

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended March 31, 2021

Or

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

Commission File No. 001-35049



**EARTHSTONE ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**84-0592823**  
(I.R.S Employer  
Identification No.)

**1400 Woodloch Forest Drive, Suite 300  
The Woodlands, Texas 77380**  
(Address of principal executive offices)

**Registrant's telephone number, including area code: (281) 298-4246**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Class A Common Stock, \$0.001 par value per share</b>	<b>ESTE</b>	<b>New York Stock Exchange</b>

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

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

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

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

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

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

As of April 29, 2021, 44,106,541 shares of Class A Common Stock, \$0.001 par value per share, and 34,429,340 shares of Class B Common Stock, \$0.001 par value per share, were outstanding.

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**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**EARTHSTONE ENERGY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
*(In thousands, except share and per share amounts)*

ASSETS	March 31, 2021	December 31, 2020
<b>Current assets:</b>		
Cash	\$ 1,447	\$ 1,494
Accounts receivable:		
Oil, natural gas, and natural gas liquids revenues	33,134	16,255
Joint interest billings and other, net of allowance of \$19 and \$19 at March 31, 2021 and December 31, 2020, respectively	6,497	7,966
Derivative asset	196	7,509
Prepaid expenses and other current assets	3,204	1,509
<b>Total current assets</b>	<b>44,478</b>	<b>34,733</b>
<b>Oil and gas properties, successful efforts method:</b>		
Proved properties	1,253,689	1,017,496
Unproved properties	233,767	233,767
Land	5,382	5,382
Total oil and gas properties	1,492,838	1,256,645
Accumulated depreciation, depletion and amortization	(315,460)	(291,213)
Net oil and gas properties	1,177,378	965,432
<b>Other noncurrent assets:</b>		
Office and other equipment, net of accumulated depreciation and amortization of \$4,392 and \$3,675 at March 31, 2021 and December 31, 2020, respectively	1,249	931
Derivative asset	1,495	396
Operating lease right-of-use assets	2,289	2,450
Other noncurrent assets	2,064	1,315
<b>TOTAL ASSETS</b>	<b>\$ 1,228,953</b>	<b>\$ 1,005,257</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 16,891	\$ 6,232
Revenues and royalties payable	25,522	27,492
Accrued expenses	18,688	16,504
Asset retirement obligation	568	447
Derivative liability	25,063	1,135
Advances	2,246	2,277
Operating lease liabilities	777	773
Finance lease liabilities	54	69
Other current liabilities	912	565
<b>Total current liabilities</b>	<b>90,721</b>	<b>55,494</b>
<b>Noncurrent liabilities:</b>		
Long-term debt	223,424	115,000
Deferred tax liability	14,189	14,497
Asset retirement obligation	13,448	2,580
Derivative liability	2,566	173

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Operating lease liabilities	1,674	1,840
Finance lease liabilities	—	5
Other noncurrent liabilities	854	132
<b>Total noncurrent liabilities</b>	<b>256,155</b>	<b>134,227</b>
<b>Commitments and Contingencies (Note 13)</b>		
<b>Equity:</b>		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; none issued or outstanding	—	—
Class A Common Stock, \$0.001 par value, 200,000,000 shares authorized; 44,104,541 and 30,343,421 issued and outstanding at March 31, 2021 and December 31, 2020, respectively	44	30
Class B Common Stock, \$0.001 par value, 50,000,000 shares authorized; 34,431,340 and 35,009,371 issued and outstanding at March 31, 2021 and December 31, 2020, respectively	34	35
Additional paid-in capital	624,916	540,074
Accumulated deficit	(201,091)	(195,258)
<b>Total Earthstone Energy, Inc. equity</b>	<b>423,903</b>	<b>344,881</b>
<b>Noncontrolling interest</b>	<b>458,174</b>	<b>470,655</b>
<b>Total equity</b>	<b>882,077</b>	<b>815,536</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,228,953</b>	<b>\$ 1,005,257</b>

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

**EARTHSTONE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
*(In thousands, except share and per share amounts)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>REVENUES</b>		
Oil	\$ 60,819	\$ 41,012
Natural gas	5,852	1,086
Natural gas liquids	8,901	3,040
<b>Total revenues</b>	<b>75,572</b>	<b>45,138</b>
<b>OPERATING COSTS AND EXPENSES</b>		
Lease operating expense	10,849	9,339
Production and ad valorem taxes	5,027	3,023
Depreciation, depletion and amortization	24,407	24,656
Impairment expense	—	60,371
General and administrative expense	8,380	7,132
Transaction costs	2,106	844
Accretion of asset retirement obligation	290	44
Exploration expense	—	301
<b>Total operating costs and expenses</b>	<b>51,059</b>	<b>105,710</b>
Gain on sale of oil and gas properties	—	204
<b>Income (loss) from operations</b>	<b>24,513</b>	<b>(60,368)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense, net	(2,217)	(1,736)
(Loss) gain on derivative contracts, net	(33,263)	99,784
Other income, net	103	126
<b>Total other (expense) income</b>	<b>(35,377)</b>	<b>98,174</b>
<b>(Loss) income before income taxes</b>	<b>(10,864)</b>	<b>37,806</b>
Income tax benefit (expense)	308	(1,092)
Net (loss) income	(10,556)	36,714
<b>Less: Net (loss) income attributable to noncontrolling interest</b>	<b>(4,723)</b>	<b>20,006</b>
<b>Net (loss) income attributable to Earthstone Energy, Inc.</b>	<b>\$ (5,833)</b>	<b>\$ 16,708</b>
Net (loss) income per common share attributable to Earthstone Energy, Inc.:		
Basic	\$ (0.14)	\$ 0.57
Diluted	\$ (0.14)	\$ 0.57
Weighted average common shares outstanding:		
Basic	42,778,916	29,497,428
Diluted	42,778,916	29,497,428

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

**EARTHSTONE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)**  
*(In thousands, except share amounts)*

	<u>Issued Shares</u>				Additional Paid-in Capital	Accumulated Deficit	Total Earthstone Energy, Inc. Equity	Noncontrolling Interest	Total Equity
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock					
<b>At December 31, 2020</b>	30,343,421	35,009,371	\$ 30	\$ 35	\$ 540,074	\$ (195,258)	\$ 344,881	\$ 470,655	\$ 815,536
Stock-based compensation expense	—	—	—	—	2,605	—	2,605	—	2,605
Shares issued in connection with IRM Acquisition	12,719,594	—	13	—	76,559	—	76,572	—	76,572
Vesting of restricted stock units, net of taxes paid	463,495	—	—	—	—	—	—	—	—
Vested restricted stock units retained by the Company in exchange for payment of recipient mandatory tax withholdings	257,764	—	—	—	(2,080)	—	(2,080)	—	(2,080)
Cancellation of treasury shares	(257,764)	—	—	—	—	—	—	—	—
Class B Common Stock converted to Class A Common Stock	578,031	(578,031)	1	(1)	7,758	—	7,758	(7,758)	—
Net loss	—	—	—	—	—	(5,833)	(5,833)	(4,723)	(10,556)
<b>At March 31, 2021</b>	<b>44,104,541</b>	<b>34,431,340</b>	<b>\$ 44</b>	<b>\$ 34</b>	<b>\$ 624,916</b>	<b>\$ (201,091)</b>	<b>\$ 423,903</b>	<b>\$ 458,174</b>	<b>\$ 882,077</b>

	<u>Issued Shares</u>				Additional Paid-in Capital	Accumulated Deficit	Total Earthstone Energy, Inc. Equity	Noncontrolling Interest	Total Equity
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock					
<b>At December 31, 2019</b>	29,421,131	35,260,680	\$ 29	\$ 35	\$ 527,246	\$ (181,711)	\$ 345,599	\$ 490,152	\$ 835,751
Stock-based compensation expense	—	—	—	—	2,694	—	2,694	—	2,694
Vesting of restricted stock units, net of taxes paid	231,834	—	1	—	—	—	1	—	1
Vested restricted stock units retained by the Company in exchange for payment of recipient mandatory tax withholdings	75,695	—	—	—	(214)	—	(214)	—	(214)
Cancellation of treasury shares	(75,695)	—	—	—	—	—	—	—	—
Class B Common Stock converted to Class A Common Stock	199,993	(199,993)	—	—	2,897	—	2,897	(2,897)	—
Net income	—	—	—	—	—	16,708	16,708	20,006	36,714
<b>At March 31, 2020</b>	<b>29,852,958</b>	<b>35,060,687</b>	<b>\$ 30</b>	<b>\$ 35</b>	<b>\$ 532,623</b>	<b>\$ (165,003)</b>	<b>\$ 367,685</b>	<b>\$ 507,261</b>	<b>\$ 874,946</b>

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

**EARTHSTONE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
*(In thousands)*

	<b>For the Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (10,556)	\$ 36,714
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and amortization	24,407	24,656
Impairment of proved and unproved oil and gas properties	—	42,751
Impairment of goodwill	—	17,620
Accretion of asset retirement obligations	290	44
Settlement of asset retirement obligations	(15)	—
(Gain) on sale of oil and gas properties	—	(204)
Total loss (gain) on derivative contracts, net	33,263	(99,784)
Operating portion of net cash (paid) received in settlement of derivative contracts	(10,905)	9,739
Stock-based compensation	3,329	2,694
Deferred income taxes	(308)	1,092
Amortization of deferred financing costs	141	80
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(5,379)	13,780
(Increase) decrease in prepaid expenses and other current assets	367	(312)
Increase (decrease) in accounts payable and accrued expenses	5,389	2,846
Increase (decrease) in revenues and royalties payable	(2,081)	5,640
Increase (decrease) in advances	358	(8,814)
<b>Net cash provided by operating activities</b>	<b>38,300</b>	<b>48,542</b>
<b>Cash flows from investing activities:</b>		
Acquisition of oil and gas properties, net of cash acquired	(134,641)	—
Additions to oil and gas properties	(8,913)	(39,299)
Additions to office and other equipment	(226)	(87)
Proceeds from sales of oil and gas properties	—	409
<b>Net cash used in investing activities</b>	<b>(143,780)</b>	<b>(38,977)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	177,114	17,500
Repayments of borrowings	(68,690)	(35,500)
Cash paid related to the exchange and cancellation of Class A Common Stock	(2,080)	(214)
Cash paid for finance leases	(20)	(72)
Deferred financing costs	(891)	—
<b>Net cash provided by (used in) financing activities</b>	<b>105,433</b>	<b>(18,286)</b>
Net decrease in cash	(47)	(8,721)
Cash at beginning of period	1,494	13,822
Cash at end of period	<u>\$ 1,447</u>	<u>\$ 5,101</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid for:		
Interest	\$ 1,922	\$ 1,676
Non-cash investing and financing activities:		
Class A Common Stock issued in IRM Acquisition	\$ 76,572	\$ —
Accrued capital expenditures	\$ 7,775	\$ 31,011
Asset retirement obligations	\$ 427	\$ 21

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

**EARTHSTONE ENERGY, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation and Summary of Significant Accounting Policies**

Earthstone Energy, Inc., a Delaware corporation (“Earthstone” and together with its consolidated subsidiaries, the “Company”), is a growth-oriented independent oil and natural gas development and production company. In addition, the Company is active in corporate mergers and the acquisition of oil and natural gas properties that have production and future development opportunities. The Company's operations are all in the upstream segment of the oil and natural gas industry and all its properties are onshore in the United States.

