THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Ring Energy Inc. (NYSEAMERICAN:REI)

PAUL D. MCKINNEY is Chief Executive Officer and Chairman of the Board of Ring Energy Inc. Mr. McKinney joined Ring on October 1, 2020 and his most recent role prior to joining the company was President, CEO & Director of SandRidge Energy (NYSE:SD). He accepted the post in January 2019 and continued there eleven months before resigning in December 2019. Prior to SandRidge, Mr. McKinney was President & Chief Operating Officer for Yuma Energy, Inc. (NYSE:YUMA) since April 2017 after serving as Yuma's Executive Vice President and Chief Operating Officer since October 2014. Mr. McKinney served as a petroleum engineering consultant for Yuma's predecessor from June 2014 to September 2014 and for Yuma from September 2014 to October 2014. Mr. McKinney served as Region Vice President, Gulf Coast Onshore, for Apache Corporation (NYSE:APA) from 2010 through 2013, where he was responsible for the development and all operational aspects of the Gulf Coast region for Apache. Prior to his role as Region Vice President, Mr. McKinney was Manager, Corporate Reservoir Engineering, for Apache from 2007 through 2010. From 2006 through 2007, Mr. McKinney was Vice President and Director, Acquisitions & Divestitures for Tristone Capital, Inc. Mr. McKinney commenced his career with Anadarko Petroleum Corporation (NYSE:APC) and held various positions with Anadarko over a 23-year period from 1983 to 2006, including his last title as Vice President of Reservoir Engineering, Anadarko Canada Corporation. Mr. McKinney is a member of the board of directors for Pro-Ject Holdings, LLC, a privately owned oil field chemical services company. He co-authored Advanced Reservoir Engineering, Gulf Professional Publishing, Elsevier, and SPE 75708, Applied Reservoir Characterization for Maximizing Reserves, Growth, and Profitability in Tight Gas Sands: A paradigm Shift in Development Strategies for Low-Permeability Reservoirs. Mr. McKinney entered the United States Air Force upon graduating from high school and continued in the United States Air Force Reserves while attending college. Mr. McKinney attended Louisiana Tech University and graduated with a bachelor of science degree in Petroleum Engineering in 1983.

SECTOR — ENERGY

TWST: As you haven't spoken with The Wall Street Transcript before, let's start with background on the company.

Mr. McKinney: We are an independent upstream oil and gas company headquartered in The Woodlands, Texas, and our primary focus is the Permian basin and more specifically, the Texas portion of the Central Basin platform and Northwest Shelf. Ring Energy is focused primarily on liquids-rich hydrocarbon resources.

What makes us different from many of the other oil and gas companies is that we are focused primarily on developing conventional Permian assets where we are applying the modern technologies that were developed for unconventional assets and delivering superior returns.

We're pursuing a strategy that is different from most other companies in the industry. And because of what appears to be the lack of competition for conventional assets, we believe the opportunity for growth for us is very strong and we are continuing to deliver really strong financial results by pursuing this strategy.

TWST: Can you talk about your background?

Mr. McKinney: I am a petroleum engineer by education. I graduated from Louisiana Tech University in 1983 with a Bachelor of Science in petroleum engineering.

I initially went to work for Anadarko, stayed there approximately 24 years, and then moved on to a couple of different positions, initially in investment banking with Tristone Capital in Canada, then on to Apache Corporation for six years, Yuma Energy, then Sandridge and then here with Ring Energy.

I've been here since October of 2020, joining Ring just at the tail end of the COVID event that affected the world.

TWST: You mentioned that you'd spent a good amount of time in investment banking. What insight did that give you into the industry beyond your previous experience in petroleum engineering.

Mr. McKinney: Oh, tremendous. Prior to my investment banking experience, my whole psyche really was associated with reducing costs, increasing margins, all the operational aspects of oil field operations.

