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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 September 30, 2026

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number **000-06814**



(Exact Name of Registrant as Specified in its Charter)

Delaware	**83-0205516**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1616 S. Voss Road, Suite 725, Houston, Texas	**77057**
(Address of principal executive offices)	(Zip Code)

(346) 509-8734
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01	**BSIN**	**NASDAQ Stock Market LLC (Nasdaq Capital Market)**

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 such 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 ☐
Non-accelerated filer ☒

Accelerated filer ☐
Smaller reporting company ☒
Emerging growth company ☐

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 ☒

The registrant had 52,641,343 shares of its common stock, par value $0.01 per share, outstanding as of November 5, 2026.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report" or "Form 10-Q"), including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts are forward-looking statements.

Examples of forward-looking statements in this Report include:

- planned capital expenditures for industrial gas, oil and natural gas exploration, development and environmental compliance;
- potential drilling locations and available spacing units, and possible changes in spacing rules;
- cash expected to be available for capital expenditures and to satisfy other obligations;
- recovered volumes and values of industrial gas, oil and natural gas approximating third-party estimates;
- anticipated changes in oil and natural gas production and future industrial gas production;
- drilling and completion activities and opportunities;
- timing of drilling additional wells and performing other exploration and development projects;
- expected spacing and the number of wells to be drilled with our industry partners;
- when payout-based milestones or similar thresholds will be reached for the purposes of our agreements with our partners;
- expected working and net revenue interests, and costs of wells, relating to the drilling programs with our partners;
- actual decline rates for producing wells;
- future cash flows, expenses and borrowings;
- pursuit of potential acquisition opportunities;
- economic downturns, wars and increased inflation and interest rates, and possible recessions caused thereby;
- the effects of global pandemics on our operations, properties, the market for industrial gas, oil and natural gas, and the demand for industrial gas, oil and natural gas;
- our expected financial position;
- our expected future overhead reductions;
- our ability to become an operator of industrial gas, oil and natural gas properties;
- our ability to raise additional financing and acquire attractive industrial gas, oil and natural gas properties; and
- other plans and objectives for future operations, including industrial gas exploration and development.

These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “will,” “continue,” “potential,” “should,” “could,” “up to,” and similar terms and phrases. Though we believe that the expectations reflected in these statements are reasonable, they involve certain assumptions, risks and uncertainties. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, under and incorporated by reference in, “Risk Factors”, below, the risks discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025, and those discussed in other documents we file with the Securities and Exchange Commission (the “SEC” or the “Commission”). Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above.

All forward-looking statements speak only at the date of the filing of this Report. We do not undertake any obligation to update or revise publicly any forward-looking statements except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BIG SKY INDUSTRIAL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2026	December 31, 2025
ASSETS		
Current assets:		
Cash and equivalents	$ 2,915	$ 429
Oil and natural gas sales receivables	704	454
Marketable equity securities	89	146
Other current assets	853	956
Total current assets	4,561	1,985
Oil and natural gas properties under full cost method and industrial gas properties:		
Evaluated oil and natural gas properties	132,837	132,459
Less accumulated depreciation, depletion and amortization	(118,239)	(117,237)
Net oil and natural gas properties	14,598	15,222
Unproved industrial gas properties, not subject to amortization	42,502	22,479
Other Assets:		
Property and equipment, net	274	318
Right-of-use asset	220	356
Other assets	328	270
Total other assets	822	944
Total assets	$ 62,483	$ 40,630
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,054	$ 1,592
Revenue and royalties payable	3,977	3,921
Commodity derivative liability	140	-
Asset retirement obligations	477	300
Lease obligation	221	210
Total current liabilities	11,869	6,023
Noncurrent liabilities:		
Credit facility	8,500	2,500
Asset retirement obligations	7,939	7,706
Lease obligation, net of current	38	206
Total noncurrent liabilities	16,477	10,412
Total liabilities	28,346	16,435
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, $0.01 par value; 245,000,000 shares authorized; 52,499,955 and 34,405,143 shares issued and outstanding at September 30, 2026 and December 31, 2025, respectively	525	345
Additional paid-in capital	254,484	235,762
Accumulated deficit	(220,872)	(211,912)
Total shareholders' equity	34,137	24,195
Total liabilities and shareholders' equity	$ 62,483	$ 40,630

