

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

These supplemental disclosures and the Company's audited financial statements for the years ended December 31, 2020 and 2019 may contain "forward-looking statements." All statements, other than statements of historical facts, included in the Supplemental Disclosures that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements relate to certain assumptions we made based on management's experience, our perception of historical trends and technical analyses, current conditions, anticipated future developments and other factors we believe to be appropriate and reasonable. When used in the Supplemental Disclosures, words such as "will," "potential," "believe," "estimate," "intend," "expect," "may," "should," "anticipate," "could," "plan," "predict," "forecast," "budget," "guidance," "project," "profile," "model," "strategy," "future" or their negatives or the statements that include these words or other similar words that convey the uncertainty of future events or outcomes, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Forward-looking statements are not guarantees of performance. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Although we believe that the expectations reflected in our forward-looking statements are reasonable and are based on reasonable assumptions, there can be no assurance that these assumptions are accurate or that any of these expectations will be achieved (in full or at all) or will prove to have been correct. Accordingly, you should not place any undue reliance on any of our forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Mesquite Energy, Inc.
Supplemental Disclosures (Unaudited)

The tables and statements below are considered “unaudited” and are comprised of data derived from the Company’s audited financial statements for the years ended December 31, 2020 and 2019 (including the notes thereto or accounting records). These disclosures should be read together with such financial statements. Capitalized terms used herein but not defined herein are defined in the Company’s audited financial statements for the years ended December 31, 2020 and 2019. This material is provided as supplemental disclosure with certain additional information regarding the business and its operations for the periods shown.

Operations and Financial Review

The following table summarizes production and revenue from our oil, natural gas and NGL operations for the periods indicated:

	Predecessor		Successor	
	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Net Production				
Oil (MBbl)	1,576	1,165	920	1,171
Natural gas (MMcf)	9,873	7,548	6,250	7,791
NGLs (MBbl)	1,362	975	789	1,031
Total oil equivalent (MBOE)	4,583	3,398	2,751	3,500
BOE/D	50,361	37,337	29,906	38,047
Realized \$/BOE (excluding hedges)	\$ 21.94	\$ 11.51	\$ 20.47	\$ 23.91
<i>(In thousands)</i>				
Revenues				
Oil sales	\$ 67,433	\$ 17,942	\$ 32,726	\$ 45,905
Natural gas sales	19,620	14,009	13,270	21,928
NGL sales	13,506	7,172	10,337	15,872
Total revenues from production	\$ 100,559	\$ 39,123	\$ 56,333	\$ 83,704

	Predecessor			
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Net Production				
Oil (MBbl)	2,336	2,113	1,926	1,773
Natural gas (MMcf)	13,158	12,095	11,404	10,482
NGLs (MBbl)	2,358	2,192	2,052	1,860
Total oil equivalent (MBOE)	6,886	6,321	5,879	5,380
BOE/D	76,516	69,460	63,904	58,478
Realized \$/BOE (excluding hedges)	\$ 30.72	\$ 29.97	\$ 26.41	\$ 27.16
<i>(In thousands)</i>				
Revenues				
Oil sales	\$ 128,028	\$ 128,380	\$ 106,016	\$ 96,127
Natural gas sales	43,049	31,311	26,572	25,023
NGL sales	40,500	29,716	22,675	24,995
Total revenues from production	\$ 211,577	\$ 189,407	\$ 155,262	\$ 146,145

Production and Revenues from Production

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor had total production of 6,251 and 7,981 MBOE, respectively, and recorded revenues from production of \$140.0 million and \$139.7 million, respectively. For the year ended December 31, 2019, the Predecessor had total production of 24,466 MBOE and recorded revenues from production of \$702.4 million.

The decrease in production from 2019 to 2020 is primarily the result of 2,192 MBOE of production from UnSub only being included in the first four months of 2020 (through the date of the UnSub deconsolidation) compared to the 7,733 MBOE of production from UnSub for the entire year of 2019. In addition, the Company suspended all drilling and completion activity for the majority of 2020 and thus existing production was subject to natural declines during the year. The decrease in production from 2019 to 2020 was slightly offset by production of 1,041 MBOE related to the properties acquired in the Gavilan Acquisition that closed on November 10, 2020.

Operating Costs and Expenses

The following table summarizes operating costs and expenses for the periods indicated:

(In thousands)	Predecessor		Successor	
	Q1 2020	Q2 2020	Q3 2020	Q4 2020
OPERATING COSTS AND EXPENSES:				
Oil and natural gas production expenses	\$ 18,366	\$ 11,633	\$ 6,356	\$ 10,983
Marketing and transportation expenses	50,535	37,320	24,380	43,527
Exploration expenses	8	(1)	-	-
Sales and marketing expenses	3,655	1,340	2,412	1,732
Production and ad valorem taxes	6,381	3,663	3,902	4,622
General and administrative	12,342	8,916	1,127	1,547
Depreciation, depletion, amortization and accretion	22,748	11,406	3,336	4,805
Impairment of oil and natural gas properties	516,894	39	-	74
Impairment of right of use assets	8,271	25,401	-	-
Total operating costs and expenses	<u>\$ 639,200</u>	<u>\$ 99,717</u>	<u>\$ 41,513</u>	<u>\$ 67,290</u>