Earthstone is the sole managing member of Earthstone Energy Holdings, LLC, a Delaware limited liability company (together with its wholly-owned consolidated subsidiaries, “EEH”), with a controlling interest in EEH. Earthstone, together with its wholly-owned subsidiary, Lynden Energy Corp., a corporation organized under the laws of British Columbia (“Lynden Corp”), and Lynden Corp’s wholly-owned consolidated subsidiary, Lynden USA Inc., a Utah corporation (“Lynden US”) and also a member of EEH, consolidates the financial results of EEH and records a noncontrolling interest in the Condensed Consolidated Financial Statements representing the economic interests of EEH's members other than Earthstone and Lynden US.

The accompanying unaudited Condensed Consolidated Financial Statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial statements. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted. The accompanying unaudited Condensed Consolidated Financial Statements and notes should be read in conjunction with the financial statements and notes included in Earthstone’s 2020 Annual Report on Form 10-K.

The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. The Company’s Condensed Consolidated Balance Sheet at December 31, 2020 is derived from the audited Consolidated Financial Statements at that date.

***Recently Issued Accounting Standards***

*Income Taxes* - In December 2019, the FASB issued an update that simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 and early adoption is permitted. The Company adopted the update effective January 1, 2021 and the impact was not material to the Consolidated Financial Statements.

*Reference Rate Reform* - In March 2020, the FASB issued an update that provides optional guidance for a limited period of time to ease the transition from LIBOR to an alternative reference rate. The ASU intends to address certain concerns relating to accounting for contract modifications and hedge accounting. These optional expedients and exceptions to applying GAAP, assuming certain criteria are met, are allowed through December 31, 2022. The Company is currently evaluating the provisions of this update and has not yet determined whether it will elect the optional expedients. The Company does not expect the transition to an alternative rate to have a material impact on its business, operations or liquidity.

**Note 2. Fair Value Measurements**

FASB Accounting Standards Codification (“ASC”) Topic 820, defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. ASC 820 provides a framework for measuring fair value, establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of the counterparty’s creditworthiness when valuing certain assets.

The three-level fair value hierarchy for disclosure of fair value measurements defined by ASC 820 is as follows:

**Level 1** – Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** – Inputs, other than quoted prices within Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

**EARTHSTONE ENERGY, INC.**

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

**Level 3** – Prices or valuations that require unobservable inputs that are both significant to the fair value measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgment from management.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instrument’s complexity. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level. There were no transfers between fair value hierarchy levels for the three months ended March 31, 2021.

**Fair Value on a Recurring Basis**

Derivative financial instruments are carried at fair value and measured on a recurring basis. The derivative financial instruments consist of swaps for crude oil and natural gas and interest rate swaps. The Company’s commodity price hedges and interest rate swaps are valued based on discounted future cash flow models that are primarily based on published forward commodity price curves and published LIBOR forward curves; thus, these inputs are designated as Level 2 within the valuation hierarchy.

The fair values of derivative instruments in asset positions include measures of counterparty nonperformance risk, and the fair values of derivative instruments in liability positions include measures of the Company’s nonperformance risk. These measurements were not material to the Condensed Consolidated Financial Statements.

The following table summarizes the fair value of the Company’s financial assets and liabilities, by level within the fair-value hierarchy (*in thousands*):

<b>March 31, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative asset - current	\$ —	\$ 196	\$ —	\$ 196
Derivative asset - noncurrent	—	1,495	—	1,495
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 1,691</b>	<b>\$ —</b>	<b>\$ 1,691</b>
<b>Financial liabilities</b>				
Derivative liability - current	\$ —	\$ 25,063	\$ —	\$ 25,063
Derivative liability - noncurrent	—	2,566	—	2,566
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ 27,629</b>	<b>\$ —</b>	<b>\$ 27,629</b>
<b>December 31, 2020</b>				
<b>Financial assets</b>				
Derivative asset - current	\$ —	\$ 7,509	\$ —	\$ 7,509
Derivative asset - noncurrent	—	396	—	396
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 7,905</b>	<b>\$ —</b>	<b>\$ 7,905</b>
<b>Financial liabilities</b>				
Derivative liability - current	\$ —	\$ 1,135	\$ —	\$ 1,135
Derivative liability - noncurrent	—	173	—	173
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ 1,308</b>	<b>\$ —</b>	<b>\$ 1,308</b>

Other financial instruments include cash, accounts receivable and payable, and revenue royalties. The carrying amount of these instruments approximates fair value because of their short-term nature. The Company’s long-term debt obligation bears interest at floating market rates, therefore carrying amounts and fair value are approximately equal.

**Fair Value on a Nonrecurring Basis**

The Company applies the provisions of the fair value measurement standard on a non-recurring basis to its non-financial assets and liabilities, including oil and gas properties, goodwill, business combinations, asset retirement obligations and performance units. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments if

**EARTHSTONE ENERGY, INC.**

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

events or changes in certain circumstances indicate that adjustments may be necessary. Due to significant declines in commodity prices and global demand for oil and natural gas products resulting from the COVID-19 pandemic, the Company assessed the fair values of its oil and natural gas properties and goodwill resulting in non-cash impairment charges during the three months ended March 31, 2020. No such triggering events that require further assessment were observed during the three months ended March 31, 2021. See further discussion in *Note 5. Oil and Natural Gas Properties*.

**Note 3. Derivative Financial Instruments**

*Commodity Derivative Instruments*

The Company's hedging activities primarily consist of derivative instruments entered into in order to hedge against changes in oil and natural gas prices through the use of fixed price swap agreements. Swaps exchange floating price risk in the future for a fixed price at the time of the hedge. Consistent with its hedging policy, the Company has entered into a series of derivative instruments to hedge a significant portion of its expected oil and natural gas production through December 31, 2022. Typically, these derivative instruments require payments to (receipts from) counterparties based on specific indices as required by the derivative agreements. Although not risk free, the Company believes these instruments reduce its exposure to oil and natural gas price fluctuations and, thereby, allow the Company to achieve a more predictable cash flow.

The Company's derivative instruments are cash flow hedge transactions in which it is hedging the variability of cash flow related to a forecasted transaction. The Company does not enter into derivative instruments for trading or other speculative purposes. These transactions are recorded in the Condensed Consolidated Financial Statements in accordance with FASB ASC Topic 815. The Company has accounted for these transactions using the mark-to-market accounting method. Generally, the Company incurs accounting losses on derivatives during periods where prices are rising and gains during periods where prices are falling which may cause significant fluctuations in the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations.

The Company nets its derivative instrument fair value amounts executed with each counterparty pursuant to an International Swap Dealers Association Master Agreement ("ISDA"), which provides for net settlement over the term of the contract. The ISDA is a standard contract that governs all derivative contracts entered into between the Company and the respective counterparty. The ISDA allows for offsetting of amounts payable or receivable between the Company and the counterparty, at the election of both parties, for transactions that occur on the same date and in the same currency.

The Company had the following open crude oil and natural gas derivative contracts as of March 31, 2021:

Period	Commodity	Price Swaps	
		Volume (Bbls / MMBtu)	Weighted Average Price (\$/Bbl / \$/MMBtu)
Q2 - Q4 2021	Crude Oil	2,389,910	\$ 48.43
Q1 - Q4 2022	Crude Oil	1,458,500	\$ 52.96
Q2 - Q4 2021	Crude Oil Basis Swap (1)	739,910	\$ 0.32
Q2 - Q4 2021	Crude Oil Basis Swap (2)	1,375,000	\$ 1.05
Q2 - Q4 2021	Crude Oil Roll Swap (3)	739,910	\$ (0.26)
Q1 - Q4 2022	Crude Oil Basis Swap (1)	1,368,750	\$ 0.74
Q2 - Q4 2021	Natural Gas	5,500,000	\$ 2.81
Q1 - Q4 2022	Natural Gas	450,000	\$ 2.97
Q2 - Q4 2021	Natural Gas Basis Swap (4)	5,500,000	\$ (0.37)
Q1 - Q4 2022	Natural Gas Basis Swap (4)	450,000	\$ (0.23)

- (1) The basis differential price is between WTI Midland Crude TMA and the WTI NYMEX.
- (2) The basis differential price is between WTI Midland Crude CMA and the WTI NYMEX.
- (3) The swap is between WTI Roll and the WTI NYMEX.
- (4) The basis differential price is between W. Texas (WAHA) and the Henry Hub NYMEX.

*Interest Rate Swaps*

**EARTHSTONE ENERGY, INC.**

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

At times, the Company’s hedging activities include the use of interest rate swaps entered into in order to manage cash flow variability resulting from changes in interest rates. These derivative instruments are not accounted for under hedge accounting.