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

BIG SKY INDUSTRIAL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2026 AND 2025
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	**2025**	**2026**	**2025**
Revenue:				
Oil	$ 1,810	$ 1,587	$ 5,221	$ 5,201
Natural gas and liquids	145	151	473	758
Total revenue	1,955	1,738	5,694	5,959
Operating expenses:				
Lease operating expenses	2,110	1,045	4,016	4,189
Production taxes	158	136	453	432
Depreciation, depletion, accretion and amortization	531	816	1,681	3,053
Impairment of oil and natural gas properties	-	869	-	3,628
Exploration expense	88	128	310	174
General and administrative expenses	2,201	2,113	7,895	6,754
Loss on sale of assets	-	10	-	434
Total operating expenses	5,088	5,117	14,355	18,664
Operating loss	(3,133)	(3,379)	(8,661)	(12,705)
Other income (expense):				
Commodity derivative (loss), net	(336)	-	(169)	-
Interest expense, net	-	(72)	(74)	(167)
Other income, net	(27)	110	(56)	362
Total other (expense)	(363)	38	(299)	195
Net loss before income taxes	$ (3,496)	$ (3,341)	$ (8,960)	$ (12,510)
Income tax expense	-	-	-	-
Net loss	$ **(3,496)**	$ **(3,341)**	$ **(8,960)**	$ **(12,510)**
Basic and diluted weighted average shares outstanding	52,495,280	32,793,272	48,556,122	33,630,832
Basic and diluted loss per share	$ (0.07)	$ (0.10)	$ (0.18)	$ (0.37)

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

BIG SKY INDUSTRIAL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2026 AND 2025
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balances, December 31, 2024	27,903,197	$ 279	$ 221,460	$ (197,538)	$ 24,201
Stock-based compensation	-	-	471	-	471
Acquisition of industrial gas properties	1,400,000	14	2,618	-	2,632
Issued to employees and directors	851,515	9	(9)	-	-
Settle tax withholding obligations for restricted stock awards	(203,281)	(2)	(322)	-	(324)
Underwritten offering, net of offering costs $899,099	4,871,400	49	11,828	-	11,877
Share repurchased	(125,600)	(1)	(233)	-	(234)
Shares repurchased from related party	(635,400)	(6)	(1,568)	-	(1,574)
Net loss	-	-	-	(3,111)	(3,111)
Balances, March 31, 2025	34,061,831	$ 342	$ 234,244	$ (200,650)	$ 33,938
Stock-based compensation	-	-	563	-	563
Issued to employees and directors	50,000	1	-	-	1
Settle tax withholding obligations for restricted stock awards	(18,211)	-	(22)	-	(22)
Share repurchased	(71,800)	(1)	(82)	-	(83)
Net loss	-	-	-	(6,058)	(6,058)
Balances, June 30, 2025	34,021,820	$ 342	$ 234,704	$ (206,709)	$ 28,337
Stock-based compensation	-	-	420	-	420
Issued to employees and directors	122,000	1	-	-	1
Settle tax withholding obligations for restricted stock awards	(271)	-	-	-	-
Net loss	-	-	-	(3,341)	(3,341)
Balances, September 30, 2025	34,143,549	$ 343	$ 235,124	$ (210,050)	$ 25,417
Balances, December 31, 2025	34,405,143	345	235,762	(211,912)	24,195
Stock-based compensation	-	-	446	-	446
Issued to employees and directors	735,514	7	(6)	-	1
Settle tax withholding obligations for restricted stock awards	(168,610)	(2)	(169)	-	(171)
Underwritten offering, net of offering costs $714,195	8,800,000	88	7,998	-	8,086
Committed equity facility, net of offering costs $199,238	8,548,382	85	9,018	-	9,103
Net loss	-	-	-	(3,185)	(3,185)
Balances, March 31, 2026	52,320,429	$ 523	$ 253,049	$ (215,097)	$ 38,475
Issued to consultants	167,077	2	159	-	161
Stock-based compensation	-	-	684	-	684
Net loss	-	-	-	(2,279)	(2,279)
Balances, June 30, 2026	52,487,506	$ 525	$ 253,891	$ (217,377)	$ 37,039
Issued to consultants	10,694	-	15	-	15
Stock-based compensation	-	-	578	-	578
Issued to employees and directors	2,000	-	-	-	-
Settle tax withholding obligations for restricted stock awards	(245)	-	-	-	-
Net loss	-	-	-	(3,496)	(3,496)
Balances, September 30, 2026	52,499,955	$ 525	$ 254,484	$ (220,872)	$ 34,137

