



AMEN PROPERTIES, INC. AND SUBSIDIARIES
Richardson, Texas

Consolidated Financial Statements
December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)



Independent Auditor's Report

The Board of Directors
AMEN Properties, Inc. and Subsidiaries
Richardson, Texas

Opinion

We have audited the accompanying consolidated financial statements of AMEN Properties, Inc. (a Delaware Corporation) and Subsidiaries (collectively referred to as the "Company") which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of AMEN Properties, Inc. and Subsidiaries as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of SFF Production LLC, a wholly owned subsidiary, which statements reflect total assets constituting 79 percent and 64 percent, respectively, of consolidated total assets at December 31, 2022 and 2021, and total revenues constituting 67 percent and 75 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SFF Production LLC, is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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



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The Board of Directors
AMEN Properties, Inc. and Subsidiaries
March 8, 2024

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

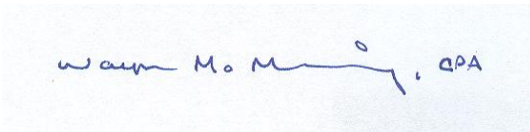
Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as, evaluate the overall presentation of the consolidated financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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



Andrews, Texas
March 8, 2024



MEMBER OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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AMEN Properties, Inc. and Subsidiaries
Richardson, Texas
Consolidated Balance Sheets

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 4,439,913	\$ 3,397,429
Trade Accounts Receivable, Net of Allowance	387,600	354,528
Other Receivable	9,881	7,381
Other Current Assets	84,013	116,409
Total current assets	<u>4,921,407</u>	<u>3,875,747</u>
Marketable Securities (Available for Sale), at Fair Value	-	-
Property and Equipment, Net of Accumulated Depreciation	3,809	5,222
Deferred Income Tax Asset	-	-
Oil and Gas Investment in SFF Group	112,784	181,474
Oil and Gas Royalty and Working Interests	1,376,660	835,714
Investment in Real Estate	<u>230,349</u>	<u>400,710</u>
Total Assets	<u>\$ 6,645,009</u>	<u>\$ 5,298,867</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts Payable	\$ 240,334	\$ 72,552
Related Party Payables	61,184	60,775
Federal Income Taxes Payable	68,567	-
Accrued Liabilities	234,869	368,765
Total Current Liabilities	<u>604,954</u>	<u>502,092</u>
Deferred Income Tax Liability	-	-
Commitments and Contingencies	-	-
Equity		
Common Stock, \$.01 Par Value, 20,000,000 Shares Authorized		
53,146 Shares Issued and Outstanding at December 31, 2022 and 2021	531	531
Treasury Stock, at Cost	(452,005)	(452,005)
Additional Paid in Capital	54,942,016	54,942,016
Accumulated Deficit	(48,450,487)	(49,693,767)
Accumulated Other Comprehensive Income	-	-
Total Stockholders' Equity	<u>6,040,055</u>	<u>4,796,775</u>
Total Liabilities and Stockholders' Equity	<u>\$ 6,645,009</u>	<u>\$ 5,298,867</u>

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

AMEN Properties, Inc. and Subsidiaries
Richardson, Texas
Consolidated Statements of Operations

	<u>For the Year Ended December 31, 2022</u>	<u>For the Year Ended December 31, 2021</u>
OPERATING REVENUE		
Oil and Gas Revenue	\$ 4,064,393	\$ 3,065,157
Total Operating Revenue	4,064,393	3,065,157
OPERATING EXPENSE		
Oil and Gas Operations	1,249,125	1,121,620
General and Administrative	1,133,268	795,373
Charitable Contributions	19,200	178,734
Depreciation, Amortization and Depletion Expense / (Recovery)	222,009	424,622
Total Operating Expenses	2,623,602	2,520,349
INCOME/(LOSS) FROM OPERATIONS	1,440,791	544,808
OTHER INCOME/(EXPENSES)		
Interest Income	19,690	1,315
Income from SFF Group Investment	1,975,187	875,281
Other Income	-	151,668
Gain on Sale of Investment	48,731	53,415
Total Other Income/(Expenses)	2,043,608	1,081,679
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,484,399	1,626,487
Current Income Tax Expense	(68,567)	-
Deferred Income Tax Expense	-	-
Franchise and Other Income Taxes / Refunds	(47,201)	(49,330)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 3,368,631	\$ 1,577,157