(In thousands)	Predecessor			
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
OPERATING COSTS AND EXPENSES:				
Oil and natural gas production expenses	22,640	17,677	18,507	17,181
Marketing and transportation expenses	58,315	58,070	56,232	54,646
Exploration expenses	1,270	3,548	164	1,205
Sales and marketing expenses	4,931	4,988	6,672	6,984
Production and ad valorem taxes	13,050	11,765	9,867	7,988
General and administrative	20,209	48,406	(2,704)	8,868
Depreciation, depletion, amortization and accretion	67,481	62,575	57,864	63,432
Impairment of oil and natural gas properties	3,930	9,214	9,761	1,174,165
Impairment of right of use assets	-	-	-	4,831
Pre-petition restructuring charges	-	-	41,855	76
Total operating costs and expenses	<u>\$ 191,826</u>	<u>\$ 216,244</u>	<u>\$ 198,220</u>	<u>\$ 1,339,377</u>

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor incurred oil and natural gas operating costs of \$17.3 million and \$30.0 million, respectively. For the year ended December 31, 2019, the Predecessor incurred oil and natural gas operating costs of \$76.0 million. In addition to the exclusion of \$9.2 million and \$32.1 million of oil and natural gas operating costs attributable to UnSub for the six months ended June 30, 2020 and year ended December 31, 2019, respectively, the reduction in oil and natural gas operating costs incurred in 2020 compared to 2019 is primarily related to the reduction in production volumes and a reduction in workover costs. The decrease in oil and natural gas operating costs from 2019 to 2020 was slightly offset by oil and natural gas operating costs of \$2.6 million related to the properties acquired in the Gavilan Acquisition that closed on November 10, 2020.

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor incurred marketing and transportation expenses of \$67.9 million and \$87.9 million, respectively. For the year ended December 31, 2019, the Predecessor incurred marketing and transportation expenses of \$227.3 million. In addition to the exclusion of \$19.0 million and \$66.7 million of marketing and transportation costs attributable to UnSub for the six months ended June 30, 2020 and year ended December 31, 2019, respectively, the reduction in marketing and transportation expenses incurred in 2020 compared to 2019 is primarily related to the reduction in production volumes. The decrease in marketing and transportation expenses from 2019 to 2020 was slightly offset by marketing and transportation expenses of \$12.6 million related to the properties acquired in the Gavilan Acquisition that closed on November 10, 2020.

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor incurred production and ad valorem taxes of \$8.0 million and \$10.0 million, respectively. For the year ended December 31, 2019, the Predecessor incurred production and ad valorem taxes of \$42.7 million. In addition to the exclusion of \$2.5 million and \$13.8 million of production and ad valorem taxes attributable to UnSub for the six months ended June 30, 2020 and year ended December 31, 2019, respectively, the reduction in production taxes incurred in 2020 compared to 2019 is primarily related to the reduction in revenues due to both lower commodity prices and lower production. The decrease in production and ad valorem taxes from 2019 to 2020 was slightly offset by production and ad valorem taxes of \$1.7 million related to the properties acquired in the Gavilan Acquisition that closed on November 10, 2020.

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor incurred general and administrative (“G&A”) expenses of \$2.7 million and \$21.3 million, respectively. For the year ended December 31, 2019, the Predecessor incurred G&A expenses of \$74.8 million. Mesquite subsidiary SN Maverick is the operator of the Comanche field and receives overhead recovery payments from the other working interest owners in the asset, which we record as an offsetting benefit to consolidated G&A expense in all periods presented. In addition to the exclusion of \$0.8 million and \$3.5 million of G&A expenses attributable to UnSub for the six months ended June 30, 2020 and year ended December 31, 2019, the reduction in G&A expenses from 2019 to 2020 was driven by the successful implementation of an aggressive G&A reduction strategy, including a major restructuring of the workforce upon emergence from the Bankruptcy, as compared to the Predecessor’s staffing arrangements (decreases in headcount and decreases in salaries and wages for management and all employees), a reduction in rent expense upon rejecting the lease at the Predecessor’s corporate office in Houston and relocating the Company’s corporate office to a nearby facility with significantly lower rental rates, a comprehensive simplification of the Company’s overhead cost structure, elimination of certain public company costs, the inclusion of offsetting G&A benefit from the portion of Comanche overhead recovery paid by UnSub during the third and fourth quarters 2020 (which was historically recorded as an intercompany transaction and eliminated upon consolidation of the Predecessor’s books), and a reduction in professional fees not related to the Bankruptcy (fees related to the Bankruptcy are presented separately in Reorganization items on the consolidated statements of operations).