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

BIG SKY INDUSTRIAL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2026 AND 2025
(in thousands)

	2026	2025
Cash flows from operating activities:		
Net loss	$ (8,960)	$ (12,510)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation, depletion, accretion, and amortization	1,681	3,053
Impairment of oil and natural gas properties	-	3,628
Loss on sale of assets	-	434
Commodity derivatives loss	140	-
Loss (gain) on marketable equity securities	57	(180)
Amortization of debt issuance costs	28	100
Stock-based compensation	1,708	1,454
Right-of-use asset amortization	135	129
Shares issued to consultants	176	-
Changes in operating assets and liabilities:		
Oil and natural gas sales receivables	(250)	807
Accounts payable and accrued liabilities	516	(2,583)
Other operating assets and liabilities, net	161	(467)
Payments on operating lease liability	(156)	(146)
Net cash used in operating activities	(4,764)	(6,281)
Cash flows from investing activities:		
Acquisition of industrial gas properties	-	(2,128)
Industrial gas properties capital expenditures	(15,170)	(7,653)
Oil and natural gas properties capital expenditures	(485)	(18)
Property and equipment expenditures	-	(4)
Net proceeds from sale of oil and natural gas properties	-	134
Net cash used in investing activities	(15,655)	(9,668)
Cash flows from financing activities:		
Borrowings on credit facility	6,000	-
Financing costs	(113)	-
Shares withheld to settle tax withholding obligations for restricted stock awards	(171)	(346)
Repurchases of common stock	-	(316)
Related party share repurchase	-	(1,574)
Proceeds from underwritten offering	8,086	11,877
Proceeds from committed equity facility	9,103	-
Net cash provided by financing activities	22,905	9,641
Net change in cash and equivalents	2,486	(6,308)
Cash and equivalents, beginning of period	429	7,723
Cash and equivalents, end of period	$ 2,915	$ 1,415

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements. Please see *Note-15- Supplemental Disclosures of Cash Flow Information*.

BIG SKY INDUSTRIAL INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

On June 8, 2026, the Company changed its name from "U.S. Energy Corp." to "Big Sky Industrial Inc." (ticker: BSIN). Big Sky Industrial Inc. and its wholly-owned subsidiaries are referred to as the “Company” in these Notes to Condensed Consolidated Financial Statements. The Company is incorporated in the State of Delaware and its principal business activities are focused on the acquisition, exploration and development of industrial gas and oil and natural gas properties in the United States.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements are presented in accordance with U.S. generally accepted accounting principles (“GAAP”) and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included.

For further information, refer to the Consolidated Financial Statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2025, as filed with the SEC on March 13, 2026. The Company’s significant accounting policies are also described in Note 1 in those Consolidated Financial Statements. There have been no material changes to those policies during the three and nine months ended September 30, 2026.