The Company had the following interest rate swaps as of March 31, 2021:

Effective Dates	Notional Amount	Fixed Rate
May 5, 2020 to May 5, 2022	\$125,000,000	0.286 %
May 5, 2022 to May 5, 2023	\$100,000,000	0.286 %
May 5, 2023 to May 7, 2024	\$75,000,000	0.286 %

The following table summarizes the location and fair value amounts of all derivative instruments in the Condensed Consolidated Balance Sheets as well as the gross recognized derivative assets, liabilities, and amounts offset in the Condensed Consolidated Balance Sheets (*in thousands*):

Derivatives not designated as hedging contracts under ASC Topic 815	Balance Sheet Location	March 31, 2021			December 31, 2020		
		Gross Recognized Assets / Liabilities	Gross Amounts Offset	Net Recognized Assets / Liabilities	Gross Recognized Assets / Liabilities	Gross Amounts Offset	Net Recognized Assets / Liabilities
Commodity contracts	Derivative asset - current	\$ 990	\$ (794)	\$ 196	\$ 11,071	\$ (3,562)	\$ 7,509
Commodity contracts	Derivative liability - current	\$ 25,678	\$ (794)	\$ 24,884	\$ 4,492	\$ (3,562)	\$ 930
Interest rate swaps	Derivative liability - current	\$ 179	\$ —	\$ 179	\$ 205	\$ —	\$ 205
Commodity contracts	Derivative asset - noncurrent	\$ 1,152	\$ (117)	\$ 1,035	\$ 396	\$ —	\$ 396
Commodity contracts	Derivative liability - noncurrent	\$ 2,683	\$ (117)	\$ 2,566	\$ —	\$ —	\$ —
Interest rate swaps	Derivative asset - noncurrent	\$ 460	\$ —	\$ 460	\$ —	\$ —	\$ —
Interest rate swaps	Derivative liability - noncurrent	\$ —	\$ —	\$ —	\$ 173	\$ —	\$ 173

The following table summarizes the location and amounts of the Company’s realized and unrealized gains and losses on derivatives instruments in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows (*in thousands*):

Derivatives not designated as hedging contracts under ASC Topic 815		Three Months Ended March 31,	
		2021	2020
Statement of Cash Flows Location	Statement of Operations Location		
Unrealized (loss) gain	Not separately presented	\$ (22,358)	\$ 90,045
Realized (loss) gain	Operating portion of net cash (paid) received in settlement of derivative contracts	(10,905)	9,739
	Total (loss) gain on derivative contracts, net	\$ (33,263)	\$ 99,784

Included in Accounts receivable under the subheading of Joint interest billings and other in the Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020 are \$0.01 million and \$2.3 million, respectively, related to commodity hedge contracts settled as of that date for which the cash has not been received.

**Note 4. Acquisitions**

*IRM Acquisition*

As part of the execution of its growth strategy to further increase its scale, on January 7, 2021, the Company completed the acquisition (the “IRM Acquisition”) of all of the issued and outstanding limited liability company interests in Independence Resources Management, LLC (“IRM”) and certain wholly owned subsidiaries for consideration consisting of the following: (i) net cash of approximately \$134.3 million (the “Cash Consideration”) and (ii) 12,719,594 shares of the Company’s Class A

**EARTHSTONE ENERGY, INC.**

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

common stock, \$0.001 par value per share (“Class A Common Stock”), issued to Independence Resources Holdings, LLC. The fair value of each share of Class A Common Stock was determined using the closing price of \$6.02 per share on January 7, 2021. The purchase agreement contains customary representations and warranties for transactions of this nature. The Company has obtained representation and warranty insurance to provide coverage in the event of certain breaches of representations and warranties of the seller contained in the purchase agreement, which will be subject to various exclusions, deductibles and other terms and conditions set forth therein.

The IRM Acquisition has been accounted for as a business combination using the acquisition method of accounting, with Earthstone identified as the acquirer. The preliminary allocation of the total purchase price in the IRM Acquisition is based upon management’s estimates of and assumptions related to the fair value of assets acquired and liabilities assumed. Although the purchase price allocation is substantially complete as of the date of this filing, there may be further adjustments to the Company’s oil and natural gas properties. These amounts will be finalized no later than one year from the acquisition date. The consideration transferred, fair value of assets acquired and liabilities assumed by Earthstone were recorded as follows (in thousands, except share amounts and stock price):

**Consideration:**

Shares of Earthstone Class A Common Stock issued	12,719,594
Earthstone Class A Common Stock price as of January 7, 2021	\$ 6.02
Class A Common Stock consideration	76,572
Cash consideration <sup>(1)</sup>	137,302
<b>Total consideration transferred</b>	<b>\$ 213,874</b>

**Fair value of assets acquired:**

Cash	\$ 2,992
Other current assets	10,925
Oil and gas properties	225,905
Other non-current assets	258
Amount attributable to assets acquired	\$ 240,080

**Fair value of liabilities assumed:**

Derivative liability - current	\$ 10,177
Other current liabilities	5,742
Asset retirement obligation - noncurrent	10,287
Amount attributable to liabilities assumed	\$ 26,206

(1) Net cash consideration of \$134.3 million consists of \$137.3 million gross cash remitted at closing less \$3.0 million of cash acquired.

The following unaudited supplemental pro forma condensed results of operations present consolidated information as though the IRM Acquisition had been completed as of January 1, 2020. The unaudited supplemental pro forma financial information was derived from the historical consolidated and combined statements of operations for IRM and Earthstone and adjusted to include depletion expense applied to the adjusted basis of the properties acquired. These unaudited supplemental pro forma results of operations are provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined

**EARTHSTONE ENERGY, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

company in the future. Future results may vary significantly from the results reflected in this unaudited pro forma financial information (in thousands, except per share amounts):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 77,268	\$ 65,533
Loss before taxes	(12,506)	148,296
Net loss	(12,188)	146,791
Less: Net loss attributable to noncontrolling interest	(5,453)	66,294
Net loss attributable to Earthstone Energy, Inc.	(6,735)	80,497
Pro forma net (loss) income per common share attributable to Earthstone Energy, Inc.:		
Basic and diluted	\$ (0.14)	\$ 1.91

The Company has included in its Condensed Consolidated Statements of Operations, revenues of \$20.3 million and operating expenses of \$13.5 million for the period January 7, 2021 to March 31, 2021 related to the IRM Acquisition. During the three months ended March 31, 2021, the Company recorded \$3.3 million of legal and professional fees, and employee severance costs related to the IRM Acquisition which are included in Transaction costs in the Condensed Consolidated Statements of Operations.

The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair value of oil and gas properties and asset retirement obligations were measured using the discounted cash flow technique of valuation.

Significant inputs to the valuation of oil and gas properties include estimates of: (i) reserves, (ii) future operating and development costs, (iii) future commodity prices, (iv) future plugging and abandonment costs, (v) estimated future cash flows, and (vi) a market-based weighted average cost of capital rate. These inputs require significant judgments and estimates and are the most sensitive and subject to change.

*Other Acquisitions*

On March 31, 2021, Earthstone, EEH, Tracker Resource Development III, LLC, a Delaware limited liability company (“Tracker”), and TRD III Royalty Holdings (TX), LP, a Delaware limited partnership (“RoyaltyCo”), entered into a purchase and sale agreement (the “Tracker Agreement”), which provides that EEH will acquire (the “Tracker Acquisition”) interests in oil and gas leases and related property of Tracker located in Irion County, Texas (the “Tracker Assets”). It is expected that, upon closing the Tracker Acquisition, Tracker would receive \$29.6 million in cash and 4.7 million shares of the Company’s Class A Common Stock. Also on March 31, 2021, Earthstone, EEH, SEG-TRD LLC, a Delaware limited liability company (“SEG-I”), and SEG-TRD II LLC, a Delaware limited liability company (“SEG-II” and collectively with SEG-I, “Sequel”) entered into a purchase and sale agreement (the “Sequel Agreement” and collectively with the Tracker Agreement, the “Tracker/Sequel Purchase Agreements”), which provides that EEH will acquire (the “Sequel Acquisition” and collectively with the Tracker Acquisition, the “Acquisitions”) certain well-bore interests and related equipment for a purchase price of \$52.0 million in cash and 1.5 million shares of the Company’s Class A Common Stock. The Tracker/Sequel Purchase Agreements contain customary representations and warranties for transactions of this nature. The Acquisitions are subject to shareholder approval.

**Note 5. Oil and Natural Gas Properties**

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Under this method, costs to acquire oil and natural gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells are capitalized. Exploration costs, including unsuccessful exploratory wells and geological and geophysical costs, are charged to operations as incurred. Upon sale or retirement of oil and natural gas properties, the costs and related accumulated depreciation, depletion and amortization are eliminated from the accounts and the resulting gain or loss is recognized.

Costs incurred to maintain wells and related equipment, lease and well operating costs, and other exploration costs are charged to expense as incurred. Gains and losses arising from the sale of properties are included in Income from operations in the Condensed Consolidated Statements of Operations.

**EARTHSTONE ENERGY, INC.**

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

The Company's lease acquisition costs and development costs of proved oil and natural gas properties are amortized using the units-of-production method, at the field level, based on total proved reserves and proved developed reserves, respectively. For the three months ended March 31, 2021, depletion expense for oil and gas producing property and related equipment was \$24.2 million. For the three months ended March 31, 2020, depletion expense for oil and gas producing property and related equipment was \$24.5 million.

*Proved Properties*

Proved oil and natural gas properties are reviewed for impairment on a nonrecurring basis. The impairment charge reduces the carrying values to their estimated fair values. These fair value measurements are classified as Level 3 measurements and include many unobservable inputs. Fair value is calculated as the estimated discounted future net cash flows attributable to the assets. The Company's primary assumptions in preparing the estimated discounted future net cash flows to be recovered from oil and gas properties are based on (i) proved reserves, (ii) forward commodity prices and assumptions as to costs and expenses, and (iii) the estimated discount rate that would be used by potential purchasers to determine the fair value of the assets.

*Unproved Properties*

Unproved properties consist of costs incurred to acquire undeveloped leases. Unproved oil and gas leases are generally for a primary term of three to five years. In most cases, the term of the unproved leases can be extended by paying a lease renewal fee, meeting contractual drilling obligations, or by the presence of producing wells on the leases. Unproved costs related to successful drilling on unproved leases are reclassified to proved properties.

The Company reviews its unproved properties periodically for impairment. In determining whether an unproved property is impaired, the Company considers numerous factors including, but not limited to, current exploration and development plans, favorable or unfavorable exploration activity on the property being evaluated and/or adjacent properties, the Company's geologists' evaluation of the property, and the remaining months in the lease term for the property.

*Impairments to Oil and Natural Gas Properties*

During the three months ended March 31, 2021, the Company did not record any impairments to its oil and natural gas properties.

During the three months ended March 31, 2020, as a result of the decline in crude oil price futures at the time, the Company recorded the following non-cash impairment charges:

<i>(In thousands)</i>	<u>Eagle Ford Trend</u>	<u>Midland Basin</u>	<u>Corporate</u>	<u>Total</u>
Proved properties	\$ 25,252	\$ —	\$ —	\$ 25,252
Unproved properties	11,311	—	—	11,311
Acreage expirations (1)	394	5,794	—	6,188
Goodwill	—	—	17,620	17,620
	<u>\$ 36,957</u>	<u>\$ 5,794</u>	<u>\$ 17,620</u>	<u>\$ 60,371</u>

(1) Impairments in unproved properties resulting from acreage deemed expired (not planned to be renewed).

**Note 6. Noncontrolling Interest**

Earthstone consolidates the financial results of EEH and its subsidiaries and records a noncontrolling interest for the economic interest in Earthstone held by the members of EEH other than Earthstone and Lynden US. Net (loss) income attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020 represents the portion of net (loss) income attributable to the economic interest in the Company held by the members of EEH other than Earthstone and Lynden US. Noncontrolling interest in the Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020 represents the portion of net assets of the Company attributable to the members of EEH other than Earthstone and Lynden US.

