to, restrictions on our ability to incur additional indebtedness, create certain liens on assets, make certain investments or restricted payments, make loans to others, make certain payments, consolidate or merge, hedge hydrocarbons, enter into transactions with affiliates, dispose of assets or engage in certain other transactions without the prior consent of the lenders. The Credit Facility also requires us to maintain the following two financial ratios: (i) a consolidated leverage ratio, which requires us to maintain a consolidated funded indebtedness to consolidated EBITDAX ratio for the aggregate of the last four consecutive quarters (as defined in the Credit Facility agreement) of not more than 3.50 to 1.00 for each fiscal quarter and (ii) a modified current ratio (as defined in the Credit Facility agreement), which requires us to maintain consolidated current assets to consolidated current liabilities of not less than 1.00 to 1.00 as of the end of each fiscal quarter. We were in compliance with all applicable debt covenants as of September 30, 2022.

6. Derivative Instruments

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

- *Swaps*. We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.
- *Call Options*. We sell call options in exchange for a premium, which establish the maximum price we will receive for contracted commodity volumes. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the difference to the counterparty. From time to time, we may sell future call options to obtain more favorable strike prices on swap or collar contracts.
- *Collars*. These instruments contain a fixed floor price (“put”) and ceiling price (“call”). If the market price exceeds the call strike price, we pay the difference between the market price and the strike price of the sold call to the counterparty. If the market price falls below the put strike price, we receive the difference between the market price and the strike price of the purchased put from the counterparty. If the market price is between the put and the call strike prices, no payments are due to or from either party.
- *Three-Way Collars*. Three-way collars consist of a traditional collar and our sale of an additional put option in exchange for more favorable strike prices on purchased put or sold call options.
- *Basis Swaps*. Our natural gas production is sold at various delivery points that at times may have material spreads or volatility relative to NYMEX. Therefore, we periodically use basis swaps to fix the differential between product prices at the following market locations relative to NYMEX: Chicago (Citygate), Dawn (Ontario), MichCon, Rex Zone 3, Eastern Gas South, TCO, Tetco M-2 and Trunkline Zone 1A. Under these instruments, we receive the fixed price differential and pay the floating market price differential to the counterparty for the contracted volumes.
- *Interest Rate Swaps*. Interest rate swaps are used to fix interest rates on existing or anticipated floating rate indebtedness. The purpose of these instruments is to manage our existing or anticipated exposure to unfavorable interest rate changes. We pay a fixed interest rate and receive a floating interest rate from the counterparty.

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

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

The following table sets forth the average volumes per day associated with our outstanding natural gas derivative instruments as of September 30, 2022, the contracted weighted average natural gas prices, the contracted weighted average basis swap spreads and the estimated fair values:

	Average Volume (mmbtu/d)	Weighted Average Prices (\$/mmbtu)				Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	Purchased Put Strike Price	Sold Put Strike Price	
Natural gas:						
Swaps:						\$ (1,761,438)
Remaining in 2022	1,427,500	\$ 3.50				
2023	1,100,000	\$ 3.00				
2024	535,000	\$ 3.10				
2025	220,000	\$ 3.64				
Collars:						(112,143)
Remaining in 2022	50,000		\$ 8.04	\$ 5.40		
2023	190,000		\$ 5.33	\$ 3.17		
2024	290,000		\$ 6.48	\$ 3.54		
2025	320,000		\$ 6.24	\$ 3.46		
2026	80,000		\$ 6.13	\$ 4.00		
Three-way collars:						(53,208)
Remaining in 2022	150,000		\$ 3.00	\$ 2.50	\$ 2.01	
Call options:						(773,572)
Remaining in 2022	360,000		\$ 2.99			
2023	370,000		\$ 2.89			
2024	400,000		\$ 2.84			
Basis swaps:						70,451
Remaining in 2022	958,000	\$ (0.41)				
2023	861,000	\$ (0.43)				
2024	332,000	\$ (0.69)				
2025	140,000	\$ (0.71)				
Total Estimated Fair Value						<u>\$ (2,629,910)</u>

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

The following table sets forth the average volumes per day associated with our outstanding oil derivative instruments as of September 30, 2022, the contracted weighted average oil prices and the estimated fair values:

	Average Volume (bbls/d)	Weighted Average Prices (\$/bbl)		Fair Value (\$ in thousands)
		Swap Strike Price		
Oil:				
Swaps:				\$ (2,838)
Remaining in 2022	5,000	\$ 57.50		
2023	6,000	\$ 72.30		
2024	4,000	\$ 71.33		
Total Estimated Fair Value				<u>\$ (2,838)</u>

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

The following table sets forth the average volumes per day associated with our outstanding NGL derivative instruments as of September 30, 2022, the contracted weighted average NGL prices and the estimated fair values:

	Average Volume (bbls/d)	Weighted Average Prices (\$/bbl)		Fair Value (\$ in thousands)
		Swap		
		Strike Price		
NGL:				
Swaps - Propane:				
Remaining in 2022	4,000	\$	30.58	\$ 1,992
2023	3,000	\$	38.08	
Total Estimated Fair Value				\$ 1,992

The following table sets forth the notional amounts associated with our outstanding interest rate derivative instruments as of September 30, 2022, the contracted fixed rate to be paid, the contracted floating rate to be received and the estimated fair value:

<i>(\$ in thousands)</i>	Notional Amount	Fixed Rate	Floating Rate	Fair Value
Interest Rate:				
Swaps:				
Remaining in 2022	\$ 150,000	1.575 %	1-month SOFR	\$ 5,102
2023	\$ 150,000	1.575 %	1-month SOFR	
Total Estimated Fair Value				\$ 5,102

The following tables summarize the fair value of our derivative instruments on a gross basis, the effects of netting assets and liabilities for which the right of offset exists based on master netting agreements and the net amount presented on our condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021:

<i>(\$ in thousands)</i>	September 30, 2022		
	Fair Value, Gross	Amounts Netted on Balance Sheet	Fair Value, Net
Condensed Consolidated Balance Sheet Presentation			
Short-term derivative assets:			
Commodity derivatives	\$ 104,437	\$ (104,421)	\$ 16
Interest rate derivatives	4,060	—	4,060
Total short-term derivative assets	\$ 108,497	\$ (104,421)	\$ 4,076
Long-term derivative assets:			
Commodity derivatives	\$ 175,951	\$ (174,524)	\$ 1,427
Interest rate derivatives	1,042	—	1,042
Total long-term derivative assets	\$ 176,993	\$ (174,524)	\$ 2,469
Short-term derivative liabilities:			
Commodity derivatives	\$ 1,740,245	\$ (104,421)	\$ 1,635,824
Total short-term derivative liabilities	\$ 1,740,245	\$ (104,421)	\$ 1,635,824
Long-term derivative liabilities:			
Commodity derivatives	\$ 1,170,899	\$ (174,524)	\$ 996,375
Total long-term derivative liabilities	\$ 1,170,899	\$ (174,524)	\$ 996,375

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

<i>(\$ in thousands)</i>	December 31, 2021		
	Fair Value, Gross	Amounts Netted on Balance Sheet	Fair Value, Net
Condensed Consolidated Balance Sheet Presentation			
Short-term derivative assets:			
Commodity derivatives	\$ 47,869	\$ (41,003)	\$ 6,866
Total short-term derivative assets	\$ 47,869	\$ (41,003)	\$ 6,866
Long-term derivative assets:			
Commodity derivatives	\$ 23,896	\$ (23,374)	\$ 522
Total long-term derivative assets	\$ 23,896	\$ (23,374)	\$ 522
Short-term derivative liabilities:			
Commodity derivatives	\$ 689,876	\$ (41,003)	\$ 648,873
Total short-term derivative liabilities	\$ 689,876	\$ (41,003)	\$ 648,873
Long-term derivative liabilities:			
Commodity derivatives	\$ 458,396	\$ (23,374)	\$ 435,022
Total long-term derivative liabilities	\$ 458,396	\$ (23,374)	\$ 435,022

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

<i>(\$ in thousands)</i>	Condensed Consolidated Statements of Operations Presentation	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
		Commodity derivatives	Commodity derivative loss	\$ (1,100,991)	\$ (1,512,044)
Interest rate derivatives	Interest expense, net	\$ 1,734	\$ (66)	\$ 4,961	\$ (243)

Credit Risk

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

7. Fair Value Measurements

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

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

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

Level 3 – Unobservable inputs that reflect our own assumptions.