Our financial condition as of September 30, 2026, and operating results for the three and nine months ended September 30, 2026, are not necessarily indicative of the financial condition and results of operations that may be expected for any future interim period or for the year ending December 31, 2026.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include oil and natural gas reserves that are used in the calculation of depreciation, depletion, amortization ("DD&A") and impairment of the carrying value of evaluated oil and natural gas properties, and the cost and timing of future asset retirement obligations. The Company evaluates its estimates on an on-going basis and bases its estimates on historical experience and on various other assumptions the Company believes to be reasonable. Due to inherent uncertainties, including the future prices of oil and natural gas, these estimates could change in the near term and such changes could be material.

Principles of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in conformity with GAAP and include the accounts of Big Sky Industrial Inc. and its wholly-owned subsidiaries. Big Sky Industrial Inc. accounts for its share of oil and natural gas exploration and production activities, and industrial gas activities in which it has a direct working interest, by reporting its proportionate share of assets, liabilities, revenues, costs, and cash flows within the relevant lines on the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, and Condensed Consolidated Statements of Cash Flows. All inter-company balances and transactions have been eliminated in consolidation.

Industry Segment and Geographic Information

The Company operates primarily in the exploration and production segment of the oil and gas industry, conducting onshore operations within the United States. All current revenues are derived from the production and sale of oil and natural gas.

In addition, the Company has commenced development activities related to industrial gas assets. These activities are currently in the development stage and have not yet generated revenues. Development activities primarily consist of resource evaluation, permitting, engineering, construction and related capital expenditures.

The Company manages its operations as a single reportable segment under Accounting Standards Codification (ASC) 280 Segment Reporting. The Company's Chief Executive Officer serves as the Chief Operating Decision Maker ("CODM") and reviews financial information on a consolidated basis for purposes of allocating resources and assessing performance. While industrial gas development costs and capital expenditures are tracked separately for internal project management purposes, such activities do not currently constitute a separate operating segment, as discrete operating results are not reviewed by the CODM and no revenues have been generated.

The Company's principal oil and natural gas properties and operations are located in:

- The Rockies region (Montana and Wyoming); and
- The Mid-Continent and Other regions (Oklahoma, Mississippi, and Texas).

The CODM evaluates performance primarily based on operating margin, defined as revenues less lease operating expenses. Other significant items reviewed include total assets, depreciation, depletion and amortization ("DD&A"), general and administrative expense, gain or loss on derivative activity, interest expense and income tax expense (benefit). These amounts are presented in the Consolidated Balance Sheets and Consolidated Statements of Operations.

Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2024, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)*, which requires additional disaggregation of certain expense captions presented on the face of the income statement, including further detail regarding the nature of expenses such as employee compensation, depreciation, and amortization. The guidance is intended to enhance transparency into the composition of an entity's expenses.

The amendments in ASU 2024-03 are effective for public business entities for fiscal years beginning January 1, 2027, and interim periods beginning first quarter 2028. Early adoption is permitted.

The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and related disclosures. The Company expects the adoption will result in expanded disclosures but does not anticipate a material impact on its results of operations, financial position, or cash flows.

Related Party Transaction

During the nine months ended September 30, 2026, the Company entered into a consulting engagement with a related party, as defined under applicable accounting guidance. The related party relationship arises from the entity being controlled by a member of the Company's board of directors. The Company engaged the related party to provide electrical infrastructure consulting services in connection with the development of its industrial gas processing facility. For the nine months ended September 30, 2026, the Company incurred approximately $50,000 in costs related to these services. The arrangement provided for a fixed fee of up to $50,000, and the Company believes the terms are customary and reasonable for similar services. The Company's Audit Committee reviewed and approved the engagement in accordance with the Company's related party transaction policy.

2. ACQUISITIONS AND DIVESTITURES

Acquisition of industrial gas acreage

On January 7, 2025, the Company entered into, and simultaneously closed the related party transactions contemplated by, a Purchase and Sale Agreement (the "Synergy Purchase Agreement"), with Synergy Offshore LLC ("Synergy"). Synergy is controlled by Mr. Duane H. King, a member of the Board of Directors of the Company, who serves as the Chief Executive Officer and Manager of Synergy, and John A. Weinzierl, the Company's Chairman, who was an approximate sixty percent beneficial owner of Synergy at the time of the entry into the purchase and sale agreement.