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

AMEN Properties, Inc. and Subsidiaries
Richardson, Texas
Consolidated Statement of Stockholders' Equity
For the Years Ended December 31, 2022 and 2021

	<u>Common Stock</u>		<u>Treasury</u>	<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Stock</u>	<u>Paid In</u>	<u>Deficit</u>	<u>Other</u>	
				<u>Capital</u>		<u>Comprehensive</u>	
						<u>Income/(Loss)</u>	
Balance, December 31, 2020	53,146	\$ 531	\$ (446,755)	\$ 54,942,016	\$ (49,702,764)	\$ -	\$ 4,793,028
Common stock dividends	-	-	-	-	(1,568,160)	-	(1,568,160)
Purchase of treasury stock	-	-	(5,250)	-	-	-	(5,250)
Other comprehensive income	-	-	-	-	-	-	-
Net income	-	-	-	-	1,577,157	-	1,577,157
Total comprehensive income	-	-	-	-	1,577,157	-	1,577,157
Balance, December 31, 2021	53,146	\$ 531	\$ (452,005)	\$ 54,942,016	\$ (49,693,767)	\$ -	\$ 4,796,775
Common stock dividends	-	-	-	-	(2,125,351)	-	(2,125,351)
Other comprehensive income	-	-	-	-	-	-	-
Net income	-	-	-	-	3,368,631	-	3,368,631
Total comprehensive income	-	-	-	-	3,368,631	-	3,368,631
Balance, December 31, 2022	53,146	\$ 531	\$ (452,005)	\$ 54,942,016	\$ (48,450,487)	\$ -	\$ 6,040,055

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

AMEN Properties, Inc. and Subsidiaries
Richardson, Texas
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities:		
Net income	\$ 3,368,631	\$ 1,577,157
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation, amortization, and depletion expense / (recovery)	222,008	424,622
Deferred income taxes	-	-
Equity income from SFF investment	(2,018,643)	(875,281)
Gain on sale/assignment of leasehold interest	-	(151,668)
Loss on sale/disposals of property and equipment	-	1,057
<i>Change in operating assets and liabilities:</i>		
Increase in trade accounts receivable	(33,072)	(149,779)
Decrease in other assets	29,896	118,646
Increase in accounts payable and accrued liabilities	102,453	62,648
Increase in related party payables	409	16,835
	1,671,682	1,024,237
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of property and equipment, net	-	(4,643)
Development costs of oil and gas interests	(761,541)	(234,699)
Proceeds from sale/assignment of leasehold interest	-	151,668
Sale of real estate investment	170,361	-
Distributions from SFF Group	2,087,333	811,667
	1,496,153	723,993
Net cash provided by investing activities		
Cash flows from financing activities:		
Purchase of treasury stock	-	(5,250)
Common stock dividends	(2,125,351)	(1,568,160)
	(2,125,351)	(1,573,410)
Net cash used in financing activities		
Net increase in cash and cash equivalents	1,042,484	174,820
Cash and cash equivalents at beginning of year	3,397,429	3,222,609
Cash and cash equivalents at end of year	\$ 4,439,913	\$ 3,397,429
<u>Non-cash Financing and Investing Activities:</u>		
Unrealized Gain/(Loss) on Marketable Securities	\$ -	\$ -
Interest Paid	\$ -	\$ -

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

AMEN Properties, Inc. and Subsidiaries
Richardson, Texas
Notes to Financial Statements
December 31, 2022 and 2021

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Organization*

Company Background

- The Company was originally incorporated as DIDAX, Inc. in January 1997.
- Until December 2002, the Company operated under the name Crosswalk.com; its primary businesses were operation of the Christian web portal *crosswalk.com*TM and a direct mail advertising service.
- During the last quarter of 2002, the Company sold substantially all of its assets with the exception of the Company's accumulated Net Operating Loss ("NOL") and changed its name to AMEN Properties, Inc.
- A revised business plan was approved by the shareholders in 2002, and called for the Company to grow via the selective acquisition of cash-generating assets in three categories:
 - Commercial real estate in secondary stagnant markets
 - Commercial real estate in out-of-favor growth markets
 - Oil and gas royalties

The Company has shielded significant earnings from Federal Income Taxes over the past several years and used the remainder of its Net Operating Loss ("NOL") during 2018.