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

Fair Value on a Recurring Basis

The following tables summarize the valuation of financial instruments by pricing levels that were accounted for at fair value on a recurring basis as of September 30, 2022 and December 31, 2021. There were no transfers in or out of our Level 3 fair value measurements.

		Fair value measurements at September 30, 2022:			
<i>(\$ in thousands)</i>		Level 1	Level 2	Level 3	Total
Assets:					
Commodity derivatives	\$	—	\$ 1,443	\$ —	\$ 1,443
Interest rate derivatives		—	5,102	—	5,102
Total	\$	—	\$ 6,545	\$ —	\$ 6,545
Liabilities:					
Commodity derivatives	\$	—	\$ 2,632,199	\$ —	\$ 2,632,199
Contingent payment right		—	—	86,570	86,570
Total	\$	—	\$ 2,632,199	\$ 86,570	\$ 2,718,769
		Fair value measurements at December 31, 2021:			
<i>(\$ in thousands)</i>		Level 1	Level 2	Level 3	Total
Assets:					
Commodity derivatives	\$	—	\$ 7,388	\$ —	\$ 7,388
Total	\$	—	\$ 7,388	\$ —	\$ 7,388
Liabilities:					
Commodity derivatives	\$	—	\$ 1,083,895	\$ —	\$ 1,083,895
Contingent payment right		—	—	85,223	85,223
Total	\$	—	\$ 1,083,895	\$ 85,223	\$ 1,169,118

Derivatives. We estimate the fair value of our commodity and interest rate derivatives using models that utilize market-based parameters and are therefore classified as Level 2 fair value measurements. The fair value of our commodity swaps, collars and options are based on standard industry income approach models that use significant observable inputs including, but not limited to, forward curves, discount rates, nonperformance risk and volatilities. We estimate the fair value of our interest rate swaps using a discounted cash flow model utilizing the contracted notional amounts, active market-quoted SOFR yield curves and the applicable credit-adjusted risk-free rate yield curve. See Note 6 for further information regarding our derivative instruments.

Contingent Payment Right. The 2027 Notes contain a contingent payment right which entitles the holders to receive a fixed amount of cash or equity that ranges from 35% to 45% of the then-outstanding aggregate principal amount of 2027 Notes, if a Triggering Event occurs. See Note 5, *2027 Notes*, for further information regarding the contingent payment right. The contingent payment right is required to be bifurcated and accounted for as a liability at fair value. The fair value of the contingent payment right is based on unobservable inputs and is therefore classified as Level 3.

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

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

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

	September 30, 2022	December 31, 2021
Probability of a Triggering Event prior to maturity	75%	70%
Discount rate	10.9%	6.5%

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

<i>(\$ in thousands)</i>	September 30, 2022	December 31, 2021
Balance, beginning of period	\$ 85,223	\$ 65,302
Change in fair value	1,347	19,921
Balance, end of period	<u>\$ 86,570</u>	<u>\$ 85,223</u>

Fair Value of Debt

The carrying amounts and estimated fair values of our debt instruments as of September 30, 2022 and December 31, 2021 are shown in the table below. The fair values were estimated using Level 2 market data inputs. See Note 5 for further information regarding our debt.

<i>(\$ in thousands)</i>	September 30, 2022		December 31, 2021	
	Carrying Value ^(a)	Fair Value	Carrying Value ^(a)	Fair Value
Credit Facility	\$ 805,000	\$ 805,000	\$ 495,000	\$ 495,000
2025 Second Lien Term Loans	533,885	584,186	530,841	599,306
2026 Notes	591,018	583,811	589,644	612,663
2027 Notes	289,525	427,390	283,795	465,639
2028 Notes	295,749	293,995	295,375	312,803
2029 Notes	394,110	356,635	393,593	384,190
Total	<u>\$ 2,909,287</u>	<u>\$ 3,051,017</u>	<u>\$ 2,588,248</u>	<u>\$ 2,869,601</u>

(a) Carrying values are presented net of unamortized debt issuance costs and debt discounts or premiums.

8. Stock-Based Compensation

In July 2020, our Parent established a long-term incentive plan (the “Plan”) in order to further our growth and success. Under the Plan, the board of managers of our Parent may, among other things, grant time-vested restricted stock units (“Time-Vested RSUs”) and performance-vested restricted stock units (“Performance-Vested RSUs,” and together with the Time-Vested RSUs, the “RSUs”) to certain of our employees and certain managers of the board of our Parent. Under the Plan, 360.2 million common units of the Parent were reserved for issuance. The RSUs contain distribution equivalent rights, which entitle participants to cash distributions on unvested RSUs if and to the extent holders of common units receive cash distributions. As of September 30, 2022, approximately 66.3 million common units were available for future grants under the Plan.

Stock-based compensation was \$8.9 million, \$0.8 million, \$14.0 million and \$2.8 million for the three and nine months ended September 30, 2022 and 2021, respectively, and is presented as part of general and administrative expenses on the condensed consolidated statements of operations. We account for forfeitures during the period in which they occur by reversing the expense previously recognized for such awards.

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

Time-Vested Restricted Stock Units

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

A summary of Time-Vested RSU activity for the nine months ended September 30, 2022 is as follows:

<i>(in thousands, except weighted average fair value)</i>	Number of Unvested Time-Vested RSUs	Weighted Average Grant Date Fair Value
Unvested Time-Vested RSUs as of December 31, 2021	130,606	\$ 0.11
2022 Grants	1,677	\$ 0.22
2022 Forfeitures	(2,203)	\$ 0.10
2022 Vestings	(31,965)	\$ 0.10
Unvested Time-Vested RSUs as of September 30, 2022	<u>98,115</u>	<u>\$ 0.11</u>

As of September 30, 2022, there was \$9.2 million of unrecognized compensation costs related to unvested Time-Vested RSUs. The unamortized compensation costs are expected to be recognized over a weighted average period of approximately 2.8 years.