Pursuant to the Synergy Purchase Agreement, the Company purchased from Synergy, 24,000 net operated acres located across the Kevin Dome structure in Toole County, Montana, which are highly contiguous to the 144,000 net acres located across the Kevin Dome structure in Toole County, Montana acquired by the Company in June 2024 from Wavetech Helium, Inc. ("Wavetech"), including all leases, wells, rights and interests in, under or derived from all communalization, unitization, or pooling agreements or pooling orders, easements, mineral interests, contracts, production, equipment, claims, receivables, indemnities, permits, seismic studies and records, associated therewith (collectively, the "Property"), subject to Synergy retaining an undivided twenty percent (20.00%) of Synergy's right, title, and interest in the Property, and certain excluded assets (the "Synergy Reserved Interest").

The Property was acquired in consideration for (a) $2.0 million in cash, subject to customary adjustments; (b) 1,400,000 shares of the Company's common stock (representing 4.76% of the Company's outstanding common stock at the time of the entry into the Purchase Agreement) (the "Closing Shares"); (c) a carried working interest whereby the Company agreed to cover and pay for 100% of Synergy's costs attributable to the Synergy Reserved Interest, until the earlier of (i) 78 months from the closing date; or (ii) the date the total costs associated therewith total $20 million; (d) the Company's agreement to pay Synergy 18% of the cash amounts it actually realizes from our sequestration of carbon oxides or similar substances derived directly from the area of mutual interest ("AMI") surrounding the Property; and (e) the Company's agreement to pay Synergy 18% of the gain we may receive in connection with the sale of the future, first, gas processing plant located on the Property (which includes any expansions connected to the initial installation that processes production from within the AMI in which the Company has a financial interest), in the same form as the consideration we receive upon such sale. Total consideration was $4.7 million. The transaction was accounted for as an asset acquisition and recorded as an unevaluated industrial gas asset upon closing.

3. REVENUE RECOGNITION

The Company disaggregates revenues from its share of revenue from the sale of oil and natural gas and liquids by region. The Company's revenues in the Rockies region and the Mid-Continent and Other region for the three and nine months ended September 30, 2026 and 2025, are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(in thousands)			
Revenue:				
Rockies				
Oil	$ 1,725	$ 1,097	$ 4,877	$ 4,012
Natural gas and liquids	40	26	93	129
Total	$ 1,765	$ 1,123	$ 4,970	$ 4,141
Mid-Continent				
Oil	$ 85	$ 490	$ 344	$ 1,189
Natural gas and liquids	105	125	380	629
Total	$ 190	$ 615	$ 724	$ 1,818
Total Revenue	$ 1,955	$ 1,738	$ 5,694	$ 5,959

Significant concentrations of credit risk

The Company has exposure to credit risk in the event of non-payment of oil and natural gas receivables by purchasers of its operated oil and natural gas properties. The following table presents the purchasers that accounted for 10% or more of the Company's total oil and natural gas revenue for at least one of the periods presented:

	Nine Months Ended September 30,	
	2026	2025
Purchaser A	78%	51%
Purchaser B	8%	17%
Purchaser C	3%	6%

4. LEASES

The Company's operating lease right-of-use asset and lease obligation are recognized at their discounted present value under the following captions in the Condensed Consolidated Balance Sheets as of September 30, 2026 and December 31, 2025:

	September 30, 2026	December 31, 2025
	(in thousands)	
Right-of-use asset	$ 220	$ 356
Lease liability		
Current lease obligation	$ 221	$ 210
Long-term lease obligation	38	206
Total lease liabilities	$ 259	$ 416

The Company recognizes lease expense on a straight-line basis excluding short-term and variable lease payments, which are recognized as incurred. Short-term lease cost represents payments for oilfield equipment with original lease terms less than one year. The following are the amounts recognized as components of lease cost for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(in thousands)			
Operating lease cost	$ 49	$ 49	$ 146	$ 146
Short-term lease cost	17	34	68	94
Total lease costs	$ 66	$ 83	$ 214	$ 240

The Company's Houston office operating lease does not contain implicit interest rates that can be readily determined; therefore, the Company used the incremental borrowing rates in effect at the time the Company entered into the leases.