**EARTHSTONE ENERGY, INC.**

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

The following table presents the changes in noncontrolling interest for the three months ended March 31, 2021:

	EEH Units Held By Earthstone and Lynden US	%	EEH Units Held By Others	%	Total EEH Units Outstanding
As of December 31, 2020	30,343,421	46.4 %	35,009,371	53.6 %	65,352,792
EEH Units issued in connection with the IRM Acquisition	12,719,594		—		12,719,594
EEH Units and Class B Common Stock converted to Class A Common Stock	578,031		(578,031)		—
EEH Units issued in connection with the vesting of restricted stock units	463,495		—		463,495
As of March 31, 2021	<u>44,104,541</u>	<u>56.2 %</u>	<u>34,431,340</u>	<u>43.8 %</u>	<u>78,535,881</u>

**Note 7. Net (Loss) Income Per Common Share**

Net (loss) income per common share—basic is calculated by dividing Net (loss) income by the weighted average number of shares of common stock outstanding during the period. Net (loss) income per common share—diluted assumes the conversion of all potentially dilutive securities and is calculated by dividing Net (loss) income by the sum of the weighted average number of shares of common stock, as defined above, outstanding plus potentially dilutive securities. Net (loss) income per common share—diluted considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares, as defined above, would have an anti-dilutive effect.

A reconciliation of Net (loss) income per common share is as follows:

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Net (loss) income attributable to Earthstone Energy, Inc.	\$ (5,833)	\$ 16,708
Net (loss) income per common share attributable to Earthstone Energy, Inc.:		
Basic	\$ (0.14)	\$ 0.57
Diluted	\$ (0.14)	\$ 0.57
Weighted average common shares outstanding		
Basic	42,778,916	29,497,428
Add potentially dilutive securities:		
Unvested restricted stock units (1)	—	—
Unvested performance units (1)	—	—
Diluted weighted average common shares outstanding	42,778,916	29,497,428

(1) For the three months ended March 31, 2021, the Company had no dilutive effect related to unvested restricted stock units or performance units due to the loss for the period. For the three months ended March 31, 2020, the Company had no dilutive effect related to unvested restricted stock units or performance units as, under the treasury stock method, the proceeds from the average unrecognized expense for the period were in excess of the weighted average outstanding fair value for the unvested shares for the same period.

The Class B common stock, \$0.001 par value per share of Earthstone (the “Class B Common Stock”), has been excluded, as its conversion would eliminate noncontrolling interest and net loss attributable to noncontrolling interest of \$4.7 million for the three months ended March 31, 2021 and net income attributable to noncontrolling interest of \$20.0 million for the three months ended March 31, 2020 would be added back to Net (loss) income attributable to Earthstone Energy, Inc. for the periods then ended, having no dilutive effect on Net (loss) income per common share attributable to Earthstone Energy, Inc.

**EARTHSTONE ENERGY, INC.**

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

**Note 8. Common Stock**

*Class A Common Stock*

At March 31, 2021 and December 31, 2020, there were 44,104,541 and 30,343,421 shares of Class A Common Stock issued and outstanding, respectively. In connection with the IRM Acquisition, on January 7, 2021, Earthstone issued 12,719,594 shares of Class A Common Stock valued at approximated \$76.6 million on that date. During the three months ended March 31, 2021, as a result of the vesting and settlement of restricted stock units under the Earthstone Energy, Inc. Amended and Restated 2014 Long-Term Incentive Plan, as amended (the “2014 Plan”), Earthstone issued 721,259 shares of Class A Common Stock, of which 257,764 shares of Class A Common Stock were retained as treasury stock and canceled to satisfy the related employee income tax liability. During the three months ended March 31, 2020, as a result of the vesting and settlement of restricted stock units under the 2014 Plan, Earthstone issued 307,529 shares of Class A Common Stock, of which 75,695 shares of Class A Common Stock were retained as treasury stock and canceled to satisfy the related employee income tax liability. Additionally, as discussed below, shares of Class A Common Stock were issued as the result of conversions of Class B Common Stock.

*Class B Common Stock*

At March 31, 2021 and December 31, 2020, there were 34,431,340 and 35,009,371 shares of Class B Common Stock issued and outstanding, respectively. Each share of Class B Common Stock, together with one EEH Unit, is convertible into one share of Class A Common Stock. During the three months ended March 31, 2021, 578,031 shares of Class B Common Stock and EEH Units were exchanged for an equal number of shares of Class A Common Stock. During the three months ended March 31, 2020, 199,993 shares of Class B Common Stock and EEH Units were exchanged for an equal number of shares of Class A Common Stock.

**Note 9. Stock-Based Compensation**

*Restricted Stock Units*

The 2014 Plan, allows, among other things, for the grant of restricted stock units (“RSUs”). As of March 31, 2021, the maximum number of shares of Class A Common Stock that may be issued under the 2014 Plan was 9.4 million shares.

Each RSU represents the contingent right to receive one share of Class A Common Stock. The holders of outstanding RSUs do not receive dividends or have voting rights prior to vesting and settlement. The Company determines the fair value of granted RSUs based on the market price of the Class A Common Stock on the date of the grant. Compensation expense for granted RSUs is recognized on a straight-line basis over the vesting and is net of forfeitures, as incurred. Stock-based compensation is included in General and administrative expense in the Condensed Consolidated Statements of Operations and is recorded with a corresponding increase in Additional paid-in capital within the Condensed Consolidated Balance Sheets.

The table below summarizes RSU award activity for the three months ended March 31, 2021:

	Shares	Weighted-Average Grant Date Fair Value
Unvested RSUs at December 31, 2020	1,050,908	\$ 5.55
Granted	546,600	\$ 5.33
Vested	(266,259)	\$ 5.99
Unvested RSUs at March 31, 2021	<u>1,331,249</u>	<u>\$ 5.38</u>

As of March 31, 2021, there was \$7.1 million of unrecognized compensation expense related to the RSU awards which will be recognized over a weighted average period of 0.99 years.

For the three months ended March 31, 2021 and 2020, Stock-based compensation related to RSUs was \$1.5 million and \$1.7 million, respectively.

*Performance Units*

**EARTHSTONE ENERGY, INC.**

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

The table below summarizes performance unit (“PSU”) activity for the three months ended March 31, 2021:

	Shares	Weighted-Average Grant Date Fair Value
Unvested PSUs at December 31, 2020	1,879,425	\$ 7.65
Granted	1,099,800	\$ 10.85
Vested	(455,000)	\$ 13.75
Unvested PSUs at March 31, 2021	<u>2,524,225</u>	<u>\$ 7.94</u>

On January 27, 2021, the Board of Directors of Earthstone (the “Board”) granted 1,099,800 PSUs (the “2021 PSUs”) to certain officers pursuant to the 2014 Plan (the “2021 Grant”). The 2021 PSUs are payable in cash based upon the achievement by the Company over a period commencing on January 1, 2021 and ending on December 31, 2023 (the “Performance Period”) of certain performance criteria established by the Board. The Company classifies these awards that will be settled in cash as liability awards. All previous PSU grants will be settled in shares and are classified as equity awards.

The 2021 PSUs are eligible to be earned based on the annualized Total Shareholder Return (“TSR”) of the Class A Common Stock during a three-year period beginning on February 1, 2021. Between 0x to 2.0x of the Performance Units are eligible to be earned based on Earthstone achieving an annualized TSR based on the following pre-established goals:

Earthstone’s Annualized TSR	TSR Multiplier
20.5% or greater	2
14.5%	1
7.7%	0.5
Less than 7.7%	0

The Company accounts for these awards as market-based awards which are valued quarterly utilizing the Monte Carlo Simulation pricing model, which calculates multiple potential outcomes for an award and establishes grant date fair value based on the most likely outcome. For the 2021 PSUs, assuming a risk-free rate of 0.3% and volatility of 86.0%, the Company calculated the weighted average grant date fair value per PSU to be \$10.85. Based on the fair value of the 2021 PSUs, the Company recorded stock-based compensation expense of \$0.7 million during the three months ended March 31, 2021. A corresponding liability of \$0.7 million related to the 2021 PSUs is included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheet as of March 31, 2021.

As of March 31, 2021, there was \$16.2 million of unrecognized compensation expense related to all PSU awards which will be amortized over a weighted average period of 1.23 years.

For the three months ended March 31, 2021 and 2020, Stock-based compensation related to all PSUs was approximately \$1.8 million and \$1.0 million, respectively.

**Note 10. Long-Term Debt**

*Credit Facility*

On November 21, 2019, Earthstone, EEH (the “Borrower”), Wells Fargo Bank, National Association, as Administrative Agent and Issuing Bank (“Wells Fargo”), Royal Bank of Canada, as Syndication Agent, BOKF, NA dba Bank of Texas (“BOKF”) as Issuing Bank with respect to Existing Letters of Credit, SunTrust Bank, as Documentation Agent, and the lenders party thereto (the “Lenders”) entered into a credit agreement (the “Credit Facility”), which replaced the prior credit facility, which was terminated on November 21, 2019.

On December 17, 2020, Earthstone, EEH, as Borrower, Wells Fargo, as Administrative Agent, the guarantors party thereto, and the lenders party thereto (the “Lenders”) entered into an amendment (the “Second Amendment”) to the credit agreement dated November 21, 2019, by and among EEH, as Borrower, Earthstone, as Parent, Wells Fargo, as Administrative Agent and Issuing Bank, BOKF, NA dba Bank of Texas, as Issuing Bank with respect to Existing Letters of Credit, Royal Bank of Canada, as Syndication Agent, Truist Bank, as successor by merger to SunTrust Bank, as Documentation Agent, and the Lenders party thereto (collectively, the “Parties”) to the Credit Agreement. The Second Amendment was effective upon the closing of the IRM Acquisition described in *Note 4. Acquisitions*. Among other things, the Second Amendment (i) joined certain financial institutions as additional lenders, increased the borrowing base from \$240.0 million to \$360.0 million, (ii) increased the interest rate on outstanding borrowings; and (iii) adjusted some of the financial covenants.

**EARTHSTONE ENERGY, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

On April 20, 2021, the Parties entered into an amendment (the “Third Amendment”) to the Credit Agreement under which the borrowing base has been increased from \$360 million to \$475 million in connection with its regularly scheduled redetermination. Further, the Third Amendment provides for an increase in the borrowing base from \$475 million to \$550 million upon closing of the Tracker/Sequel Purchase Agreements described in *Note 4. Acquisitions*.