Performance-Vested Restricted Stock Units

Performance-Vested RSUs are accounted for as liability awards, and vesting is subject to a performance condition which is generally satisfied upon the occurrence of a qualifying liquidity event (“QLE”) as defined in the Plan. Upon each QLE, participants are generally entitled to cash payments, or upon a QLE by which our Parent becomes a publicly held corporation, common stock in such public entity. Stock-based compensation related to the Performance-Vested RSUs is recognized at fair value using appropriate valuation techniques on such date it becomes probable that the performance condition will be achieved, and is remeasured each period at fair value through the date of settlement. Performance-Vested RSUs are subject to an accelerated vesting schedule dependent upon certain events which are generally outside the control of the participant and are also subject to expiration. The ultimate settlement of Performance-Vested RSUs will be partially or fully offset to the extent cash awards were previously received as part of the Plan (the “Cash Award Offset Payments”) and any corresponding Performance-Vested RSUs will be forfeited to the extent of any such previous Cash Award Offset Payments. Cash Award Offset Payments are paid from annual free cash flows, as defined in the Plan, and are triggered upon us achieving certain leverage ratios, also defined in the Plan. If the leverage ratio is between 2.0 times to 1.75 times, or below 1.75 times, the result would be a cash payment to participants equal to 2.5% or 5.0%, respectively, of annual free cash flow. Annual cash payments are limited to a total of five payments, after which point the Cash Award Offset Payments are terminated. We determined it is probable that our leverage ratio will be below 1.75 times by December 31, 2022 and have accrued \$8.1 million and \$11.4 million for the three and nine months ended September 30, 2022, respectively, for the Cash Award Offset Payment, which is included in general and administrative expense in the condensed consolidated statements of operations. The final amount of the Cash Award Offset Payments could differ materially from management’s current estimates, which will be adjusted as needed until the amount of any such payments is determined.

A summary of Performance-Vested RSU activity for the nine months ended September 30, 2022 is as follows:

<i>(in thousands, except weighted average fair value)</i>	Number of Unvested Performance-Vested RSUs	Weighted Average Grant Date Fair Value
Unvested Performance-Vested RSUs as of December 31, 2021	161,089	\$ 0.10
2022 Grants	1,677	\$ 0.22
2022 Forfeitures	(3,250)	\$ 0.10
2022 Vestings	—	\$ —
Unvested Performance-Vested RSUs as of September 30, 2022	<u>159,516</u>	<u>\$ 0.11</u>

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

9. Related Party Transactions

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

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

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

Long-Term Debt

As of both September 30, 2022 and December 31, 2021, \$8.6 million in aggregate principal amount of 2025 Second Lien Term Loans and \$0.3 million in aggregate principal amount of 2027 Notes were held by certain related parties.

10. Leases

We enter into certain agreements for tangible assets, real estate and easements to support our operations. To the extent that we determine an arrangement represents a lease in accordance with ASC 842, we classify that lease as an operating or financing lease. The following table summarizes our right-of-use (“ROU”) assets and lease liabilities on the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021:

<i>(\$ in thousands)</i>	Condensed Consolidated Balance Sheet Presentation	September 30, 2022	December 31, 2021
Operating leases:			
ROU assets, net	Other long-term assets	\$ 26,643	\$ 35,132
Short-term lease liabilities	Other current liabilities	\$ 19,249	\$ 25,127
Long-term lease liabilities	Other long-term liabilities	7,352	9,769
Total operating lease liabilities		\$ 26,601	\$ 34,896
Financing leases:			
ROU assets, net	Property and equipment, net	\$ 2,046	\$ 1,557
Short-term lease liabilities	Other current liabilities	\$ 787	\$ 686
Long-term lease liabilities	Other long-term liabilities	767	469
Total financing lease liabilities		\$ 1,554	\$ 1,155

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

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

<i>(\$ in thousands)</i>	Condensed Consolidated Financial Statement Presentation	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
		Operating lease cost:			
Operating lease cost	General and administrative expense	\$ 448	\$ 470	\$ 1,344	\$ 1,436
Operating lease cost	Lease operating expense ^(a)	3,124	2,729	8,503	7,877
Operating lease cost	Natural gas and oil properties ^(b)	7,891	7,334	23,079	21,188
	Total operating lease cost	\$ 11,463	\$ 10,533	\$ 32,926	\$ 30,501
Financing lease cost:					
Amortization of ROU assets	DD&A	\$ 292	\$ 271	\$ 831	\$ 737
Interest on lease liabilities	Interest expense	12	11	28	33
	Total financing lease cost	\$ 304	\$ 282	\$ 859	\$ 770

(a) Includes short-term lease costs of \$1.1 million, \$1.2 million, \$3.2 million and \$3.7 million for the three and nine months ended September 30, 2022 and 2021, respectively.

(b) Includes short-term and variable lease costs of \$1.9 million, \$4.1 million, \$5.8 million and \$14.4 million for the three and nine months ended September 30, 2022 and 2021, respectively.

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

<i>(\$ in thousands)</i>	Nine Months Ended September 30,			
	2022		2021	
	Operating	Financing	Operating	Financing
Cash outflows for lease liabilities:				
Operating cash flows	\$ 6,635	\$ 27	\$ 5,582	\$ 33
Investing cash flows	\$ 17,131	\$ —	\$ 6,840	\$ —
Financing cash flows	\$ —	\$ 924	\$ —	\$ 749
Non-cash activities:				
ROU assets obtained in exchange for lease liabilities	\$ 14,837	\$ 1,327	\$ 17,839	\$ 934

	September 30, 2022		December 31, 2021	
	Operating	Financing	Operating	Financing
Weighted average remaining lease term (in years)	1.4	2.3	1.7	1.9
Weighted average discount rate	2.5 %	3.3 %	2.6 %	3.1 %

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

The following table presents our maturity analysis as of September 30, 2022 for future lease expirations. We do not have any lease maturities after 2025.

<i>(\$ in thousands)</i>	September 30, 2022	
	Operating	Financing
Remaining in 2022	\$ 8,320	\$ 285
2023	13,128	693
2024	4,666	450
2025	1,107	195
Total lease payments	27,221	1,623
Less: imputed interest	(620)	(69)
Present value of lease liabilities	\$ 26,601	\$ 1,554

11. Commitments and Contingencies

Litigation Matters

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

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

During the nine months ended September 30, 2022, we decreased our accrual for all such claims, disputes and threatened or pending litigation by \$11.2 million, which was reflected as a decrease in our general and administrative expenses on the condensed consolidated statements of operations. As of September 30, 2022 and December 31, 2021, we had accrued \$3.8 million and \$15.0 million, respectively, which is presented as part of other current liabilities on the condensed consolidated balance sheets. The final resolution of such matters could differ materially from management's estimates.

Environmental Matters

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

Pipeline Commitments

We have entered into certain pipeline capacity commitments with various counterparties in order to facilitate the delivery of our production to market and reduce the likelihood of possible production curtailments that may arise due to limited capacity. Through these contracts, we are committed to transport minimum daily natural gas volumes at negotiated rates or pay for any deficiencies. The table below presents our undiscounted pipeline commitments that have initial or remaining non-cancelable terms in excess of one year

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

as of September 30, 2022 and represents the gross amounts we are committed to pay; however, working interest owners and royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs.

<i>(\$ in thousands)</i>	Pipeline Commitments	
Remaining in 2022	\$	189,371
2023		762,251
2024		755,871
2025		729,860
2026		726,076
2027 and Thereafter		6,326,136
Total	\$	9,489,565

To satisfy credit support requirements for these commitments, \$169.2 million in letters of credit and \$262.1 million in surety bonds were issued by us or on our behalf to certain transportation providers as of September 30, 2022. Our credit support includes support provided to certain related parties, which, as of September 30, 2022, included \$121.3 million in letters of credit and \$196.0 million in surety bonds. For information regarding certain other transactions with related parties, see Note 9.