	As of September 30,	
	2026	2025
	(in thousands)	
Weighted average lease term (years)	1.2	2.2
Weighted average discount rate	4.25%	4.25%

Maturity of operating lease liabilities with terms of one year or more as of September 30, 2026 is presented in the following table:

	September 30, 2026
	(in thousands)
2026	$ 56
2027	210
Total lease payments	$ 266
Less: imputed interest	(7)
Total lease liability	$ 259

5. OIL AND NATURAL GAS PRODUCING ACTIVITIES

Full Cost Method Ceiling Test and Impairment

The reserves used in the ceiling test incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In the calculation of the ceiling test as of September 30, 2026, the Company used $75.79 per barrel for oil and $3.62 per one million British Thermal Units for natural gas (as further adjusted for property, specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. The discount factor used was 10%. No ceiling test write down was recorded for the three or nine months ended September 30, 2026.

In the calculation of the ceiling test as of September 30, 2025, the Company used $67.45 per barrel for oil and $3.10 per one million British Thermal Units for natural gas (as further adjusted for property, specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. The discount factor used was 10%. The Company recorded $0.9 million and $3.6 million ceiling test write-downs of its oil and natural gas properties during the three and nine months ended September 30, 2025, respectively, due to the reduction in the value of proved oil and natural gas reserves primarily as a result of a decrease in crude oil prices and reserve reductions from recent divestitures.

6. Credit Facility

On January 5, 2022, the Company entered into a four-year credit agreement (as amended to date, the "Credit Agreement") with FirstBank Southwest ("FirstBank") as administrative agent for one or more lenders (the "Lenders"), which provided for a revolving line of credit with an initial borrowing base of $15 million, and a maximum credit amount of $100 million. Borrowings under the Credit Agreement are collateralized by a first priority, perfected lien and security interests on substantially all assets of the Company (subject to permitted liens and other customary exceptions). On July 26, 2022, the Company entered into a letter agreement with FirstBank whereby it increased the borrowing base under the Credit Agreement from $15 million to $20 million. Under the Credit Agreement, revolving loans could be borrowed, repaid and re-borrowed until January 5, 2026, when all outstanding amounts had to be repaid.

On September 16, 2025, effective August 1, 2025, the Company entered into a First Amendment to Credit Agreement and Limited Waiver ("Amendment") with FirstBank, as administrative agent for the lenders party thereto, and such lenders. Significant revisions made to the Credit Amendment as a result of the Amendment include extending the maturity date of amounts owed from January 5, 2026 to May 31, 2029, lowering the borrowing base from $20 million to $10 million and deferring the next test period for the ratio of total debt to EBITDAX to March 31, 2026. During 2025, the Company expensed $53 thousand of remaining capitalized deferred financing costs associated with the Credit Agreement and capitalized $60 thousand of deferred financing costs attributable to the Amendment.

The Credit Agreement contains various restrictive covenants and compliance requirements, which include: (i) maintenance of certain financial ratios, as defined in the Credit Agreement tested quarterly, that limit the Company's ratio of total debt to EBITDAX (as defined in the Credit Agreement) to 3:1 and require its ratio of consolidated current assets to consolidated current liabilities (as each is described in the Credit Agreement) to remain at 1:1 or higher; (ii) restrictions on making certain payments as defined in the Credit Agreement, including the payment of cash dividends and repurchases of equity interests (subject to certain limited rights to make restricted payments as long as no event of default has occurred, or would result from the restricted payment, certain financial ratios are met and the borrowing availability after giving pro forma effect to any borrowing to be made on the date of the restricted payment is greater than, or equal to, 20% of the then existing borrowing base); (iii) limits on the incurrence of additional indebtedness; (iv) a prohibition on the entry into commodity swap contracts exceeding a specified percentage of our expected production; and (v) restrictions on the disposition of assets.