The next regularly scheduled redetermination of the borrowing base is expected to occur on or around October 1, 2021. Subsequent redeterminations are expected to occur on or about each May 1st and November 1st thereafter. The amounts borrowed under the Credit Facility bear annual interest rates at either (a) the adjusted LIBO Rate (as customarily defined) (the “Adjusted LIBO Rate”) plus 2.50% to 3.75% or (b) the sum of (i) the greatest of (A) the prime rate of Wells Fargo, (B) the federal funds rate plus ½ of 1.0%, and (C) the Adjusted LIBO Rate for an interest rate period of one month plus 1.0%, (ii) plus 1.50% to 2.75%, depending on the amount borrowed under the Credit Facility. Principal amounts outstanding under the Credit Facility are due and payable in full at maturity on November 21, 2024. All of the obligations under the Credit Facility, and the guarantees of those obligations, are secured by substantially all of EEH’s assets. Additional payments due under the Credit Facility include paying a commitment fee of 0.375% to 0.50% per year, depending on the amount borrowed under the Credit Facility, to the Lenders in respect of the unutilized commitments thereunder. EEH is also required to pay customary letter of credit fees.

Effective May 2020, the Company entered into certain interest rate swaps, exchanging the LIBO Rate for a fixed rate of 0.286% (the “Swap”). The initial notional amount of the Swap is \$125 million through May 2022 and decreases to \$100 million through May 2023 and \$75 million through May 2024.

The Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, EEH’s ability to incur additional indebtedness, create liens on assets, make investments, pay dividends and distributions or repurchase its limited liability interests, engage in mergers or consolidations, sell certain assets, sell or discount any notes receivable or accounts receivable and engage in certain transactions with affiliates.

In addition, the Credit Facility requires EEH to maintain the following financial covenants: a current ratio of not less than 1.0 to 1.0 and a consolidated leverage ratio of not greater than 3.5 to 1.0. Consolidated leverage ratio means the ratio of (i) the aggregate debt of EEH and its consolidated subsidiaries as at the last day of the fiscal quarter to (ii) EBITDAX for the applicable period, which was calculated as EBITDAX for the four consecutive fiscal quarters ending on such date. The term “EBITDAX” means, for any period, the sum of consolidated net income for such period plus (a) the following expenses or charges to the extent deducted from consolidated net income in such period: (i) interest, (ii) taxes, (iii) depreciation, (iv) depletion, (v) amortization, (vi) certain distributions to employees related to the stock compensation, (vii) certain transaction related expenses, (viii) reimbursed indemnification expenses related to certain dispositions and investments, (ix) non-cash extraordinary, usual, or nonrecurring expenses or losses, (x) other non-cash charges and minus (b) to the extent included in consolidated net income in such period: (i) non-cash income, (ii) gains on asset dispositions, disposals and abandonments outside of the ordinary course of business and (iii) to the extent not otherwise deducted from consolidated net income, the aggregate amount of any pass-through cash distributions received by Borrower during such period in an amount equal to the aggregate amount of pass-through cash distributions actually made by Borrower during such period.

The Credit Facility contains customary affirmative covenants and defines events of default to include failure to pay principal or interest, breach of covenants, breach of representations and warranties, insolvency, judgment default and a change in control. Upon the occurrence and continuance of an event of default, the Lenders have the right to accelerate repayment of the loans and exercise their remedies with respect to the collateral. As of March 31, 2021, EEH was in compliance with the covenants under the Credit Facility.

As of March 31, 2021, \$223.4 million of borrowings were outstanding, bearing annual interest of 3.384%, resulting in an additional \$136.6 million of borrowing base availability under the Credit Facility. At December 31, 2020, there were \$115.0 million of borrowings outstanding under the Credit Facility.

For the three months ended March 31, 2021, under the Credit Facility, the Company had borrowings of \$177.1 million and \$68.7 million in repayments of borrowings.

For the three months ended March 31, 2021, interest on borrowings under the Credit Facility averaged 3.19% per annum, which excluded commitment fees of \$0.3 million and amortization of deferred financing costs of \$0.1 million. For the three months ended March 31, 2020, interest on borrowings under the Credit Facility averaged 3.60% per annum, which excluded commitment fees of \$0.2 million and amortization of deferred financing costs of \$0.1 million.

The Company’s policy is to capitalize the financing costs associated with its debt and amortize those costs on a straight-line basis over the term of the associated debt. These capitalized costs are included in Other noncurrent assets in the Condensed Consolidated Balance Sheets. During the three months ended March 31, 2021, the Company capitalized \$0.9 million of costs

**EARTHSTONE ENERGY, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

associated with the Credit Facility. No costs associated with the Credit Facility were capitalized during the three months ended March 31, 2020.

**Note 11. Asset Retirement Obligations**

The Company has asset retirement obligations associated with the future plugging and abandonment of oil and gas properties and related facilities. Revisions to the liability typically occur due to changes in the estimated abandonment costs, well economic lives, and the discount rate.

The following table summarizes the Company's asset retirement obligation transactions recorded during the three months ended March 31, (*in thousands*):

	<b>2021</b>
Beginning asset retirement obligations	\$ 3,027
Liabilities incurred	427
Liabilities settled	(15)
Acquisitions	10,287
Accretion expense	290
Ending asset retirement obligations	<u>\$ 14,016</u>

**Note 12. Related Party Transactions**

FASB ASC Topic 850, *Related Party Disclosures*, requires that information about transactions with related parties that would make a difference in decision making shall be disclosed so that users of the financial statements can evaluate their significance.

Earthstone's significant shareholder consists of various investment funds managed by a private equity firm who may manage other investments in entities with which the Company interacts in the normal course of business (the "Significant Shareholder"). On February 12, 2020, the Company sold certain of its interests in oil and natural gas leases and wells in an arm's length transaction to a portfolio company of the Significant Shareholder (not under common control) for cash consideration of approximately \$0.4 million.

In connection with the *Olenik v. Lodzinski et al.* lawsuit described below in *Note 13. Commitments and Contingencies*, the significant shareholder was also named in the lawsuit. As a result of the Settlement Agreement (defined below), the Company has concluded negotiations with its insurance carrier regarding an allocation of defense costs and settlement contributions above its deductible for all the parties named in the lawsuit. In connection with the Court approved Settlement, the significant shareholder was billed approximately \$1.1 million and this amount has been reimbursed as of March 31, 2021.

As discussed in *Note 4. Acquisitions*, on March 31, 2021, the Company entered into the Tracker/Sequel Purchase Agreements. Pursuant to the Tracker/Sequel Purchase Agreements, the Company will acquire the Tracker Assets for a purchase price of \$29.6 million in cash and 4.7 million shares of the Company's Class A Common Stock. The Significant Shareholder owns approximately 49% of Tracker and is expected to receive approximately 49% of the Tracker purchase price.

**Note 13. Commitments and Contingencies***Legal*

From time to time, Earthstone and its subsidiaries may be involved in various legal proceedings and claims in the ordinary course of business.

*Olenik v. Lodzinski et al.*: On June 2, 2017, Nicholas Olenik filed a purported shareholder class and derivative action in the Delaware Court of Chancery against Earthstone's Chief Executive Officer, along with other members of the Board, EnCap Investments L.P. ("EnCap"), Bold, Bold Holdings and Oak Valley Resources, LLC. The complaint alleged that Earthstone's directors breached their fiduciary duties in connection with the contribution agreement dated as of November 7, 2016 and as amended on March 21, 2017 (the "Bold Contribution Agreement"), by and among Earthstone, EEH, Lynden US, Lynden USA Operating, LLC, Bold Holdings and Bold. The Plaintiff asserted that the directors negotiated the business combination pursuant to the Bold Contribution Agreement (the "Bold Transaction") to benefit EnCap and its affiliates, failed to obtain adequate consideration for the Earthstone shareholders who were not affiliated with EnCap or Earthstone management, did not follow an adequate process in negotiating and approving the Bold Transaction and made materially misleading or incomplete proxy

**EARTHSTONE ENERGY, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

disclosures in connection with the Bold Transaction. The suit sought unspecified damages and purported to assert claims derivatively on behalf of Earthstone and as a class action on behalf of all persons who held common stock up to March 13, 2017, excluding defendants and their affiliates. On July 20, 2018, the Delaware Court of Chancery granted the defendants' motion to dismiss and entered an order dismissing the action in its entirety with prejudice. The Plaintiff filed an appeal with the Delaware Supreme Court. On April 5, 2019, the Delaware Supreme Court affirmed the Delaware Court of Chancery's dismissal of the proxy disclosure claims but reversed the Delaware Court of Chancery's dismissal of the other claims, holding that the allegations with respect to those claims were sufficient for pleading purposes. After engaging in extensive pre-trial discovery, the parties engaged in a mediation process that resulted in a non-binding settlement term sheet on September 21, 2020. The term sheet was translated into a Stipulation and Agreement of Compromise, Settlement and Release Agreement (the "Settlement Agreement") between the parties and was filed with the Delaware Court of Chancery for approval. The principal terms of the Settlement Agreement are as follows: (i) a \$3.5 million all-in cash settlement payment (the "Fund") to be funded by defendants and/or their insurers into an escrow account, (ii) a bi-lateral complete and full release of all claims against defendants and plaintiffs, and (iii) that 55% of the Fund (the derivative payment) be paid to Earthstone to be used as determined by management, according to their fiduciary duties and business judgment, 45% of the Fund (the class payment) be paid to members of the class or current stockholders of Earthstone. On March 31, 2021, the Court approved the Settlement Agreement and the Company paid the \$3.5 million settlement shortly thereafter. The insurance carriers immediately reimbursed their agreed upon allocation of the settlement totaling \$2.8 million and in addition, the Company has received \$1.3 million from the derivative portion of the settlement, which is included as a reduction of Transaction costs in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2021.

*Environmental and Regulatory*

As of March 31, 2021, there were no known environmental or other regulatory matters related to the Company's operations that are reasonably expected to result in a material liability to the Company.

**Note 14. Income Taxes**

The Company's corporate structure requires the filing of two separate consolidated U.S. Federal income tax returns and one Canadian income tax return which include Lynden US, Earthstone, and Lynden Corp. As such, taxable income of Earthstone cannot be offset by tax attributes, including net operating losses, of Lynden US, nor can taxable income of Lynden US be offset by tax attributes of Earthstone. Earthstone and Lynden US record a tax provision, respectively, for their share of the book income or loss of EEH, net of the non-controlling interest. As EEH is treated as a partnership for U.S. Federal income tax purposes, it is not subject to income tax at the federal level and only recognizes the Texas Margin Tax.

As of March 31, 2021 and December 31, 2020, a current liability of \$0.9 million and \$0.6 million, respectively, is included in Other current liabilities in the Condensed Consolidated Balance Sheets. The amounts represent the 2020 Texas Margin Tax payable in June 2021. The additional \$0.3 million recorded in 2021 is IRM's 2020 Texas Margin Tax liability acquired in the IRM Acquisition.