12. Other Current Liabilities

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

<i>(\$ in thousands)</i>	September 30, 2022	December 31, 2021
Revenues and royalties due others	\$ 350,962	\$ 196,966
Gathering, processing and transportation expense accrual	148,833	130,677
Drilling and completion cost accrual	91,495	73,851
Taxes other than income accrual	26,933	27,364
Operating and financing leases	20,036	25,813
Other	45,329	63,282
Total Other Current Liabilities	\$ 683,588	\$ 517,953

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

Our Management's Discussion and Analysis of our Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited consolidated financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2021, in addition to the unaudited condensed consolidated financial statements and related notes included within this quarterly report. The following discussion and analysis contains forward-looking statements that involve known and unknown risks, uncertainties and assumptions. The forward-looking statements are not historical facts, but rather reflect our future plans, estimates, beliefs and expected performance. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

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

Business Overview

We are one of the largest private producers of natural gas in the United States and are focused on acquiring, developing, and operating natural gas and oil properties located in the Utica Shale. We are a wholly-owned subsidiary of Ascent Resources Operating, LLC (our "Member") and an indirect wholly-owned subsidiary of Ascent Resources, LLC (our "Parent"). We were formed in 2013 by our private equity sponsors, primarily The Energy & Minerals Group and First Reserve Corporation, to utilize our technical expertise to acquire and exploit assets in the Utica Shale. Our asset base is concentrated in southern Ohio, where we target the Point Pleasant interval of the Utica Shale, one of the premier North American shale plays. Our largely contiguous development footprint of approximately 352,000 net leasehold acres, including approximately 74,000 mineral acres, lies within the core of the southern Utica Shale and, as supported by our drilling results and those of offset operators, offers development opportunities with predictable and repeatable production profiles, low breakeven costs and industry-leading rates of return. We also own royalty interests in approximately 5,500 mineral acres that are being developed by third-party operators and provide enhanced value without additional capital costs or operating expenses.

We are continuously focused on enhancing our drilling and completion techniques, minimizing operational costs and maximizing the recovery of natural gas, oil and NGL from our assets, with the goal of generating strong corporate-level returns and sustainable free cash flow in a capital efficient and financially disciplined manner.

2022 Highlights

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

Significant financial and operating results for the three months ended September 30, 2022:

- Our liquidity as of September 30, 2022 was \$1.03 billion, including our available borrowing capacity under our Credit Facility and our cash balance.
- Our net daily production for the three months ended September 30, 2022 averaged 2.34 bcfe/d and was comprised of approximately 94% natural gas, 2% oil and 4% NGL.
- We spud 19 wells, hydraulically fractured 17 wells and turned-in-line 13 new wells.
- Our average realized price for the three months ended September 30, 2022, including the effects of settled derivatives, increased 38% to \$4.07 per mcf from \$2.95 per mcf for the three months ended September 30, 2021.

Significant financial and operating results for the nine months ended September 30, 2022:

- On June 30, 2022, we amended our credit agreement to increase the borrowing base under our Credit Facility from \$2.5 billion to \$3.0 billion, and to increase the elected commitment amount from \$1.85 billion to \$2.0 billion. The maturity date was extended from April 1, 2024 to June 30, 2027.
- Our net daily production for the nine months ended September 30, 2022 averaged 2.09 bcfe/d and was comprised of approximately 94% natural gas, 2% oil and 4% NGL.
- We spud 58 wells, hydraulically fractured 58 wells and turned-in-line 54 new wells.
- Our average realized price for the nine months ended September 30, 2022, including the effects of settled derivatives, increased 30% to \$3.86 per mcfe from \$2.98 per mcfe for the nine months ended September 30, 2021.

Market Update

The economy is experiencing elevated inflation levels as a result of global supply and demand imbalances. The United States Bureau of Labor Statistics consumer price index for all urban consumers increased approximately 8% from September 30, 2021 to September 30, 2022 as compared to the average historical 10-year rate of approximately 3%. Additionally, unemployment rates continue to improve as demonstrated by declines from a high of approximately 15% in April 2020 to approximately 4% in September 2022 which could lead to potential labor shortages. Inflationary pressures and labor shortages have resulted in increases to our capital and operating expenses that are not fixed and could impact the renegotiation of certain contracts, among other things.

Commodity markets are currently also subject to heightened levels of uncertainty related to the Russian military incursion into Ukraine, which has given rise to regional instability and resulted in heightened economic sanctions by the U.S. and the international community that, in turn, have increased uncertainty with respect to global financial markets. Other significant factors that are likely to affect commodity markets moving forward include the recent announcement of a reduction in production output from the Organization of Petroleum Exporting Countries and actions other oil producing nations may take that relate to or impact production and supply.

Additionally, we continue to monitor the current and potential impacts of the novel coronavirus (“COVID-19”) pandemic on all aspects of our business, including how it has impacted, and may in the future impact, our operations, financial results, liquidity, employees and communities in which we operate. We also continue to monitor a number of factors that may cause actual results of operations to differ from our historical results or current expectations.

In light of the uncertainties associated with inflation and related interest rate increases, the Russia-Ukraine conflict, volatility in commodity markets, recovering oil demand, future governmental monetary policy and other policies aimed at transitioning towards lower carbon energy, we cannot be certain as to the full magnitude these factors will have on our future financial condition, liquidity, results of operations or cash flows.

Results of Operations

Comparison of Three Months Ended September 30, 2022 and 2021

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

	Three Months Ended September 30,		Variance	
	2022	2021	Amount	Percent
Revenues (\$ in thousands):				
Natural gas	\$ 1,625,516	\$ 656,562	\$ 968,954	148 %
Oil	52,715	43,480	9,235	21 %
NGL	54,759	64,888	(10,129)	(16)%
Total Revenues, before effects of commodity derivatives	<u>\$ 1,732,990</u>	<u>\$ 764,930</u>	<u>\$ 968,060</u>	127 %
Average Sales Prices:				
Natural gas (\$/mcf)	\$ 8.02	\$ 3.90	\$ 4.12	106 %
Oil (\$/bbl)	\$ 86.00	\$ 64.13	\$ 21.87	34 %
NGL (\$/bbl)	\$ 37.61	\$ 40.25	\$ (2.64)	(7)%
Natural Gas Equivalent (\$/mcf)	\$ 8.05	\$ 4.20	\$ 3.85	92 %
Settlements of commodity derivatives (\$/mcf)	(3.98)	(1.25)	(2.73)	218 %
Average sales price, after effects of settled derivatives (\$/mcf)	<u>\$ 4.07</u>	<u>\$ 2.95</u>	<u>\$ 1.12</u>	38 %
Net Production Volumes:				
Natural gas (mmcf)	202,795	168,236	34,559	21 %
Oil (mbbls)	613	678	(65)	(10)%
NGL (mbbls)	1,456	1,612	(156)	(10)%
Natural Gas Equivalent (mmcfe)	<u>215,208</u>	<u>181,975</u>	<u>33,233</u>	18 %
Average Daily Net Production Volumes:				
Natural gas (mmcf/d)	2,204	1,829	375	21 %
Oil (mbbls/d)	7	7	—	— %
NGL (mbbls/d)	16	18	(2)	(11)%
Natural Gas Equivalent (mmcfe/d)	<u>2,339</u>	<u>1,978</u>	<u>361</u>	18 %

Natural gas, oil and NGL revenues (excluding the effects of derivatives) increased \$968.1 million during the three months ended September 30, 2022 compared to the same period in 2021, of which \$703.7 million was attributable to an increase in commodity prices and \$264.4 million was attributable to an increase in our net production volumes.