On April 17, 2026, the Company entered into a Second Amendment (the "Second Amendment") to its Credit Agreement. The Second Amendment, among other things, (i) increased the borrowing base from $10.0 million to $20.0 million, (ii) revised the applicable margin on outstanding borrowings to a fixed 2.00% per annum, (iii) suspended testing of financial covenants through the fiscal quarter ending March 31, 2027, and (iv) made certain other modifications to the Credit Agreement.

Under the Credit Agreement, revolving loans may be borrowed, repaid and re-borrowed until May 31, 2029, when all outstanding amounts must be repaid. In addition, there is a fee on the unused borrowing commitment of 0.5%. Interest expense from drawn balances recognized on the Credit Agreement and the weighted average interest rates for the three and nine months ended September 30, 2026 and 2025 are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(in thousands)			
Interest expense before capitalization	$ 132	$ -	$ 224	$ -
Weighted average interest rate	7.2%	0.0%	7.1%	0.0%

Total interest costs incurred, which includes interest expense and related fees, was $160 thousand and $296 thousand for the three and nine months ended September 30, 2026, of which $160 thousand and $223 thousand, respectively, was capitalized in connection with the construction of the Company's industrial gas processing facility. No interest costs were capitalized in the corresponding periods in 2025.

7. COMMODITY DERIVATIVES

The Company's results of operations and cash flows are affected by changes in market prices for crude oil and natural gas. To manage a portion of its exposure to price volatility from producing crude oil and natural gas, the Company may enter into commodity derivative contracts to protect against price declines in future periods. The Company does not enter into derivative contracts for speculative or trading purposes. The Company does not apply hedge accounting. Accordingly, changes in the fair value of the derivative contracts are recorded in the Condensed Consolidated Statements of Operations and are included as a non-cash adjustment to net loss in the operating activities section in the Condensed Consolidated Statements of Cash Flows.

On April 7, 2026, the Company entered into derivative contracts to manage its exposure to fluctuations in crude oil prices. Specifically, the Company entered into a costless collar contract under which it sold call options with a strike price of $88.09 per barrel and purchased put options with a strike price of $65.00 per barrel, based on the monthly average West Texas Intermediate crude oil price. The contracts cover 3,800 barrels of oil per month for the period from June 2026 through July 2027.

The Company recognized losses from changes in the fair value of its oil derivative contracts of $336 thousand and $169 thousand for the three and nine months ended September 30, 2026, respectively, including a $29 thousand realized loss on the September 2026 settlement, which was payable at September 30, 2026. There have been no cash receipts or payments to settle expiring derivative contracts during the three and nine months ended September 30, 2026. The Company had no derivative contracts outstanding as of December 31, 2025, or during the three and nine months ended September 30, 2025.

8. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is subject to litigation and claims arising in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, the anticipated results of any pending litigation and claims are not expected to have a material effect on the results of operations, the financial position, or the cash flows of the Company.

Environmental Matters

During the three months ended September 30, 2026, the Company identified a release of produced fluids from a gathering line. Response and remediation activities were initiated promptly, and finalized during the three months ended September 30, 2026. Remediation and related costs incurred were approximately $1.2 million and recorded in lease operating expense, subject to insurance reimbursement.

The Company has submitted a claim under its general liability insurance policy, which provides $1.0 million in coverage for pollution clean-up costs after a $100,000 per-occurrence deductible is met. While the claim has been submitted, the Company is awaiting approval from the insurer before recognizing an insurance claim receivable.

9. SHAREHOLDERS' EQUITY

As of September 30, 2026, and December 31, 2025, the Company had 245,000,000 common stock shares authorized. In addition, as of September 30, 2026, and December 31, 2025, the Company had 5,000,000 authorized but unissued shares of preferred stock.