Company Organization

In initiating the 2002 business plan, the Company, in October 2002, formed the following entities:

- NEMA Properties LLC ("NEMA"), a Nevada limited liability company 100% owned by AMEN
- AMEN Delaware LP ("Delaware"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner
- AMEN Minerals LP ("Minerals"), a Delaware limited partnership, owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner

On July 30, 2004, the Company formed W Power and Light LP ("W Power"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner. On May 18, 2006, the Company acquired 100% of Priority Power Management, Ltd. and Priority Power Management Dallas, Ltd. (collectively "Priority Power") effective April 1, 2006. Priority Power was owned 1% by AMEN, as the sole general partner, and 99% by NEMA, as the sole limited Partner.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Organization (Continued)

Corporate Reorganization

On December 17, 2007, the Company approved a corporate reorganization (the "Reorganization") effective January 1, 2008. As part of the Reorganization, the Delaware Partnership, the Minerals Partnership, the PPM Partnership, and the W Power Partnership were each converted from limited partnerships into limited liability companies, with AMEN owning 100% of the shares and as the sole managing member of each entity. The converted entities are:

- AMEN Delaware, LLC, ("Delaware")
- AMEN Minerals, LLC, ("Minerals")
- NEMA Properties, LLC, ("NEMA")
- Priority Power Management, LLC ("Priority Power")
- W Power and Light, LLC, ("W Power")

On May 31, 2008, as part of the Reorganization, NEMA was converted from a Nevada Limited Liability company to a Texas Limited Liability company.

As used herein, the terms "Company" and "AMEN" and references to "we" and "our" refer to all of AMEN Properties, Inc., NEMA, Delaware, Minerals, and W Power and Priority Power, unless the context otherwise requires.

On September 28th, 2009, the Company approved a reorganization plan effective January 1, 2010 whereby Delaware, Minerals, and NEMA were dissolved and the assets and liabilities of each entity were conveyed to Amen Properties, Inc. In June 2008, the Company approved a plan to discontinue the operations of W Power and Light, LLC. In October 2010, the Company sold Priority Power Management, LLC to its management team.

2. Basis of Presentation

The consolidated financial statements include the accounts of the Company and its majority-owned/controlled subsidiaries and affiliates. Inter-company balances and transactions have been eliminated.

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

3. Cash and Cash Equivalents

The Company considers cash on hand, cash on deposit in banks, money market mutual funds, and highly liquid debt instruments purchased with a maturity of three months or less to be a cash equivalent.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. *Marketable Investments*

The Company invests in U.S. government bonds and treasury notes, municipal bonds, certificates of deposit, corporate bonds and other securities. Investments with original maturities greater than three months but less than twelve months from the balance sheet date are short-term investments. Those investments with original maturities greater than twelve months from the balance sheet date are long-term investments.

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains or losses and permanent declines in value, if any, on available-for-sale investments are reported in other income or expense as incurred.

5. *Fair Value of Financial Instruments*

Generally accepted accounting principles require disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheet. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying value of cash and cash equivalents, investments, accounts receivable, notes receivable, and accounts payable approximate fair value because of the relatively short maturity of these instruments. Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2022.

6. *Trade Accounts Receivable*

The Company's trade receivables are primarily from lease operators or purchasers. Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for doubtful accounts. The Company considers trade receivables to be fully collectible.

7. *Depreciation, Amortization and Depletion*

Property and equipment are stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives ranging from three to ten years.

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development are capitalized. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Depreciation, Amortization and Depletion (continued)

The Company's estimate of proved reserves is based on the quantities of crude oil and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in the future years from known reservoirs under existing economic and operating conditions. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. As the prices of crude oil and natural gas and cost levels change from year to year, the economics of producing the Company's reserves may change and therefore the estimate of proved reserves may also change. Any significant variance in these assumptions could materially affect the estimated quantity and value of the Company's reserves.

The information regarding present value of the future net cash flows attributable to the Company's proved crude oil and natural gas reserves are estimates only and should not be construed as the current market value of the estimated crude oil and natural gas reserves attributable to the Company's properties. The determination of depletion expense, as well as, potential impairments that are recognized on the Company's crude oil and natural gas properties are highly dependent on the estimates of the proved crude oil and natural gas reserves attributable to the Company's properties.

The Company utilizes a statutory method of calculating depletion expense. The allowable statutory percentage depletion expense is the lesser of net income or 15% of gross income. If net income is less than 15% of gross income, the expense is limited to net income. This methodology was determined to not materially differ from depletion expense under generally accepted accounting principles using the gross revenue alternative under the full cost method of accounting.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income.