Commodity prices fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond our control. A change in commodity prices has a direct impact on our sales and cash flows. The following table illustrates the effects of an increase or decrease in commodity prices on our sales and cash flows, before the effects of derivatives, assuming our production levels for the three months ended September 30, 2022 remained constant:

<i>(\$ in thousands)</i>	Volumes	Price Fluctuation per Unit	Effect on Sales and Cash Flows
Commodity:			
Natural Gas (mmcf)	202,795	\$ 0.10	\$ 20,280
Oil (mbbls)	613	\$ 1.00	\$ 613
NGL (mbbls)	1,456	\$ 1.00	\$ 1,456

Impact of Commodity Derivative Instruments. We use commodity derivative instruments to mitigate our exposure to fluctuations in future commodity prices in order to protect our anticipated cash flows against significant market movements or volatility. For the three months ended September 30, 2022 and 2021, we recorded losses related to our commodity derivatives of \$1.10 billion and \$1.51 billion, respectively, including settlement losses on our derivative instruments of \$856.0 million and \$227.3 million for the same periods. The following table sets forth the settlements of our derivative instruments by commodity for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,	
	2022	2021
Net Settlements of Commodity Derivatives:		
Natural Gas	\$ (834,864)	\$ (212,491)
Oil	(15,706)	(6,271)
NGL	(5,434)	(8,524)
Total Net Settlements of Commodity Derivatives	\$ (856,004)	\$ (227,286)

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

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

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

	Three Months Ended September 30,		Variance	
	2022	2021	Amount	Percent
Operating Expenses (\$ in thousands):				
Lease operating expenses	\$ 26,826	\$ 21,099	\$ 5,727	27 %
Gathering, processing and transportation expenses	\$ 258,868	\$ 244,668	\$ 14,200	6 %
Taxes other than income	\$ 12,728	\$ 9,928	\$ 2,800	28 %
Exploration expenses	\$ 15,365	\$ 22,274	\$ (6,909)	(31)%
General and administrative expenses	\$ 26,535	\$ 13,885	\$ 12,650	91 %
Depreciation, depletion and amortization	\$ 192,484	\$ 151,902	\$ 40,582	27 %
Operating Expenses (\$/mcfe):				
Lease operating expenses	\$ 0.12	\$ 0.12	\$ —	— %
Gathering, processing and transportation expenses	\$ 1.20	\$ 1.34	\$ (0.14)	(10)%
Taxes other than income	\$ 0.06	\$ 0.05	\$ 0.01	20 %
Exploration expenses	\$ 0.07	\$ 0.12	\$ (0.05)	(42)%
General and administrative expenses	\$ 0.12	\$ 0.08	\$ 0.04	50 %
Depreciation, depletion and amortization	\$ 0.89	\$ 0.83	\$ 0.06	7 %

- Lease operating expenses increased as a result of an increased number of producing wells from our drilling program and our recent Ohio asset acquisition, inflationary pressure on labor and materials and increased fuel costs during the three months ended September 30, 2022 compared to the same period in 2021.
- The increase in gathering, processing and transportation expenses for the three months ended September 30, 2022 compared to the same period in 2021 was primarily due to increased natural gas production as well as rate increases on certain of our firm transportation contracts. The decrease in gathering, processing and transportation expenses per mcfe was due to increased natural gas production.
- Taxes other than income primarily consists of production taxes and ad valorem taxes. The increase was primarily due to increased production related to wells completed since September 30, 2021.

- Exploration expenses were primarily driven by impairments of \$14.6 million and \$20.1 million for the three months ended September 30, 2022 and 2021, respectively, for unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments and abandonments may be recorded.
- The increase in general and administrative expenses was primarily attributable to an \$8.1 million increase in stock-based compensation expense and a \$4.6 million increase in other general corporate expenses.
- DD&A increased due to an increase in our total production as well as an increase in our per mcf rate during the three months ended September 30, 2022 compared to the same period in 2021. The increase in our rate was primarily the result of a reduction in our total proved reserves, increased development costs and the acquisition of natural gas and oil assets in Ohio. See Note 3 of the notes to our condensed consolidated financial statements included in this report for further discussion of the acquisition.

Interest Expense. Interest expense was \$57.6 million and \$45.0 million for the three months ended September 30, 2022 and 2021, respectively, detailed as follows along with our weighted average debt outstanding:

<i>(\$ in thousands)</i>	Three Months Ended September 30,	
	2022	2021
Credit Facility	\$ 17,062	\$ 6,200
2025 Second Lien Term Loans	15,856	14,076
Senior Notes	30,419	30,416
(Gain) loss on interest rate derivatives	(1,734)	66
Amortization of debt discounts, premium and issuance costs	4,966	4,612
Other	1,205	1,149
Capitalized interest	(10,221)	(11,523)
Total Interest Expense, net	<u>\$ 57,553</u>	<u>\$ 44,996</u>
Weighted Average Debt Outstanding:		
Credit Facility	\$ 1,202,880	\$ 700,283
2025 Second Lien Term Loans	549,822	549,822
Senior Notes	1,648,294	1,648,294
Weighted Average Debt Outstanding	<u>\$ 3,400,996</u>	<u>\$ 2,898,399</u>

The increase in interest expense for the three months ended September 30, 2022 compared to the same period in 2021 was primarily due to an increase in our average borrowings outstanding year over year as well as increased interest rates on funds drawn on our Credit Facility.

Results of Operations

Comparison of Nine Months Ended September 30, 2022 and 2021

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

	Nine Months Ended September 30,		Variance	
	2022	2021	Amount	Percent
Revenues (\$ in thousands):				
Natural gas	\$ 3,653,047	\$ 1,534,239	\$ 2,118,808	138 %
Oil	184,684	136,235	48,449	36 %
NGL	192,314	172,749	19,565	11 %
Total Revenues, before effects of commodity derivatives	<u>\$ 4,030,045</u>	<u>\$ 1,843,223</u>	<u>\$ 2,186,822</u>	119 %
Average Sales Prices:				
Natural gas (\$/mcf)	\$ 6.85	\$ 3.24	\$ 3.61	111 %
Oil (\$/bbl)	\$ 92.58	\$ 57.36	\$ 35.22	61 %
NGL (\$/bbl)	\$ 45.20	\$ 31.58	\$ 13.62	43 %
Natural Gas Equivalent (\$/mcf)	\$ 7.06	\$ 3.54	\$ 3.52	99 %
Settlements of commodity derivatives (\$/mcf) ^(a)	(3.20)	(0.56)	(2.64)	471 %
Average sales price, after effects of settled derivatives (\$/mcf)	<u>\$ 3.86</u>	<u>\$ 2.98</u>	<u>\$ 0.88</u>	30 %
Net Production Volumes:				
Natural gas (mmcf)	533,048	473,089	59,959	13 %
Oil (mbbls)	1,995	2,375	(380)	(16)%
NGL (mbbls)	4,255	5,471	(1,216)	(22)%
Natural Gas Equivalent (mmcfe)	<u>570,547</u>	<u>520,160</u>	<u>50,387</u>	10 %
Average Daily Net Production Volumes:				
Natural gas (mmcf/d)	1,953	1,733	220	13 %
Oil (mbbls/d)	7	9	(2)	(22)%
NGL (mbbls/d)	16	20	(4)	(20)%
Natural Gas Equivalent (mmcfe/d)	<u>2,090</u>	<u>1,905</u>	<u>185</u>	10 %

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

Natural gas, oil and NGL revenues (excluding the effects of derivatives) increased \$2.19 billion during the nine months ended September 30, 2022 compared to the same period in 2021, of which \$1.87 billion was attributable to an increase in commodity prices and \$320.8 million was attributable to an increase in our net production volumes.