For the six months ended December 31, 2020 and June 30, 2020, the Successor and the Predecessor incurred professional and legal fees related to the Bankruptcy classified as Reorganization items of \$29.3 million and \$29.6 million, respectively. The Predecessor also recorded fresh start adjustments classified as Reorganization items on the consolidated statements of operations totaling \$2,215.3 million for the second quarter 2020. For the year ended December 31, 2019, the Predecessor incurred professional and legal fees and costs related to debtor-in-possession financing classified as Reorganization items of \$82.3 million.

Adjusted EBITDAX

We present Adjusted EBITDAX in addition to our net income (loss) as presented in accordance with U.S. GAAP. Adjusted EBITDAX is a non-GAAP financial measure that is used as a supplemental financial measure by our management and others to assess our operating performance as compared to that of other companies in our industry, without regard to financing methods, capital structure or historical cost bases. It is also used to assess our ability to incur and service debt and fund capital expenditures.

We define Adjusted EBITDAX as net income (loss):

- Plus:
 - Interest expense;
 - Net losses (gains) on commodity derivative contracts;
 - Net settlements received (paid) on commodity derivative contracts;
 - Exploration expense;
 - Depreciation, depletion, amortization and accretion;
 - Impairment of oil and natural gas properties;
 - Acquisition and divestiture costs included in general and administrative expense;
 - Amortization of debt issuance costs;
 - Income tax expense (benefit); and
 - Certain non-recurring items.

- Less:
 - Interest income; and
 - Certain non-recurring items.

Adjusted EBITDAX should not be considered an alternative to net income (loss) or any other measure of financial performance or liquidity presented in accordance with U.S. GAAP. Adjusted EBITDAX, as defined by us, may not be comparable to similarly titled measures of another company because all companies may not calculate Adjusted EBITDAX in the same manner.

The following table presents a reconciliation of our net income (loss) to Adjusted EBITDAX (in thousands):

	Predecessor		Successor	
	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Net income (loss)	\$ (533,895)	\$ 1,986,022	\$ (11,621)	\$ (10,368)
Adjusted by:				
Interest expense	8,949	73	4,185	7,345
Amortization of debt issuance costs	975	325	-	186
Net losses on commodity derivative contracts	(42,087)	(3,425)	1,158	14,010
Net settlements received on commodity derivative contracts	4,849	3,884	526	(1,159)
Premiums paid on commodity derivative contracts (manual input)	-	-	-	-
Exploration expense	7	-	-	-
Depreciation, depletion, amortization, and accretion	22,748	11,406	3,335	4,805
Impairment of oil and natural gas properties	516,894	39	-	74
Stock-based compensation	(18)	-	-	-
Acquisition and divestiture costs included in G&A	-	-	-	-
Gain on sale of oil and natural gas properties	-	4,398	1,972	-
Pre-Petition Restructuring Charges	-	-	-	-
Reorganization items	26,436	(2,212,151)	21,504	7,751
Income tax benefit	(16)	-	-	-
Loss on impairment of other assets	-	-	-	-
Impairment of right of use assets	8,271	25,401	-	-
Accrued amount for executive bonuses included in G&A	-	-	-	-
Gain on SR debt termination	-	(23,499)	-	-
(Gains) losses on other derivatives	-	-	-	-
Losses on investments	3,005	189,658	565	(381)
Interest income	(53)	(5)	(7)	(1)
General and administrative costs - non-recurring	-	-	1,612	285
Adjusted EBITDAX	\$ 16,065	\$ (17,874)	\$ 23,229	\$ 22,547

	Predecessor			
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Net loss				
Adjusted by:	\$ (67,341)	\$ (52,969)	\$ (112,448)	\$ (1,255,968)
Interest expense				
Amortization of debt issuance costs	41,399	41,401	20,923	18,080
Net losses on commodity derivative contracts	3,154	3,160	1,961	976
Net settlements received on commodity derivative contracts	48,423	(14,396)	(13,200)	12,297
Premiums paid on commodity derivative contracts (manual input)	(3,508)	(5,077)	(130)	(2,445)
Exploration expense	-	-	-	-
Depreciation, depletion, amortization, and accretion	1,270	3,548	164	1,205
Impairment of oil and natural gas properties	67,481	62,575	57,864	63,432
Stock-based compensation	3,930	9,214	9,761	1,174,165
Acquisition and divestiture costs included in G&A	142	158	96	(4)
Pre-Petition Restructuring Charges	-	-	15	-
Reorganization items	-	-	41,855	76
Income tax benefit	-	-	55,320	26,957
Loss on impairment of other assets	436	374	(833)	-
Impairment of right of use assets	-	-	11,755	-
Accrued amount for executive bonuses included in G&A	-	-	-	4,831
Gain on SR debt termination	-	-	6,617	(3,596)
(Gains) losses on other derivatives				
Losses on investments	(276)	-	-	5,825
Interest income	(1,517)	2,353	3,628	7,604
General and administrative costs - non-recurring	(622)	(603)	(221)	(98)
Adjusted EBITDAX	\$ 92,970	\$ 49,737	\$ 83,127	\$ 53,336