Sales of leasehold interests in the year ended December 31, 2021 were made in the amount of \$129,168 that would have significantly altered the relationship between capitalized costs and proved reserves of oil and gas. Therefore, a gain in the amount of \$151,668 is reflected in the financial statements for the years ended December 31, 2021. There were no sales of leasehold interests in year ended December 31, 2022.

In addition, the capitalized costs are subject to a "ceiling test," which limits such costs to the aggregate of the "estimated present value," discounted at a ten percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Asset Retirement Obligations

The Company follows the provisions of FASB ASC 410 (Accounting for Asset Retirement Obligations), which requires the Company to recognize a liability for the present value of all legal obligations associated with the retirement of tangible, long-lived assets and capitalize an equal amount as a cost of the asset. The cost of the abandonment obligations, along with any estimated salvage value, is included in the computation of depreciation, depletion, and amortization. Based on the availability of reserve data for working interest properties, it was determined that the asset retirement obligation could not reasonably be estimated based on current available data.

9. Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," ("ASC 606") using the modified retrospective transition method. The adoption did not require an adjustment to retained earnings as there was no material change to the timing or pattern of revenue recognition due to the adoption of ASC 606. The Company recognizes revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company's revenue contracts represent a single performance obligation related to the receipt of working interest revenue payments from purchasers. Estimates based on historical production and current prices are used to accrue additional revenue expected to be collected.

10. Impairment of Long-Lived Assets

Generally accepted accounting principles specify circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected cash flows, the asset's carrying value must be written down to fair value. The Company periodically evaluates the recoverability of the carrying value of its long-lived assets and identifiable intangibles by monitoring and evaluating changes in circumstances that may indicate that the carrying amount of the asset may not be recoverable. Examples of events or changes in circumstances that indicate that the recoverability of the carrying amount of an asset should be assessed include but are not limited to the following: a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, and/or a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators or impairments are present, the Company evaluates the carrying value of these assets in reaction to the operating performance of the business and future discounted and non-discounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows are less than the assets' carrying value. The Company did not recognize any impairment issues for the years ended December 31, 2022 and 2021.

NOTE A – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Investment in Real Estate and SFF Group

The Company's determination of the appropriate accounting method with respect to investments in limited partnerships, limited liability companies, and other subsidiaries is based on control. For general partner interests, the Company is presumed to control (and therefore consolidate) the entity, unless the other limited partners have substantive rights that overcome this presumption of control. These substantive rights allow the limited partners to participate in significant decisions made in the ordinary course of the entity's business. The Company accounts for its non-controlling general partner investments in these entities under the equity method. This treatment also applies to the Company's managing member interests in limited liability companies. The Company's determination of the appropriate accounting method for all other investments in subsidiaries is based on the amount of influence the Company has (including our ownership interest) in the underlying entity. Those other investments where the Company has the ability to exercise significant influence (but not control) over operating and financial policies of such subsidiaries (including certain subsidiaries where the Company has less than 20% ownership) are accounted for using the equity method. The Company eliminates transactions with such equity method subsidiaries to the extent of the ownership in such subsidiaries. Accordingly, the Company's share of the earnings or losses of these equity method subsidiaries is included in net earnings. All of the Company's remaining investments are carried at cost. Under either the equity or cost method, impairment losses are recognized upon evidence of other-than-temporary losses of value.

The Company's investments in real estate and SFF Royalty, LLC are recorded at cost, adjusted for its equity share of earnings, using the equity method of accounting, and cash contributions and distributions.

12. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of accrued property taxes, accrued corporate tithing, and a "revenue suspense" account the Company established from inception. The suspense account consists of overpayments of net revenues to the Company due to operators maintaining inadequate division orders.

13. Income and Franchise Taxes

In accordance with ASC 740-10 FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that required adjustment to the financial statements to comply with the provisions of this guidance.

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Income and Franchise Taxes (Continued)

The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not (likelihood of greater than 50 percent) that some portion or all of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. If all, or a portion, of the unrecognized tax benefit is sustained upon examination by the taxing authorities, the tax benefit will be recognized as a reduction to the Company's deferred tax liability and will affect the Company's effective tax rate in the period it is recognized. The Company records any tax-related interest charges as interest expense and any tax-related penalties as other expense in the consolidated statements of operations. The Company is no longer subject to income tax examinations by the U.S. federal, state, or local authorities with few exceptions for periods prior to 2018.