Once you get into the financial world, you understand really soon that you're not in this business to produce oil and gas. You're in this business to provide a return to your shareholders by producing oil and gas. It really opened my eyes to the financial aspect of our industry and actually what shareholders expect.

TWST: You had mentioned nontraditional technology on traditional types of development. Can you explain a bit more?

Mr. McKinney: Well, if you look at conventional assets and the history of conventional assets, our industry began by cable tool drilling and allowing the oil and natural gas to come into the wellbore naturally.

Then we developed rotary drilling and learned to cement casing in the hole and then perforating the casing to bring in oil and gas from the conventional reservoirs.

Then we learned to stimulate the conventional reservoirs with acid to increase the producing rates and recoveries. Then we developed fracking technology.

So, our industry learned how to stimulate conventional reservoirs, sandstones and carbonates, using conventional ways to bring in the oil and the gas resource into the well bore, and of course out of the well bore.

We identified and developed the majority of these conventional resources here in the United States at about the time we learned to drill horizontally. As an industry, we then learned to frac horizontal wells to economically extract the resources out of shale — the source rocks, or the unconventional rocks, that have really low porosity and really low permeability.

If you look at the history of the conventional oil and gas industry, many of the large discoveries developed back in the '50s, '60s, '70s, '80s were oftentimes defined by the economic limit of the vertical wells drilled at the time. If the discovery wasn't defined structurally, it was defined by the economics of the vertical wells drilled.

As you got farther and farther away from the core of the reservoir, the reservoir quality degraded to the point where the vertical wells drilled using the completion technology at the time weren't economical. And so, that oftentimes defined the edge of the field.

Once we developed the horizontal drilling and multi-frac technology for shales, some of us in the industry began applying these new technologies to what we used to call uneconomic conventional reservoirs and had success. So we learned that we can take these technologies and apply them to tight conventional reservoirs to extend these older fields and develop conventional resources once thought to be uneconomic. That's essentially what we've done.

If you consider the Wasson Field as an example of this in Yoakum County, Texas, a San Andres carbonate reservoir and one of the largest oil discoveries in the Permian Basin, we are applying horizontal drilling and multi-frac technology beyond the defined limit of the Wasson field and are having great success. We're not the only operator out there; there are other operators doing the same thing.

We've also learned to do that in Gaines and Andrews Counties, farther south and also in the San Andres. We call it the San Andres horizontal oil play.

These areas were not economic back in earlier days, when all we had was conventional technologies and vertical wells. Now these tight, conventional reservoirs are economic because of this new technology. That is the key difference between what we are doing versus what the majority of the industry is doing.

They are pursuing the Devonian shales in the Delaware Basin and the Midland Basin where the entry costs are high. Those are ubiquitous shales that go on for miles and miles where the reservoir quality doesn't change much over long distances and you have a lot of resource in place. The ExxonMobils of the world, the Oxys, and the other bigger companies, they're focused on those areas because there's a lot of resource to be developed, and they can turn it into a manufacturing process that moves the needle, so to speak.

To apply this same technology to conventional rock, you have to map the conventional reservoirs, and you have to spend more geological and engineering time identifying where to drill, where to land the wells, and how to complete them for less resource than what is available in the Delaware and Midland Basin developments.

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But for a little company like us, the running room is incredible due to the apparent lack of competition, the fact that many of the larger companies are selling these assets, and all of this is allowing us to grow and deliver superior returns to our shareholders.

TWST: Hasn't there also been a world market problem with a lot of the alternative production methods? You depend on oil to hit, what is it, like $50 or $60 a barrel to make it economical, to make it pay off well?

Mr. McKinney: That goes back to another one of the advantages of what we're doing. Our wells are typically shallower than the Delaware and Midland Basin wells, and so our well costs are considerably lower. Because the reservoir quality is higher, you don't need as large of a frac job. So our frac jobs cost less.

And the equipment that we need to drill the well isn't the big high horsepower rigs. Ours are anywhere from 1000 horsepower to 750 horsepower. So, we have smaller rigs that are not in nearly as high of demand, allowing us to contract the rigs when we need them and they come at lower rates.