Commodity prices fluctuate in response to changes in supply and demand, market uncertainty and a variety of other factors beyond our control. A change in commodity prices has a direct impact on our sales and cash flows. The following table illustrates the effects of an increase or decrease in commodity prices on our sales and cash flows, before the effects of derivatives, assuming our production levels for the nine months ended September 30, 2022 remained constant:

<i>(\$ in thousands)</i>	Volumes	Price Fluctuation per Unit	Effect on Sales and Cash Flows
Commodity:			
Natural Gas (mmcf)	533,048	\$ 0.10	\$ 53,305
Oil (mbbls)	1,995	\$ 1.00	\$ 1,995
NGL (mbbls)	4,255	\$ 1.00	\$ 4,255

Impact of Commodity Derivative Instruments. We use commodity derivative instruments to mitigate our exposure to fluctuations in future commodity prices in order to protect our anticipated cash flows against significant market movements or volatility. For the nine months ended September 30, 2022 and 2021, we recorded losses related to our commodity derivatives of \$3.68 billion and \$2.28 billion, respectively, including settlement losses on our derivative instruments of \$1.83 billion and \$289.3 million for the same periods. The following table sets forth the settlements of our derivative instruments by commodity for the periods indicated:

<i>(\$ in thousands)</i>	Nine Months Ended September 30,	
	2022	2021
Net Settlements of Commodity Derivatives:		
Natural Gas	\$ (1,749,334)	\$ (254,831)
Oil	(55,474)	(18,054)
NGL	(21,914)	(16,415)
Total Net Settlements of Commodity Derivatives	\$ (1,826,722)	\$ (289,300)

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

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

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

	Nine Months Ended September 30,		Variance	
	2022	2021	Amount	Percent
Operating Expenses (\$ in thousands):				
Lease operating expenses	\$ 74,019	\$ 59,323	\$ 14,696	25 %
Gathering, processing and transportation expenses	\$ 734,943	\$ 704,364	\$ 30,579	4 %
Taxes other than income	\$ 34,150	\$ 29,316	\$ 4,834	16 %
Exploration expenses	\$ 45,789	\$ 57,306	\$ (11,517)	(20)%
General and administrative expenses	\$ 53,635	\$ 42,977	\$ 10,658	25 %
Depreciation, depletion and amortization	\$ 494,534	\$ 439,121	\$ 55,413	13 %
Operating Expenses (\$/mcfe):				
Lease operating expenses	\$ 0.13	\$ 0.11	\$ 0.02	18 %
Gathering, processing and transportation expenses	\$ 1.29	\$ 1.35	\$ (0.06)	(4)%
Taxes other than income	\$ 0.06	\$ 0.06	\$ —	— %
Exploration expenses	\$ 0.08	\$ 0.11	\$ (0.03)	(27)%
General and administrative expenses	\$ 0.09	\$ 0.08	\$ 0.01	13 %
Depreciation, depletion and amortization	\$ 0.87	\$ 0.84	\$ 0.03	4 %

- Lease operating expenses increased as a result of an increase in producing wells from our drilling program and our recent Ohio asset acquisition, inflationary pressure on labor and materials and increased fuel costs during the nine months ended September 30, 2022 compared to the same period in 2021.
- The increase in gathering, processing and transportation expenses for the nine months ended September 30, 2022 compared to the same period in 2021 was primarily due to increased natural gas production as well as rate increases on certain of our firm transportation contracts. The decrease in gathering, processing and transportation expenses per mcfe was due to increased natural gas production.
- Taxes other than income primarily consists of production taxes and ad valorem taxes. The increase was primarily due to increased production related to wells completed since September 30, 2021.

- Exploration expenses were primarily driven by impairments of \$44.1 million and \$53.5 million for the nine months ended September 30, 2022 and 2021, respectively, for unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments and abandonments may be recorded.
- The increase in general and administrative expenses was primarily due to an \$11.2 million increase in stock-based compensation expense, a \$5.0 million increase in compensation costs and a \$2.1 million increase in other general corporate expenses, which was partially offset by a \$7.6 million non-recurring legal benefit.
- DD&A increased due to an increase in our total production as well as an increase in our per mcfe rate during the nine months ended September 30, 2022, compared to the same period in 2021. The increase in our rate was primarily the result of a reduction in our total proved reserves, increased development costs and the acquisition of natural gas and oil assets in Ohio. See Note 3 of the notes to our condensed consolidated financial statements included in this report for further discussion of the acquisition.

Interest Expense. Interest expense was \$152.3 million and \$127.8 million for the nine months ended September 30, 2022 and 2021, respectively, detailed as follows along with our weighted average debt outstanding:

(\$ in thousands)	Nine Months Ended September 30,	
	2022	2021
Credit Facility	\$ 34,790	\$ 23,069
2025 Second Lien Term Loans	43,573	41,745
Senior Notes	91,266	82,335
Convertible Notes	—	93
(Gain) loss on interest rate derivatives	(4,961)	243
Amortization of debt discounts, premium and issuance costs	16,643	13,922
Other	3,513	3,896
Capitalized interest	(32,519)	(37,497)
Total Interest Expense, net	\$ 152,305	\$ 127,806
Weighted Average Debt Outstanding:		
Credit Facility	\$ 998,608	\$ 898,293
2025 Second Lien Term Loans	549,822	549,822
Senior Notes	1,648,294	1,430,416
Convertible Notes	—	1,796
Weighted Average Debt Outstanding	\$ 3,196,724	\$ 2,880,327

The increase in interest expense for the nine months ended September 30, 2022 compared to the same period in 2021 was primarily due to an increase in our average borrowings outstanding year over year, increased interest rates on funds drawn on our Credit Facility and reduced capitalized interest resulting from a decline in our active unproved properties year over year.

Losses on Purchases or Exchanges of Debt. We recognized a net loss on purchases or exchanges of debt of \$3.8 million during the nine months ended September 30, 2021 due to us repurchasing the remaining outstanding principal of our 2022 Notes. See Note 5, *Senior Notes*, of the notes to our condensed consolidated financial statements included in this report for further discussion of our repurchases and exchanges of debt.

Liquidity and Capital Resources

Overview

The drilling, completion and production of our natural gas and oil properties are capital intensive activities that require access to significant capital. We continually evaluate our capital needs and compare them to our capital resources. Our primary sources of funds are internally generated cash flows from operations, draws on our Credit Facility and proceeds from the issuance of debt, and historically have included equity contributions from our Parent. Our future success in growing our proved reserves and production will be highly dependent upon net cash provided by our operating activities and the capital resources available to us, and there can be no assurance that such resources will be available to us on favorable terms, or at all. Based on existing market conditions and our expected liquidity needs, among other factors, we intend to use a portion of our cash flows from operations to repay or redeem portions of our indebtedness. Additionally, we may use securities offerings or other debt issuances to repay debt prior to scheduled maturities, and we may seek opportunities to refinance all or a portion of our indebtedness, including through cash purchases,

exchanges, open market purchases or privately negotiated transactions. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of our debt.