14. Corporate Tithing

The Company shall, to the extent permitted by law, expend from the revenues of the Company such sums as are deemed prudent by the Board of Directors to support, encourage, or sustain persons or entities which in the judgment of the Board of Directors are expected to make significant efforts to propagate the Gospel of Jesus Christ in any manner not in conflict with the Statement of Faith. Such expenditures may be made without regard to the tax status or nonprofit status of the recipient. It is expected that the expenditures paid out under the provisions of this policy shall approximate ten percent (10%) of the amount that would otherwise be the net profits of the Company for the accounting period.

15. Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from such estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the recognition of revenues, the estimate of the allowance for doubtful accounts, the estimate of asset impairments, and the determination of depreciation, depletion and amortization expense.

16. Environmental Costs

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can be reasonably estimated.

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Environmental Costs (Continued)

The Company, through its ownership of working interests, is subject to extensive federal, state, and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the operator to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Management believes it is in substantial compliance with applicable environmental laws and regulations.

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can be reasonably estimated.

17. Date of Management's Review

Management has evaluated subsequent events through March 8, 2024, the date that the financial statements were available to be issued.

18. Recently Issued Accounting Pronouncements

Adopted

ASU 2016-02

The FASB finalized the standard on leases in ASU 2016-02 Leases in February 2016. The update was to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle is that the lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee and therefore recognition of those lease assets and lease liabilities represent an improvement over previous GAAP. Under the guidance a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on the straight-line basis over the lease term. Additional guidelines for finance leases, operating leases, and lessors is included in the guidance. The amendments will be effective for fiscal years beginning after December 15, 2020 for not-for-profit entities that have issued or is a conduit bond obligor. For all other entities the amendments are effective for fiscal years beginning after December 15, 2022. Adoption of this standard did not have a material impact on the consolidated financial statements.

19. Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform to the current year's presentation.

NOTE B – CONCENTRATIONS OF CREDIT RISK

The Company maintains cash balances at several financial institutions, which at times may exceed federally insured limits. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks on such accounts.

Additionally, the sum of the Company’s revenue is derived from the volume levels of minerals obtained from each property. The value of these minerals is determined by market prices. A decline in market prices could result in a reduction in revenue.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Furniture, fixtures and equipment	\$ 7,223	\$ 7,223
Less: accumulated depreciation	(3,414)	(2,001)
	<u>\$ 3,809</u>	<u>\$ 5,222</u>

Depreciation expense was \$1,413 and \$2,548 for the years ended December 31, 2022 and 2021, respectively.

NOTE D – INVESTMENT IN REAL ESTATE

The Company owned approximately 18% of HPQ Acquisition, LLC, (“HPG”) a real estate company that owns commercial properties located in Midland, Texas. During December 2014, the HPG ownership group completed the sale of its office buildings in downtown Midland. In exchange for its 18% ownership stake, Amen received proceeds of \$3.6 million after the retirement of associated debt and recognized a gain of \$1.3 million in connection with the sale.

As of December 31, 2014, the Company’s only remaining real estate asset is its 18% interest in a parking lot in downtown Midland (the “Superblock”).

NOTE E – OIL AND GAS ROYALTY AND WORKING INTERESTS

Through the Company’s ownership of SFF Production, LLC, and SFF Royalty, LLC, the Company participates in the income generated from oil and gas royalties and working interests in over 1,200 properties in several states. Under accounting principles generally accepted in the United States of America, revenues and expenses are recognized on an accrual basis. Oil and gas revenue is generally received one to two months following the month of production and the Company uses estimates to accrue.

NOTE E – OIL AND GAS ROYALTY AND WORKING INTERESTS (Continued)

SFF Interests

On December 17, 2007, the Company invested \$7.6 million in SFF Royalty, LLC (“SFF Royalty”) and \$2.4 million in SFF Production (“SFF Production”) in exchange for a one-third ownership interest in each entity. Also on December 17, 2007, SFF Royalty, LLC and SFF Production, LLC acquired the following properties from Santa Fe Energy Trust (the “Trust”) and Devon Energy Production Company, LP (“Devon”):

<u>Acquiring Entity</u>	<u>Acquired from the Trust</u>		<u>Acquired from Devon</u>		<u>Total Purchase</u>
	<u>Description</u>	<u>Purchase Amount</u>	<u>Description</u>	<u>Purchase Amount</u>	
SFF Royalty	Net profits interests in royalty interests owned by Devon	\$ 21,077,688	Royalty interests subject to Trust’s net profits interests	\$ 2,254,662	\$ 23,332,350
SFF Production	Net profits interests in working interests owned by Devon	6,072,125	Working interests subject to Trust’s net profits interests	649,531	6,721,656
Totals		\$ <u>27,149,813</u>		\$ <u>2,904,193</u>	\$ <u>30,054,006</u>

In December 2008, the Company increased its ownership of SFF Production LLC to approximately 79% for an additional investment of \$6.9 million. In December 2014, the Company purchased the remaining shares of SFF Production, LLC for a total purchase price of \$1.3 million and now owns 100% of that entity. The financial position and results of SFF Production, LLC are now consolidated with the Company’s.