When you combine all of these virtues, you end up with much lower costs, and although we don't have as high oil production rates, when you consider the ratio of our oil producing rates and recoveries, the shallower declines and the longer lives of our wells, our economics are equal to, or very near the same as, many of the very best in the Delaware Basin and the Midland Basin. That is the key to how we're delivering such superior financial performance.

TWST: So using this older analogy of it having to be $50 or $60 a barrel for a lot of the fracking to work, what do world oil markets have to be at so you can make money?

Mr. McKinney: We talk about these other plays requiring $50 and $60 to break even; ours are much lower. Our breakeven cost for what we're doing right now is really in the $30 or $35 range and that's with the inflation we've incurred in the last few years.

Because our breakeven costs are so much lower, we can withstand the volatility that we're seeing in the marketplace much more successfully with less risk than these other companies that depend on oil prices being at $50 or $60.

Now, I personally don't foresee oil prices going to $50 a barrel. But it wasn't very long ago we were in the $60s. And so, the volatility is there.

If you go to our website, we've posted the presentation we used in the Sidoti Conference from December 2023 where we included a plot on page seven that emphasizes our strong cash operating margins versus our peers. Everything we do is focused on maximizing our free cash flow generation.

To do that, you've got to drive your costs as low as you can. It's not just the operating cost in the field, it's also the G&A cost in the office and interest expense — it's everything.

If you look at that plot of eight peers, we have the second highest margin per barrel of all. And so, here we are, realized prices of $54.07, year-to-date 2023, and a year-to-date cash operating margin of $30.45.

By focusing on acquiring properties with similar attributes, we're looking for shallower declines, long lives, low operating costs, undeveloped opportunities that have superior rates of return applying these new technologies. We're very focused on what we're trying to achieve, which is allowing us to deliver and continue to deliver despite the volatility.

As the price goes up or down, it will affect how much capital we spend because we have debt repayment goals. But the fact remains, even if prices were at $50, we're still economic carrying our full costs.

TWST: You're still making money.

Mr. McKinney: $40 or $45 a barrel.

TWST: How long can the production keep up? It is a finite source.

Mr. McKinney: It is, of course. But what we've learned is that technology is our friend. If you look at what's happened in our industry over the last few years, our rig rates, the number of rigs that we've been running in the United States, have continued to decline to lower levels than in the past, yet we're still climbing as a nation in terms of our production. That's because we're becoming more and more efficient, we're learning how to drill our wells and frac our wells and extract more barrels of oil per dollar spent.

The ingenuity of the American oil field worker has delivered time and time again over history. The majority of the technology that has been developed in the oil and gas industry was developed essentially through the ingenuity of the American oil field worker. And I believe that will continue.

But if the resource continues to become more and more scarce versus the demand that the world has, the price of oil will go up. Higher prices of oil allow you to continue to extract oil from those areas that we currently say are not economic.

Say the breakeven costs are $70 today, and the price of oil is $70. Well, you're not going to drill that area, you're going to concentrate on the areas that have the $60 or $50 or $40 or $30 breakeven cost. However, that $70 breakeven-cost resource can be developed at higher prices and there are a lot of resources both in the United States and also internationally.

Although I believe that the United States is the most mature in terms of developing the unconventional resource, we've got a lot of unconventional resources around the world that haven't been exploited yet, so it is not a matter of resource, it is a matter of capital spending to ensure the delivery capacity the world needs.

TWST: The U.S. had to be able to do that because so much of the oil and gas is not easily gained. It's like necessity being the mother of invention.

Mr. McKinney: Exactly. I'd agree with that completely.

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TWST: With the war between Ukraine and Russia and other things, there's been a lot of perturbation in global energy markets. What's your experience been so far?

Mr. McKinney: The things that are happening internationally that really affect and set the price of oil are well beyond the control of a company like us.

TWST: No, of course. I'm just wondering how they are affecting you. What are you finding?