During the three months ended March 31, 2021, the Company recorded income tax expense of approximately \$0.3 million which included (1) a deferred income tax benefit for Lynden US of \$0.2 million as a result of its share of the distributable income from EEH, (2) no net income tax benefit for Earthstone as the \$1.2 million income tax benefit resulting from its share of the distributable loss from EEH had a full valuation allowance recorded against it as future realization of the net deferred tax asset cannot be assured and (3) deferred income tax benefit of \$0.1 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the three months ended March 31, 2021.

During the three months ended March 31, 2020, the Company recorded income tax expense of approximately \$1.1 million which included (1) income tax expense for Lynden US of \$0.7 million as a result of its share of the distributable income from EEH, (2) deferred income tax expense for Earthstone of \$2.9 million as a result of its share of the distributable income from EEH, which was used to reduce the valuation allowance recorded against its deferred tax asset which was previously recorded as future realization of the net deferred tax asset cannot be assured and (3) deferred income tax expense of \$0.4 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the three months ended March 31, 2020.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### *Statement Regarding Forward-Looking Information*

This discussion and other items in this Quarterly Report on Form 10-Q contain forward-looking statements and information that are based on management’s beliefs, as well as assumptions made by, and information currently available to, management. When used in this document, the words “believe,” “anticipate,” “estimate,” “expect,” “intend,” “may,” “will,” “project,” “forecast,” “plan,” and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to numerous risks, uncertainties and assumptions. Certain of these risks are summarized under “Item 1A. Risk Factors” in our 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”), which you should read carefully in connection with our forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated. We undertake no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

You should read “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in conjunction with the corresponding sections and our audited consolidated financial statements for the year ended December 31, 2020, which are included in our 2020 Annual Report on Form 10-K.

### **Overview**

Earthstone Energy, Inc., a Delaware corporation (“Earthstone” and together with our consolidated subsidiaries, the “Company,” “our,” “we,” “us,” or similar terms), is a growth-oriented independent oil and gas company engaged in the acquisition and development of oil and gas reserves through activities that include the acquisition, drilling and development of undeveloped leases, asset and corporate acquisitions and mergers. Our operations are all in the upstream segment of the oil and natural gas industry and all our properties are onshore in the United States. At present, our assets are located in the Midland Basin of west Texas and the Eagle Ford Trend of south Texas.

Our primary focus is concentrated in the Midland Basin of west Texas, a high oil and liquids rich resource basin which provides us with multiple horizontal targets with proven production results, long-lived reserves and historically high drilling success rates.

### **Recent Developments**

#### *IRM Acquisition*

On January 7, 2021, Earthstone, Earthstone Energy Holdings, LLC, a subsidiary of the Company (“EEH” and collectively with Earthstone, the “Buyer”), Independence Resources Holdings, LLC (“Independence”), and Independence Resources Manager, LLC (“Independence Manager” and collectively with Independence, the “Seller”) consummated the transactions contemplated in the Purchase and Sale Agreement dated December 17, 2020 (the “IRM Purchase Agreement”) that was previously reported on our Current Report on Form 8-K filed with the SEC on December 22, 2020. The Seller was unaffiliated with the Company. At the closing of the IRM Purchase Agreement, among other things, EEH acquired (the “IRM Acquisition”) all of the issued and outstanding limited liability company interests in certain wholly owned subsidiaries of Independence and Independence Manager (collectively, the “Acquired Entities”) for aggregate consideration consisting of the following: (i) an aggregate amount of cash from EEH equal to approximately \$134.3 million (the “Cash Consideration”) and (ii) 12,719,594 shares of Class A Common Stock issued to Independence (such shares, the “Acquisition Shares,” and such issuance, the “Stock Issuance”). As a result of the Stock Issuance, Earthstone is no longer considered a controlled company within the meaning of the listing standards of the NYSE.

In preparation for the IRM Acquisition, on December 17, 2020, Earthstone, EEH, as Borrower, Wells Fargo Bank, National Association (“Wells Fargo”), as Administrative Agent, the guarantors party thereto, and the lenders party thereto (the “Lenders”) entered into an amendment (the “Second Amendment”) to the credit agreement dated November 21, 2019, by and among EEH, as Borrower, Earthstone, as Parent, Wells Fargo, as Administrative Agent and Issuing Bank, BOKF, NA dba Bank of Texas, as Issuing Bank with respect to Existing Letters of Credit, Royal Bank of Canada, as Syndication Agent, Truist Bank, as successor by merger to SunTrust Bank, as Documentation Agent, and the Lenders party thereto (collectively, the “Parties”) (together with all amendments or other modifications, the “Credit Agreement”). The Second Amendment was effective upon the closing of the IRM Acquisition. Among other things, the Second Amendment (i) joined certain financial institutions as additional lenders, increased the borrowing base from \$240.0 million to \$360.0 million, (ii) increased the interest rate on outstanding borrowings; and (iii) adjusted some of the financial covenants.

### *Tracker/Sequel Proposed Acquisitions*

On March 31, 2021, Earthstone, EEH, Tracker Resource Development III, LLC, a Delaware limited liability company (“Tracker”), and TRD III Royalty Holdings (TX), LP, a Delaware limited partnership (“RoyaltyCo”), entered into a purchase and sale agreement (the “Tracker Agreement”), which provides that EEH will acquire (the “Tracker Acquisition”) interests in oil and gas leases and related property of Tracker located in Irion County, Texas (the “Tracker Assets”). At the closing of the Tracker Acquisition, Tracker will receive (the “Tracker Purchase Price”) (i) \$29.6 million in cash, subject to customary purchase price adjustments, and (ii) 4.7 million shares of Class A Common Stock (the “Tracker Shares”). Also, on March 31, 2021, Earthstone, EEH, SEG-TRD LLC, a Delaware limited liability company (“SEG-I”), and SEG-TRD II LLC, a Delaware limited liability company (“SEG-II” and collectively with SEG-I, “Sequel”), entered into a purchase and sale agreement (the “Sequel Agreement” and collectively with the Tracker Agreement, the “Tracker/Sequel Purchase Agreements”), which provides that EEH will acquire (the “Sequel Acquisition” and with the Tracker Acquisition, the “Transaction”) certain well-bore interests and related equipment held by Sequel that are part of a joint venture between Tracker and Sequel involving portions of the acreage covered by the Tracker Agreement (the “Sequel Assets” and collectively with the Tracker Assets, the “Assets”). At the closing of the Sequel Acquisition, Sequel will receive (the “Sequel Purchase Price”) (i) \$52.0 million in cash, subject to customary purchase price adjustments, and (ii) 1.5 million shares of Class A Common Stock (the “Sequel Shares” and collectively with the Tracker Shares, the “Transaction Shares”). The Tracker/Sequel Purchase Agreements have an effective time of 12:01 a.m., Central Time, on March 1, 2021. As a result of the Tracker/Sequel Purchase Agreements, Earthstone expects to acquire approximately 20,300 net acres located in Irion County, Texas for an aggregate purchase price of approximately \$126.5 million, consisting of \$81.6 million in cash, subject to customary closing adjustments, and 6.2 million shares of Class A Common Stock.

A significant shareholder of Earthstone owns 49% of Tracker. As a result, this transaction is subject to the approval of a majority of the group of Earthstone’s shareholders that excludes both the aforementioned significant shareholder and the executive management team. A meeting of shareholders is expected to be held during the second quarter of 2021. Both Acquisitions are expected to close in the third quarter of 2021.

On April 20, 2021, the Parties entered into an amendment (the “Third Amendment”) to the Credit Agreement under which the borrowing base was increased from \$360 million to \$475 million in connection with its regularly scheduled redetermination. Further, in preparation for the anticipated closing of the Tracker/Sequel Purchase Agreements, the Third Amendment provides for an increase in the borrowing base from \$475 million to \$550 million upon closing of the Tracker Acquisition.

### *COVID-19*

Despite the recent recoveries in commodity prices, the COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial and commodity markets. In addition, the pandemic has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. As a result, there has been significant volatility in demand for and prices of oil and natural gas. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, is uncertain and depends on various factors, including how the pandemic and measures taken in response to its impact on demand for oil and natural gas, the availability of personnel, equipment and services critical to our ability to operate our properties and the impact of potential governmental restrictions on travel, transports and operations. There is uncertainty around the extent and duration of disruption, including any resurgence, and we expect that the longer the duration of any such disruption, the greater the adverse impact may be on our business. The degree to which the COVID-19 pandemic or any other public health crisis adversely impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, its impact on the U.S. and world economies, the U.S. capital markets and market conditions, and how quickly and to what extent normal economic and operating conditions can resume.

### *Operational Status*

As a producer of oil, natural gas and NGLs, we are recognized as an essential business under various federal, state and local regulations related to the COVID-19 pandemic. We have continued to operate as permitted under these regulations while taking mitigation efforts and steps to protect the health and safety of our employees. The safety of our employees is paramount, and we have emphasized the respective guidelines to support our mitigation efforts. Our field personnel are performing their job responsibilities and practicing mitigation guidelines with no issues to date. Our non-field personnel had been working remotely, using information technology in which we previously invested. More recently, the majority of our non-field personal have been working at our corporate offices while adhering to local county and CDC guidelines. Upon returning to work at our corporate

offices, we implemented protocols that consist of required mask wearing zones, use of installed sanitization equipment in various locations and practice social distancing in gathering areas such as conference rooms. We have managed and conducted both field and non-field functions effectively thus far, including our day-to-day operations, our accounting and financial reporting systems and our internal control over financial reporting. We will continue to focus on the health and safety of our employees in conformity with the applicable jurisdictional mitigation guidelines.

#### *Commodity Market Impacts and Response*

During the course of 2020, commodity prices declined significantly, negatively impacting producers of oil natural gas and NGLs. We significantly curtailed our capital expenditures in response and, in the spring of 2020, voluntarily curtailed up to 60% of total net production. In June 2020, we returned to operating at full production capacity as oil prices began to recover. Additionally, based on recovered commodity price levels in late 2020, we resumed our operated well completions activities in the fourth quarter of 2020 and commenced a drilling program late in the first quarter of 2021.