The Company’s equity in SFF Royalty, LLC consists of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investment in SFF Royalty	\$ 181,474	\$ 117,860
Capital Distributions	(2,087,333)	(811,667)
Equity in Earnings	2,018,643	875,281
	<u>\$ 112,784</u>	<u>\$ 181,474</u>

The Company’s investment and equity earnings results for 2022 and 2021 are based on the results of SFF Royalty, LLC. SFF Royalty, LLC reported the following consolidated financial information at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Total Assets	\$ 881,507	\$ 656,445
Total Liabilities	78,103	54,805
Net Income	2,018,643	875,281

NOTE F – ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accrued oil and gas operating expenses	\$ 193,280	\$ 193,281
Accrued tithing	264	175,484
Other	<u>41,325</u>	<u>-</u>
	<u>\$ 234,869</u>	<u>\$ 368,765</u>

NOTE G – INCOME TAXES

The Company recorded income tax expense to report for the year ended December 31, 2022. There was no income tax expense recorded in the year ended December 31, 2021. A reconciliation of income taxes at the statutory rate to the Company's effective rate is as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Tax at the statutory federal rate of 21% on income before taxes	\$ 707,413	341,562
Utilization of net operating loss	<u>(638,846)</u>	<u>(341,562)</u>
Income taxes	<u>\$ 68,567</u>	<u>-</u>

The main components of the net non-current deferred tax asset (liability) are as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net operating loss carry-forward	\$ -	661,592
Other carry-forwards	34,688	279,321
Fixed asset, book/tax differences	572	284
Valuation allowance	<u>(35,260)</u>	<u>(941,197)</u>
Net non-current deferred tax assets (liabilities)	<u>\$ -</u>	<u>-</u>

NOTE H – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

NOTE I – STOCKHOLDERS' EQUITY

Treasury Stock

The Company has collectively purchased 889 at December 31, 2022 and 2021, respectively, under the Company's stock repurchase program. These shares are being held by the Company as treasury stock and are reflected on the balance sheet at cost.

Common Dividend

During 2022 and 2021, the Company's Board of Directors declared a quarterly dividends as follows:

<u>Declared Date</u>	<u>Payment Date</u>	<u>Per Share Amount</u>
March 10, 2021	March 24, 2021	\$7.50
June 10, 2021	June 23, 2021	\$7.50
September 7, 2021	September 23, 2021	\$7.50
December 2, 2021	December 23, 2021	\$7.50
March 16, 2022	March 31, 2022	\$7.50
June 15, 2022	July 6, 2022	\$10.00
September 12, 2022	September 29, 2022	\$10.00
December 9, 2022	December 28, 2022	\$12.50

NOTE J – RELATED PARTY TRANSACTIONS

The Company had accounts payable as of December 31, 2022 and 2021 to a related company, Anthem Oil and Gas, Inc. in the amount of \$61,184 and \$60,775, respectively.

Management and administrative fees were also paid to Anthem Oil and Gas, Inc. during the years ended December 31, 2022 and 2021 in the amount of \$206,146 and \$157,917, respectively.

A manager of the Company's wholly-owned subsidiary, SFF Production, LLC, serves as the Chairman of the Board of Directors for the sole member of SFF Production, LLC and has a controlling interest in SoftVest Advisors, LLC. SFF Production, LLC has entered into a formal consulting agreement with SoftVest Advisors, LLC for oil and gas accounting and administration services. Administrative fees were paid to SoftVest Advisors, LLC in the amount of \$40,000 for the years ended December 31, 2022 and 2021.

NOTE K – SUBSEQUENT EVENT

Recently, the outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. While the outbreak could have a continued material adverse impact on economic and market condition and trigger a period of global economic slowdown, the rapid development and fluidity of this situation precludes any prediction as to the ultimate impact of the novel coronavirus on the Company.