Mr. McKinney: What it does for us is affect our capital spending levels, because when I came on board with Ring, the balance sheet just wasn't even close to where I wanted it to be. The leverage ratio was above four times trailing 12 months EBITDA. There was not much liquidity.

I am a debt-averse executive, going back to learning the primary risks most companies face in times when prices go down; leverage is never your friend. I came on board with a clear focus to reduce debt, and I am just as laser focused today as I was the day I came on board. We've gone from a leverage ratio of above four to now we're at 1.6.

Back four or five years ago, a 1.6 leverage ratio was commendable, but now we're still at the high end of many of our peers. I personally want to see our leverage ratio well below 1.

To be honest, I don't even like the leverage ratio that most people use as a unit of measure. The problem with the leverage ratio is when prices go down, you could have the same level of debt but your trailing 12-month EBITDA goes down and your leverage ratio goes up.

I like to look at things from a standpoint of absolute debt levels compared to your market cap. To me, if debt levels exceed 25% of my

market cap, they're too high. If you were to consider what 25% of our market cap would mean today, our leverage ratio would be considerably below one, closer to 0.5 or even less. And so, I believe that high levels of debt are something that resource companies should stay away from.

There's a useful and constructive use of debt in any kind of a public company, but for a resource company, lower debt is always your friend. And I also believe that the investment community has demonstrated their preference in this regard. Those companies that have no debt or very low debt tend to trade at a superior premium than do the companies that have high leverage.

I want to earn that premium with my shareholders, and so I'm laser focused on reducing our debt.

We got to the point where we were so frustrated, we negotiated with the remaining warrant holders to exercise their remaining warrants. Just at the point that we thought that we were beyond the influence of the majority of the warrants, a large shareholder sold 12.6 million shares unexpectedly into the marketplace.

As many of our stockholders have pointed out, they believe the disparity between our stock price performance versus our operational and financial performance, especially with respect to our peers, is due to the high amount of selling pressure. That kind of summarizes the opinions of the overwhelming majority of the shareholders that have called into us and expressed their opinion as to what they think is happening, and the numbers seem to back them up.

"First, I believe that with the success of our strategy and what we're doing, we offer a much higher probability of a better return than if you invest in ExxonMobil or some of these larger companies. I don't believe you're going to see the doubling or tripling of those stock prices, whereas for us, the probability is higher."

TWST: Through last year, market median target prices that analysts had on your company seemed to be about $3.50 a share. And when I just checked this morning, your shares were about $1.34, with the 52-week high and low being $2.54 and $1.25, respectively.

Mr. McKinney: Yes, it's just terrible.

TWST: What accounted for that high, and what's keeping you from that at this point?

Mr. McKinney: That's a really, really good question. There's a lot of speculation associated with that. I can share a lot about what many of our shareholders have been saying to us and some of the things that they want to see us try to do about it.

I think our stock price today and the performance that we have versus our peers is definitely out of sync. We have been performing at the higher end of all of our peer group, but our stock performance has been lower. What's the primary reason? That's a difficult question to answer and involves a considerable amount of speculation.

If you go back in history, when we came on in the fourth quarter of 2020, or if you just take January 1 of 2021, all the way up until everybody's peak expectations associated with the effects of the war on Ukraine, that was mid summer of 2022. During that time period, we saw energy prices increase.

If you looked at our stock performance during that time period, we were always in the top quartile of our peer group in terms of operational and financial performance as well as stock performance. In the fourth quarter of 2020, we did an equity raise that included warrants. Warrant holders in the second quarter of 2022 started exercising their warrants and selling those shares into the marketplace.

If you look at June of 2022 to the present, you'll see that our stock price performance versus our peer group of companies has been in the lower quartile. Many of our stockholders point out that we reported between the second quarter of 2022 until the second quarter of 2023, over 14.7 million warrants were converted and believed sold into the marketplace. And these stockholders believe those additional sales pushed our stock performance to a lower level than our operational and financial performance would have earned.