Our cash flow from operating activities is highly dependent upon our ability to produce and sell our natural gas, oil and NGL production and the sales prices that we receive. Commodity prices are subject to wide fluctuations and are driven by market supply and demand, which is impacted by many factors. The sales price we realize for our production is also impacted by our commodity hedging activities. Our derivative contracts allow us to ensure a certain level of cash flow to fund our operations. Although we are continually securing additional derivative positions for portions of our expected future production, there can be no assurance that we will be able to add derivative positions to cover the remainder of our expected production at favorable prices. See Quantitative and Qualitative Disclosures about Market Risk and Note 6 of our condensed consolidated financial statements included in this report for further details.

As of September 30, 2022, we had a cash balance of \$8.1 million and availability under our Credit Facility of \$1.03 billion. Based on our expected operating cash flows, Credit Facility availability and cash on hand, we anticipate being able to satisfy all of our financial obligations and liquidity needs for the next twelve months.

Long-term cash flows are subject to a number of variables including our level of production and prices as well as various economic conditions that have historically affected the natural gas and oil industry. Based on our significant borrowing capacity under our Credit Facility with a maturity date in 2027, commodity derivatives we have in place which cover a portion of our expected annual production through 2026 and having no significant maturities of senior notes or term loans until 2025 and beyond, we believe we will have adequate capital resources and liquidity for the foreseeable future.

We establish a capital budget at the beginning of each calendar year and periodically review or adjust our allocation for capital expenditures as business conditions warrant. Actual capital expenditures may vary due to many factors, including drilling results, commodity prices, industry conditions, the prices and availability of goods and services, inflationary pressure and the extent to which properties are acquired or assets are sold. We currently plan to fund our capital program through cash on hand, expected cash flow from our operations and borrowings under our Credit Facility.

Sources and Uses of Funds

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

	Nine Months Ended	
	September 30,	
<i>(\$ in thousands)</i>	2022	2021
Cash provided by operating activities	\$ 1,300,371	\$ 555,460
Proceeds from Credit Facility borrowings, net of repayments	310,000	—
Proceeds from issuance of long-term debt	—	400,000
Total Sources of Cash and Cash Equivalents	<u>\$ 1,610,371</u>	<u>\$ 955,460</u>

Our primary source of funds is net cash flow provided by operating activities, which was approximately \$1.30 billion and \$555.5 million for the nine months ended September 30, 2022 and 2021, respectively. Operating cash flows in 2022 compared to 2021 were positively impacted by a year over year increase in prices received for commodity sales and an increase in produced volumes.

In June 2021, we issued \$400.0 million in aggregate principal amount of 2029 Notes in a private placement to eligible purchasers.

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

<i>(\$ in thousands)</i>	Nine Months Ended	
	September 30,	
	2022	2021
Natural Gas and Oil Capital Expenditures:		
Drilling and completion costs	\$ 623,489	\$ 367,640
Land and leasehold costs	79,679	36,349
Interest capitalized ^(a)	32,519	37,497
Total Natural Gas and Oil Capital Expenditures	735,687	441,486
Other Uses of Cash and Cash Equivalents:		
Payment to restructure commodity derivatives	300,000	—
Financing commodity derivative settlements	297,911	11,188
Cash paid for acquisition	250,882	—
Cash paid for debt issuance costs	16,852	7,221
Repayment of Credit Facility, net of borrowings	—	410,000
Repayment of long-term debt	—	84,173
Additions to other property and equipment	1,537	329
Other	5,052	3,852
Total Other	872,234	516,763
Total Uses of Cash and Cash Equivalents	\$ 1,607,921	\$ 958,249

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

Our cash drilling and completion costs were \$623.5 million and \$367.6 million for the nine months ended September 30, 2022 and 2021, respectively. The increase in drilling and completion costs in 2022 was the result of us drilling longer laterals and inflationary pressure on labor and material costs. Additionally, we spent cash of \$79.7 million and \$36.3 million during the nine months ended September 30, 2022 and 2021, respectively, primarily related to the acquisition of leases arising in the ordinary course of business.

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

In April 2022, we used borrowings from our Credit Facility to pay \$300.0 million to restructure a portion of our May through December 2022 natural gas swaps, resulting in an increase to our weighted average strike prices.

We spent cash of \$84.2 million during the nine months ended September 30, 2021 to redeem \$68.0 million in aggregate principal amount of our 2022 Notes at 105.00% of the outstanding principal value, plus accrued and unpaid interest, and \$8.3 million in aggregate principal amount of our Convertible Notes at 153.8% of the outstanding principal value, plus accrued and unpaid interest.

Certain Indebtedness

Credit Facility

On June 30, 2022, we amended our credit agreement to increase the borrowing base under our Credit Facility from \$2.5 billion to \$3.0 billion, and to increase the elected commitment from \$1.85 billion to \$2.0 billion, of which \$250.0 million is authorized for letters of credit. The amount available to be borrowed under the Credit Facility is subject to a borrowing base that is required to be redetermined semiannually on or about April 1 and October 1 of each year, primarily based on the estimated value and future net cash flows of our proved natural gas, oil and NGL reserves and our commodity derivative positions, as determined by lenders under the Credit Facility at their discretion. If the commodity price environment declines over an extended period, it may in the future lead to a reduction in the borrowing base of our Credit Facility. We do not believe that any such reductions would have a significant impact on our ability to service our debt and fund our drilling program and related operations. As of September 30, 2022, we had \$805.0 million of borrowings outstanding and \$169.2 million of letters of credit issued under the Credit Facility.

Our Credit Facility contains restrictive covenants that may limit our ability to, among other things, incur additional indebtedness, incur liens on assets, make certain investments, make loans to others, make certain payments, consolidate or enter into mergers, or dispose of assets. Our Credit Facility also requires us to maintain, as of the end of each fiscal quarter, a modified current

ratio of not less than 1.00 to 1.00 and a consolidated leverage ratio for the trailing four quarter period of not more than 3.50 to 1.00. These covenants are subject to several exceptions and qualifications as set forth in the credit agreement that governs our Credit Facility. As of September 30, 2022, we were in compliance with all applicable financial covenants under the Credit Facility. Our ability to comply with financial covenants in future periods depends, among other things, on the success of our development program and other factors beyond our control, such as market demand and prices for natural gas, oil and NGL. See Note 5, *Credit Facility*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of the Credit Facility.

Second Lien Term Loans

Our 2025 Second Lien Term Loans mature on November 1, 2025, and interest is payable quarterly at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor. Our 2025 Second Lien Term Loans are secured by second liens on substantially all of our assets, including our natural gas and oil properties. As of September 30, 2022, we had \$549.8 million in aggregate principal amount of 2025 Second Lien Term Loans outstanding.

The 2025 Second Lien Term Loans credit agreement contains customary covenants restricting our ability and the ability of certain of our subsidiaries to, among other things, declare or pay any dividends or make any other payment or distribution on account of our equity interests or our capital stock, incur or guarantee additional debt or issue certain types of preferred stock, make certain investments, make restricted payments, incur liens, merge or consolidate with another company, or transfer and sell assets. These covenants are subject to several exceptions and qualifications as set forth in the agreement. As of September 30, 2022, we were in compliance with all applicable covenants under the 2025 Second Lien Term Loans. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of the 2025 Second Lien Term Loans.