#### *Operational/Financial Challenges*

It is difficult to model and predict how our operations and financial status may change as a result of COVID-19. In our industry, any forecast, plans and changes to operations and financial status are a function of commodity prices. If oil prices decline due to a resurgence of COVID-19, we believe we can continue to operate and produce our properties at a minimum in a cash flow neutral position for the next 12 months. We will have to manage the possibility of well shut-ins, both voluntary and involuntary, to preserve our assets and cash flows. A significant driver in the future may be the financial institutions' view on commodity prices with respect to borrowing base redeterminations. If a resurgence of COVID-19 triggers additional volatility in our business or global economies, our borrowing base, recently increased to \$475 million, could be reduced. Significant reductions in the borrowing base under our Credit Agreement could create a borrowing base deficiency depending on our loans then outstanding which may lead to a default. We believe global, as well as national, mitigation efforts currently being implemented to fight COVID-19 have had, and may continue to have, a material impact on commodity prices and may continue to present significant challenges to our industry.

The effects of COVID-19, including a substantial decrease in economic activity, have contributed to significant credit, debt and equity market volatility. Similar to other producers in our business, we experienced volatility in the price of our Class A Common Stock.

#### *Consolidation Focus*

We believe that the current industry environment will move to more consolidations; however, execution may be hampered by producers with high debt levels and sellers unwilling to acknowledge persistent low commodity prices. We continue to pursue value-accretive and scale-enhancing consolidation opportunities, as we believe we are in a position to operate effectively despite the COVID-19 induced volatility in oil price. We are focusing our attention on acquisition and corporate merger opportunities that would increase the scale of our operations. In addition, we believe the current industry environment presents unique opportunities with distressed assets or corporations that will be distressed in the near future which would provide us the potential for further consolidation because of our financial strength. At the same time, we will seek to block up acreage that would allow for longer horizontal laterals that would provide for higher economic returns. In short, we believe we are well qualified to be a consolidator which could increase the scale of our operations and add value to our shareholders.

#### **Areas of Operation**

Our primary focus is concentrated in the Midland Basin of west Texas, a high oil and liquids rich resource which provides us with multiple horizontal targets with proven production results, long-lived reserves and historically high drilling success rates.

We recently commenced our 2021 drilling program with the deployment of a rig in Midland County. After drilling on a three-well pad in the Hamman project, we expect to drill a four-well pad on the recently acquired IRM Spanish Pearl project. Thereafter, we anticipate moving the rig to Upton County and drilling 10-11 wells. Consistent with previously released guidance, we anticipate drilling 16 gross / 14.8 net operated wells and spudding an additional 5 gross / 3.7 net operated wells during 2021.

Despite the disruption in the oil markets resulting from the COVID-19 pandemic, we continue to seek acreage trades and acquisition opportunities in the Midland Basin which would allow for longer laterals, increased operated inventory and greater operating efficiency.

#### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to use our judgment to make estimates and assumptions that affect certain amounts reported in

our financial statements. As additional information becomes available, these estimates and assumptions are subject to change and thus impact amounts reported in the future. Critical accounting policies are those accounting policies that involve judgment and uncertainties affecting the application of those policies and the likelihood that materially different amounts would be reported under different conditions or using differing assumptions. We periodically update our estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. There have been no significant changes to our critical accounting policies during the three months ended March 31, 2021.

**Results of Operations**
**Three Months Ended March 31, 2021, compared to the Three Months Ended March 31, 2020**

	<b>Three Months Ended March 31,</b>		<b>Change</b>
	<b>2021</b>	<b>2020</b>	
<b>Sales volumes:</b>			
Oil (MBbl)	1,057	880	20 %
Natural gas (MMcf)	2,445	1,670	46 %
Natural gas liquids (MBbl)	365	276	32 %
Barrels of oil equivalent (MBOE)	1,829	1,435	27 %
Average Daily Production (Boepd)	20,321	15,767	29 %
<b>Average prices:</b>			
Oil (per Bbl)	\$ 57.56	\$ 46.59	24 %
Natural gas (per Mcf)	\$ 2.39	\$ 0.65	268 %
Natural gas liquids (per Bbl)	\$ 24.40	\$ 11.01	122 %
<b>Average prices adjusted for realized derivatives settlements:</b>			
Oil (\$/Bbl)	\$ 47.67	\$ 56.62	(16)%
Natural gas (\$/Mcf)	\$ 2.23	\$ 1.19	87 %
Natural gas liquids (\$/Bbl)	\$ 24.40	\$ 11.01	122 %
<i>(In thousands)</i>			
Oil revenues	\$ 60,819	\$ 41,012	48 %
Natural gas revenues	\$ 5,852	\$ 1,086	439 %
Natural gas liquids revenues	\$ 8,901	\$ 3,040	193 %
Lease operating expense	\$ 10,849	\$ 9,339	16 %
Production and ad valorem taxes	\$ 5,027	\$ 3,023	66 %
Impairment expense	\$ —	\$ 60,371	NM
Depreciation, depletion and amortization	\$ 24,407	\$ 24,656	(1)%
General and administrative expense (excluding stock-based compensation)	\$ 5,051	\$ 4,438	14 %
Stock-based compensation	\$ 3,329	\$ 2,694	24 %
General and administrative expense	\$ 8,380	\$ 7,132	17 %
Transaction costs	\$ 2,106	\$ 844	NM
Interest expense, net	\$ (2,217)	\$ (1,736)	28 %
Unrealized (loss) gain on derivative contracts	\$ (22,358)	\$ 90,045	NM
Realized (loss) gain on derivative contracts	\$ (10,905)	\$ 9,739	NM
(Loss) gain on derivative contracts, net	\$ (33,263)	\$ 99,784	NM
Income tax benefit (expense)	\$ 308	\$ (1,092)	NM

NM – Not Meaningful

*Oil revenues*

For the three months ended March 31, 2021, oil revenues increased by \$19.8 million or 48% relative to the comparable period in 2020. Of the increase, \$9.7 million was attributable to an increase in our realized price and \$10.1 million was attributable to an increase in volume. Our average realized price per Bbl increased from \$46.59 for the three months ended March 31, 2020 to \$57.56 or 24% for the three months ended March 31, 2021. Additionally, we had a net increase in the volume of oil sold of 176 MBbls or 20%, primarily due to the wells acquired in the IRM Acquisition.

*Natural gas revenues*

For the three months ended March 31, 2021, natural gas revenues increased by \$4.8 million or 439% relative to the comparable period in 2020. Of the increase, \$1.9 million was due to increased sales volume and \$2.9 million was attributable to an increase in realized price. Our average realized price per Mcf increased 268% from \$0.65 for the three months ended March 31, 2020 to \$2.39 for the three months ended March 31, 2021. In the prior year's period, lack of sufficient pipeline transportation resulted in low natural gas prices, which have improved in the current year period. The total volume of natural gas produced and sold increased 775 MMcf or 46% primarily due to the wells acquired in the IRM Acquisition.

*Natural gas liquids revenues*

For the three months ended March 31, 2021, natural gas liquids revenues increased by \$5.9 million or 193% relative to the comparable period in 2020. Of the increase, \$3.7 million was attributable to an increase in our realized price and \$2.2 million was attributable to increased volume. The volume of natural gas liquids produced and sold increased by 89 MBbls or 32%, primarily due to the wells acquired in the IRM Acquisition.

*Lease operating expense ("LOE")*

LOE increased by \$1.5 million or 16% for the three months ended March 31, 2021 relative to the comparable period in 2020, primarily due to increased number of properties as a result of the IRM Acquisition and operating expenses and workover project costs associated with wells acquired in the IRM Acquisition.

*Production and ad valorem taxes*

Production and ad valorem taxes for the three months ended March 31, 2021 increased by \$2.0 million or 66% relative to the comparable period in 2020 due to improved commodity prices and increased volume resulting from wells acquired in the IRM Acquisition.

*Impairment expense*

During the prior year quarter, we recorded non-cash impairments totaling \$60.4 million, which consisted of \$25.3 million to proved oil and natural gas properties, \$17.5 million to unproved oil and natural gas properties and \$17.6 million to goodwill. No such impairments were recorded during the three months ended March 31, 2021.

*Depreciation, depletion and amortization ("DD&A")*

DD&A for the three months ended March 31, 2021 decreased by \$0.2 million, or 1% relative to the comparable period in 2020. A decrease of \$5.9 million was due to a combination of the increased depletable reserve base resulting from higher commodity prices and substantial non-cash impairment charges in the first quarter of 2020, offset by DD&A of \$5.7 million for the three months ended March 31, 2021 related to the assets acquired in the IRM Acquisition.

*General and administrative expense ("G&A")*

G&A for the three months ended March 31, 2021 increased by \$1.2 million, or 17% relative to the comparable period in 2020, primarily due to non-cash stock-based compensation expense related to awards granted in January 2021 as well as the reinstatement of certain cash-based compensation expenses which were suspended in the prior year quarter.

*Transaction costs*

For the three months ended March 31, 2021, transaction costs increased by \$1.3 million primarily due to a \$2.6 million increase in legal and professional fees, and severance costs primarily associated with the IRM Acquisition, partially offset by \$1.3 million in reimbursements received related to the Olenik litigation.

*Interest expense, net*

Interest expense increased from \$1.7 million for the three months ended March 31, 2020 to \$2.2 million for the three months ended March 31, 2021, primarily due to higher average borrowings outstanding compared to the prior year period. See *Note 10. Long-Term Debt* in the Notes to Unaudited Condensed Consolidated Financial Statements.

*(Loss) gain on derivative contracts, net*

For the three months ended March 31, 2021, we recorded a net loss on derivative contracts of \$33.3 million, consisting of unrealized mark-to-market losses of \$23.0 million related to our commodity hedges, partially offset by unrealized mark-to-market gains of \$0.7 million related to our interest rate swap, along with net realized losses on settlements of our commodity hedges of \$10.9 million and net realized losses on our interest rate swap of \$0.1 million. For the three months ended March 31, 2020, we recorded a net gain on derivative contracts of \$99.8 million, consisting of unrealized mark-to-market gains of \$90.0 million related to our commodity hedges, partially offset by net realized gains on settlements of our commodity hedges of \$9.7 million.

*Income tax benefit (expense)*

For the three months ended March 31, 2021, the Company recorded income tax expense of approximately \$0.3 million which included (1) a deferred income tax benefit for Lynden US of \$0.2 million as a result of its share of the distributable loss from EEH, (2) no net income tax benefit for Earthstone as the \$1.2 million income tax benefit resulting from its share of the distributable loss from EEH had a full valuation allowance recorded against it as future realization of the net deferred tax asset cannot be assured and (3) a deferred income tax benefit of \$0.1 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the three months ended March 31, 2021.

During the three months ended March 31, 2020, the Company recorded income tax expense of approximately \$1.1 million which included (1) income tax expense for Lynden US of \$0.7 million as a result of its share of the distributable income from EEH, (2) deferred income tax expense for Earthstone of \$2.9 million as a result of its share of the distributable income from EEH, which was used to reduce the valuation allowance recorded against its deferred tax asset which was previously recorded as future realization of the net deferred tax asset cannot be assured and (3) deferred income tax expense of \$0.4 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the three months ended March 31, 2020.