TWST: You can never tell what somebody's reasons for selling are. Maybe they had a margin call on something else and needed the capital. Or maybe there was pressure from investors with them on their strategy. Who knows?

Mr. McKinney: Tell you what, the last time I was in New York meeting with potential investors, this one gentleman told me, "Paul, just keep to your knitting. You're delivering superior performance quarter over quarter. You just keep doing what you're doing and don't worry about the stock price. It'll take care of itself."

TWST: Is this a case of the company not communicating the value widely enough or effectively enough that people still largely don't know how you are performing?

Mr. McKinney: Part of it, I agree with you. We're really going to step up the interaction with the investment community, with our shareholders, and focus on getting the message out about this company, what we're doing.

And the other thing that's happening, which is going to help us as well, in my opinion, is through the consolidation you're seeing in the marketplace, where a lot of small and mid-size Delaware and Midland Basin companies are getting gobbled up by the bigger ones. So there's going to be fewer and fewer peer companies in which to invest.

TWST: That's really interesting. If somebody doesn't want to invest in a big oil company, but they want to invest in oil, less choice means probably driving prices up. Not everybody's going to do that, but if there's enough of a market, there should be an effect.

Mr. McKinney: First, I believe that with the success of our strategy and what we're doing, we offer a much higher probability of a better return than if you invest in ExxonMobil or some of these larger companies. I don't believe you're going to see the doubling or tripling of those stock prices, whereas for us, the probability is higher.

TWST: What were the good and bad, highs, lows — what of note happened over the last year?

Mr. McKinney: We had a very good year. We have not disclosed fourth quarter yet. I look forward to that. But overall, we had a very good year. The thing that affects a company like us really is the

commodity price volatility in the marketplace, because we're so focused on improving our balance sheet.

When you have these spikes of low prices, that makes us question the capital levels that we're spending versus paying down debt. If we have steady prices that we can depend on, we can line out our work programs so that they can be run efficiently and we can keep our costs down.

But when the volatility is constantly in your face, and since we have reassured our shareholders we're going to focus on free cash flow generation and paying down debt, the volatility affects us considerably. If we change our capital spending levels, well, that also changes the production levels you can expect from the company.

We've already given guidance to a certain level, but if the price of oil drops considerably lower than planned, we will pull back on our capital and that pullback on capital will affect our production.

It's really hard to manage through volatility. We've been developing our strategy to deal with a highly volatile marketplace by focusing on our free cash flow generation and on getting our total cost of operating down to the lowest level we can. We can manage that.

TWST: What do you think your big opportunities are going to be?

Mr. McKinney: I believe our big opportunity in 2024 is going to be the continued aggregation and consolidation of oil and gas assets. We plan to be the aggregator in the areas where we operate.

We believe that many of these large acquisitions that you've been reading about with companies that are buying these large positions in the Delaware Basin and Midland Basin may decide to sell some of their conventional assets that they're not focused on. These are the very type of assets that we are investing in and we're demonstrating superior returns with. And so, I believe we're going to have more opportunity to grow than we can take down, and they're going to continue to feed the machine, so to speak.

We'll continue to pay down debt through our organic program by maintaining our production basically flat or maybe with slight growth. The goal is to maximize free cash flow generation from our organic program to pay down debt.

And then we plan to grow through acquisitions and to structure our acquisitions in such a way that they are accretive to our existing stockholders and improve our balance sheet, similar to what we did with the Stronghold acquisition.

TWST: And big challenges for the year ahead.

Mr. McKinney: The big challenges, like I said, will be volatility and uncertainty. Also, we're in an election year. The current administration has demonstrated, in my opinion, hostility to the oil and gas industry. And so, I'm planning to continue to live in an environment of hostility, increasing EPA scrutiny and regulation. But it would surely be nice to have a change in policy in Washington that really believed in American energy and American energy independence.

TWST: Thank you. (EBS)

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