Senior Notes

The following table summarizes certain material terms of our outstanding Senior Notes as of September 30, 2022:

<i>(\$ in thousands)</i>	2026 Notes	2027 Notes^(a)	2028 Notes	2029 Notes
Outstanding principal	\$600,000	\$348,294	\$300,000	\$400,000
Interest rate	7.00%	9.00%	8.25%	5.875%
Maturity date	November 1, 2026	November 1, 2027	December 31, 2028	June 30, 2029
Interest payment dates	May 1, Nov. 1	May 1, Nov. 1	Feb. 1, Aug. 1	Mar. 1, Sept. 1
Make-whole redemption date	Expired	November 1, 2026	February 1, 2024	September 1, 2024

- (a) The 2027 Notes also contain a contingent payment right which entitles the holders to receive a fixed amount of cash or equity that ranges from 35% to 45% of the then-outstanding aggregate principal amount of 2027 Notes, if certain additional consideration triggering events (as defined in the indenture) occur. The contingent payment right is required to be bifurcated, and as of September 30, 2022, the estimated fair value was \$86.6 million. See Note 5, *Senior Notes*, and Note 7, *Contingent Payment Right*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the contingent payment right.

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

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured debt and will rank senior in right of payment to all our future subordinated debt. The outstanding Senior Notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such indebtedness. Our obligations under the outstanding Senior Notes are fully and unconditionally guaranteed, jointly and severally, by our current material subsidiaries and will be so guaranteed by any of our future material subsidiaries. As of September 30, 2022, we were in compliance with all applicable covenants of the indentures governing the Senior Notes.

Contractual Obligations and Off-Balance Sheet Arrangements

As of September 30, 2022, our material contractual obligations included repayments of our outstanding borrowings and associated interest payment obligations, derivative obligations, asset retirement obligations, lease obligations, letters of credit, surety bonds and various other commitments we enter into in the ordinary course of business that could result in future cash obligations. In addition, we have entered into certain pipeline capacity commitments with various counterparties, some of which extend beyond 20 years, in order to facilitate the delivery of our production to market and reduce the likelihood of possible production curtailments that may arise due to limited capacity. The estimated gross undiscounted future commitments under these pipeline agreements were approximately \$9.49 billion as of September 30, 2022; however, third parties that own a working interest in the wells we operate, and royalty and overriding royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs. As discussed above, we believe our existing sources of liquidity will be sufficient to fund our near and long-term contractual obligations. See Notes 1, 5, 6, 10 and 11 of the notes to our condensed consolidated financial statements included in this report for further discussion. We do not maintain off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities.

Quantitative and Qualitative Disclosure About Market Risk

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

Commodity Demand and Price Risk

Our primary market risk exposure is in the prices we receive for our natural gas, oil and NGL production. Realized pricing is primarily driven by spot regional market prices applicable to our natural gas, oil and NGL production. Pricing for natural gas, oil and NGL production is volatile and unpredictable, and we expect this volatility to continue in the future. The prices we expect to receive for our natural gas, oil and NGL production will depend on many factors outside of our control, including the supply of, and demand for, natural gas, oil and NGL, the level of economic activity in the United States and globally, the performance of specific industries and the volatility of natural gas, oil and NGL prices at various delivery points. During the nine months ended September 30, 2022 and 2021, the average daily Henry Hub spot market price of natural gas was \$6.66 per mmbtu and \$3.52 per mmbtu, respectively, and the average daily WTI oil price was \$98.25 per bbl and \$65.04 per bbl, respectively. Approximately 90% of our September 30, 2022 proved reserves were natural gas; therefore, changes in realized natural gas pricing will affect us more than changes in realized oil or NGL pricing.

We use derivative instruments to reduce our exposure to fluctuations in future commodity prices and to protect our anticipated operating cash flow against significant market movements or volatility. These contracts are financial instruments and do not require or allow for physical delivery of the hedged commodity. We do not use derivative instruments for speculative or trading purposes. Under the Credit Facility agreement, we are permitted to hedge up to 90% of our forecasted production for any month during the next 36 months. Additionally, we may enter into commodity derivative contracts with terms greater than 36 months, and for no longer than 66 months, for up to 80% of the forecasted production from our proved reserves for any month. As of September 30, 2022, approximately 1,627,500 mmbtu/d of our projected natural gas production for the remainder of 2022 was hedged at a weighted average floor price of \$3.47 per mmbtu, and approximately 1,290,000 mmbtu/d of our projected natural gas production for 2023 was hedged at a weighted average floor price of \$3.03 per mmbtu, excluding the sold puts on our three-way collars. Additionally, as of September 30, 2022, approximately 5,000 bbls/d of our projected oil production for the remainder of 2022 was hedged at a weighted average floor price of \$57.50 per bbl, and approximately 6,000 bbls/d of our projected oil production for 2023 was hedged at a weighted average floor price of \$72.30 per bbl. Our open hedge positions as of September 30, 2022 had maturities extending through December 2026. We also have basis swaps to mitigate portions of our basis exposure. Our market risk associated with commodity prices did not materially change from September 30, 2021 to September 30, 2022. See Note 6 of the notes to our condensed consolidated financial statements included in this report for a summary of our commodity hedge position as of September 30, 2022.

The fair value of our commodity derivative instruments is largely influenced by the future prices of natural gas, oil and NGL. The following table sets forth the changes in the fair value of our commodity derivative instruments due to a hypothetical 10% change

in future prices as of September 30, 2022. However, any realized derivative gain or loss would be substantially offset by a decrease or increase, respectively, in the actual revenue received from the sale of our production associated with the derivative instrument.

<i>(\$ in thousands)</i>	Hypothetical 10% Increase in Future Prices	Hypothetical 10% Decrease in Future Prices
Natural gas	\$ (608,050)	\$ 601,604
Oil	\$ (27,931)	\$ 27,931
NGL	\$ (4,958)	\$ 4,958

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

Although mark-to-market adjustments of derivative instruments cause earnings volatility, our cash flows are only impacted when the associated derivative contracts are settled or are monetized prior to settlement by making or receiving payments to or from the counterparty. We expect continued volatility in the fair value of our derivative instruments. As of September 30, 2022, the estimated fair value of our commodity derivative positions was a net liability of \$2.63 billion comprised of current and long-term assets and liabilities.

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

Counterparty Credit Risk

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

Customer Credit Risk

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

Interest Rate Risk

Certain of our debt instruments bear interest at floating rates based on LIBOR and SOFR, and the LIBOR and SOFR components of our interest on these instruments exposes us to interest rate risk. As part of the June 2022 Credit Facility amendment, the underlying interest rate was changed from LIBOR to SOFR effective June 30, 2022. As of September 30, 2022, borrowings under the Credit Facility bore interest at a floating tiered rate based on facility usage, plus the 1-month SOFR plus 0.10%. For the nine months ended September 30, 2022, the Credit Facility had a weighted average interest rate of 3.80%. Additionally, our 2025 Second Lien Term Loans bear interest at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor, resulting in a weighted average interest rate of 10.43% for the nine months ended September 30, 2022. A 1.00% increase in the applicable interest rates during the nine months ended September 30, 2022 would have resulted in an estimated total increase of \$10.5 million in interest expense on borrowings under the Credit Facility and 2025 Second Lien Term Loans. We have entered into interest rate swaps through the end of 2023 to mitigate a portion of our exposure to interest rate volatility. See Note 6 of the notes to our condensed consolidated financial statements included in this report for further discussion of our interest rate derivatives.