**Liquidity and Capital Resources**

We have significant undeveloped acreage and future drilling locations. Drilling horizontal wells, generally consisting of 7,500 to 12,000-foot lateral lengths, in the Midland Basin is capital intensive. As of March 31, 2021, we had \$1.4 million in cash and \$223.4 million of long-term debt outstanding under our Credit Agreement with a borrowing base of \$360.0 million. With the \$136.6 million of undrawn borrowing base capacity and \$1.4 million in cash, we had total liquidity of approximately \$138.0 million.

As oil prices have recovered recently from their 2020 lows, we have resumed drilling operations with the deployment of a rig in the first quarter of 2021 and we expect to spend \$90-\$100 million based on our current 2021 drilling plan. We believe we will have sufficient liquidity with cash flows from operations and available borrowings under the Credit Agreement to meet our cash requirements for the next 12 months.

*Working Capital*

Working capital (presented below) was a deficit of \$46.2 million as of March 31, 2021, compared to a working capital deficit of \$20.8 million as of December 31, 2020, representing an increase in the deficit of \$25.5 million. The \$25.5 million increase in the deficit was primarily the result of a \$31.2 million decrease in the net fair value of our derivative contracts expected to settle in the 12 months subsequent to March 31, 2021 resulting from increased oil price futures as of March 31, 2021.

The components of working capital are presented below:

<i>(In thousands)</i>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Current assets:</b>		
Cash	\$ 1,447	\$ 1,494
Accounts receivable:		
Oil, natural gas, and natural gas liquids revenues	33,134	16,255
Joint interest billings and other, net of allowance of \$19 and \$19 at March 31, 2021 and December 31, 2020, respectively	6,497	7,966
Derivative asset	196	7,509
Prepaid expenses and other current assets	3,204	1,509
<b>Total current assets</b>	<b>44,478</b>	<b>34,733</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 16,891	\$ 6,232
Revenues and royalties payable	25,522	27,492
Accrued expenses	18,688	16,504
Asset retirement obligation	568	447
Derivative liability	25,063	1,135
Advances	2,246	2,277
Operating lease liabilities	777	773
Finance lease liabilities	54	69
Other current liabilities	912	565
<b>Total current liabilities</b>	<b>90,721</b>	<b>55,494</b>
<b>Working Capital</b>	<b>\$ (46,243)</b>	<b>\$ (20,761)</b>

*Cash Flows from Operating Activities*

Cash flows provided by operating activities for the three months ended March 31, 2021 decreased to \$38.3 million compared to \$48.5 million for the three months ended March 31, 2020, primarily due to the settlements of derivative contracts as compared to the prior year period.

*Cash Flows from Investing Activities*

Cash flows used in investing activities for the three months ended March 31, 2021 decreased to \$143.8 million from \$39.0 million for the three months ended March 31, 2020, primarily due to the \$134.3 million required to close the IRM Acquisition, partially offset by limited drilling activity in the period.

*Cash Flows from Financing Activities*

Cash flows provided by financing activities were \$105.4 million for the three months ended March 31, 2021 as compared to cash flows used in financing activities of \$18.3 million for the three months ended March 31, 2020, primarily due to the \$134.3 million required to close the IRM Acquisition, partially offset by limited drilling activity in the period.

*Capital Expenditures*

Our accrual basis capital expenditures for the three months ended March 31, 2021 were as follows (*in thousands*):

	<b>Three Months Ended March 31, 2021</b>
Drilling and completions	\$ 9,347
Leasehold costs	454
<b>Total capital expenditures</b>	<b>\$ 9,801</b>

*Credit Facility*

On April 20, 2021, the Parties entered into an amendment (the “Third Amendment”) to the Credit Agreement under which the borrowing base has been increased from \$360 million to \$475 million in connection with its regularly scheduled redetermination. Further, the Third Amendment provides for an increase in the borrowing base from \$475 million to \$550 million upon closing of the Tracker/Sequel Purchase Agreements described above.

The next regularly scheduled redetermination of the borrowing base is expected to occur on or around October 1, 2021.

As of March 31, 2021, \$223.4 million of borrowings were outstanding, bearing annual interest of 3.384%, resulting in an additional \$136.6 million of borrowing base availability under the Credit Facility.

*Hedging Activities*

The following table sets forth our outstanding derivative contracts at March 31, 2021. When aggregating multiple contracts, the weighted average contract price is disclosed.

Period	Commodity	Volume (Bbls / MMBtu)	Price (\$/Bbl / \$/MMBtu)
Q2 - Q4 2021	Crude Oil	2,389,910	\$48.43
Q1 - Q4 2022	Crude Oil	1,458,500	\$52.96
Q2 - Q4 2021	Crude Oil Basis Swap (1)	739,910	\$0.32
Q2 - Q4 2021	Crude Oil Basis Swap (2)	1,375,000	\$1.05
Q2 - Q4 2021	Crude Oil Roll Swap (3)	739,910	\$(0.26)
Q1 - Q4 2022	Crude Oil Basis Swap (1)	1,368,750	\$0.74
Q2 - Q4 2021	Natural Gas	5,500,000	\$2.81
Q1 - Q4 2022	Natural Gas	450,000	\$2.97
Q2 - Q4 2021	Natural Gas Basis Swap (4)	5,500,000	\$(0.37)
Q1 - Q4 2022	Natural Gas Basis Swap (4)	450,000	\$(0.23)

- (1) The basis differential price is between WTI Midland Crude TMA and the WTI NYMEX.
- (2) The basis differential price is between WTI Midland Crude CMA and the WTI NYMEX.
- (3) The swap is between WTI Roll and the WTI NYMEX.
- (4) The basis differential price is between W. Texas (WAHA) and the Henry Hub NYMEX.

*Obligations and Commitments*

There have been no material changes from the obligations and commitments disclosed in the *Obligations and Commitments* section of *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations* in our 2020 Annual Report on Form 10-K other than those described in *Note 13. Commitments and Contingencies* in the *Notes to the Unaudited Condensed Consolidated Financial Statements*.

*Environmental Regulations*

Our operations are subject to risks normally associated with the drilling for and the production of oil and natural gas, including blowouts, fires, and environmental risks such as oil spills or natural gas leaks that could expose us to liabilities associated with these risks.

In our acquisition of existing or previously drilled well bores, we may not be aware of prior environmental safeguards, if any, that were taken at the time such wells were drilled or during such time the wells were operated. We maintain comprehensive insurance coverage that we believe is adequate to mitigate the risk of any adverse financial effects associated with these risks.

However, should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could still accrue to us. No claim has been made, nor are we aware of any liability which we may have, as it relates to any environmental cleanup, restoration, or the violation of any rules or regulations relating thereto.

### **Recently Issued Accounting Standards**

See *Note 1. Basis of Presentation and Summary of Significant Accounting Policies* in the *Notes to Unaudited Condensed Consolidated Financial Statements* in this report for discussion of recently issued and adopted accounting standards affecting us.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and therefore are not required to provide the information required under this item.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

In accordance with Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rules 13a-15(e) and 15d-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective as of March 31, 2021 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we may be involved in various legal proceedings and claims in the ordinary course of business. As of March 31, 2021, and through the filing date of this report, we do not believe the ultimate resolution of any such actions or potential actions of which we are currently aware will have a material effect on our consolidated financial position or results of operations.

See *Note 13. Commitments and Contingencies* in the *Notes to Unaudited Condensed Consolidated Financial Statements* under Part I, Item 1 of this report, which is incorporated herein by reference, for material matters that have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2020.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors and other cautionary statements described in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2020.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Unregistered Sale of Equity Securities*

Unregistered sales of equity securities during the three months ended March 31, 2021 were reported in our Current Report on Form 8-K filed with the SEC on January 13, 2021.

*Repurchase of Equity Securities*

The following table sets forth information regarding our acquisition of shares of Class A Common Stock for the periods presented:

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs
January 2021	—	\$ —	—	—
February 2021	—	—	—	—
March 2021	257,764	\$ 8.07	—	—

- (1) All of the shares were surrendered by employees (via net settlement) in satisfaction of tax obligations upon the vesting of restricted stock unit awards and performance unit awards. The acquisition of the surrendered shares was not part of a publicly announced program to repurchase shares of our Class A Common Stock.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

In our Current Report on Form 8-K filed on April 29, 2021, Earthstone announced that it expected to hold its 2021 Annual Meeting of Stockholders (the “Annual Meeting”) on July 8, 2021 and set May 24, 2021 as the record date for the Annual Meeting. Because the date of the Annual Meeting has been changed by more than 30 days from the anniversary date of the 2020 Annual Meeting of Stockholders, Earthstone provided the due date for submission of any qualified stockholder proposal or qualified stockholder nominations. In accordance with Rule 14a-5(f) and Rule 14a-8(e) under the Exchange Act, the deadline for receipt of stockholder proposals or nominations for inclusion in Earthstone’s proxy statement for the Annual Meeting pursuant to Rule 14a-8 will be no later than 5:00 p.m., Central Time, May 10, 2021. Stockholder proposals must comply with all of the applicable requirements set forth in the rules and regulations of the SEC, including Rule 14a-8 under the Exchange Act and Earthstone’s Bylaws.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>	<b>Filed Herewith</b>	<b>Furnished Herewith</b>
31.1	<a href="#">Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act</a>	X	
31.2	<a href="#">Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act</a>	X	
32.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act</a>		X
32.2	<a href="#">Certification of the Executive Vice President - Accounting and Administration pursuant to Section 906 of the Sarbanes-Oxley Act</a>		X
101	Interactive Data Files (formatted as Inline XBRL).	X	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	X	

**SIGNATURES**

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

EARTHSTONE ENERGY, INC.

Date: May 5, 2021

By: /s/ Tony Oviedo

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Tony Oviedo

*Executive Vice President – Accounting and Administration*

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Anderson, certify that:

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

Date: May 5, 2021

/s/ Robert J. Anderson

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Robert J. Anderson

President and Chief Executive Officer (Principal  
Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tony Oviedo, certify that:

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

Date: May 5, 2021

/s/ Tony Oviedo

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Tony Oviedo  
*Executive Vice President – Accounting and  
Administration (Principal Financial Officer)*

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Earthstone Energy, Inc. (the “Company”) for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert J. Anderson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2021

/s/ Robert J. Anderson

Robert J. Anderson

*President and Chief Executive Officer*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Earthstone Energy, Inc. (the “Company”) for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tony Oviedo, Executive Vice President – Accounting and Administration of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2021

/s/ Tony Oviedo

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Tony Oviedo

*Executive Vice President – Accounting and  
Administration*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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