Equity Issuances

On March 10, 2026, the Company closed on an underwritten offering of 8,800,000 shares of common stock, at a price to the public of $1.00 per share generating $8.1 million net of underwriting discounts and offering expenses.

On January 22, 2025, the Company entered into an underwriting agreement for the offering of 4,871,400 shares of common stock, at a price to the public of $2.65 per share (such offering, the "Offering").

The sale of 4,871,400 shares of common stock (including the full 635,400 over-allotment option) in connection with the Offering, closed on January 23, 2025. The Company generated approximately $11.9 million of net proceeds from the Offering, after deducting the underwriting discounts and commissions and offering costs payable by us, and plans to use such proceeds for the development of its acquisition in Montana, general corporate purposes, and working capital, or for other purposes that our board of directors, in their good faith, deems to be in the best interest of the Company. Additionally, management used $1.574 million from the over-allotment option exercise to purchase shares of common stock from Sage Road Capital, LLC (whose co-manager, Joshua L. Batchelor, was a then member of the Board of Directors of the Company) and its affiliates at a price equal to the public offering price of the Offering, less underwriting discounts, which sale took place in January 2025, as discussed below.

Related Party Share Repurchase

On January 27, 2025, the Company entered into a Share Repurchase Agreement with Banner Oil & Gas, LLC (“Banner”), Woodford Petroleum, LLC (“Woodford”), and Sage Road Energy II, LP, (“Sage Road”, and together with Banner and Woodford, the “Selling Stockholders”). In his capacity as co-Managing Partner of Sage Road Capital, LLC, which indirectly controls and manages certain funds which own a majority interest in Banner, Woodford and Sage Road, Joshua L. Batchelor, a then member of the Board of Directors of the Company, may be deemed to beneficially own the shares of common stock held by the Selling Stockholders.

Pursuant to the Share Repurchase Agreement, the Company, in a private transaction, outside of, and separate from the Company’s previously disclosed share repurchase program, on January 27, 2025, repurchased (a) 534,020 shares of common stock held by Banner, (b) 41,229 shares of common stock held by Woodford, and (c) 60,151 shares of common stock held by Sage Road, for an aggregate of $1.574 million or approximately $2.48 per share, which was the net price per share of the 4,871,400 shares of common stock sold in our underwritten public offering which closed on January 23, 2025, less underwriting discounts and commissions, and which represented an 8.2% premium to the closing sales price of the Company's common stock on January 27, 2025.

Committed Equity Facility

On October 9, 2025, the Company entered into a Common Stock Purchase Agreement and related Registration Rights Agreement with Roth Principal Investments, LLC ("Roth Principal"), providing a discretionary equity facility of up to $25.0 million. Beginning December 1, 2025, the Company may, at its option over 24 months from the date the resale registration was declared effective and certain other conditions were met, sell shares of common stock to Roth Principal at a price based on the Nasdaq volume weighted average prices during a specific pricing period, less a 2.5% discount, subject to pricing and ownership limits. Sales under the facility were initially limited to 7,123,382 shares, or 19.99% of the shares of common stock outstanding immediately prior to the Company's entry into the Common Stock Purchase Agreement (the "Exchange Cap"), absent shareholder approval or satisfaction of the Nasdaq pricing exemption. On May 8, 2026, the Company's stockholders approved the issuance of shares of common stock under the Common Stock Purchase Agreement in excess of the Exchange Cap for purposes of Nasdaq Listing Rule 5635(d), and the Exchange Cap no longer limits issuances under the facility. The facility remains subject to a 4.99% beneficial ownership limitation applicable to Roth Principal. As consideration for entering into the agreement, the Company paid a $25 thousand structuring fee, issued 223,141 shares of common stock as a partial commitment fee (valued at $270,000) (the "Stock Commitment Fee"), agreed to a $180 thousand cash commitment fee, and to reimburse legal fees.

During the three months ended March 31, 2026, the Company sold 8,548,382 shares of common stock under the Committed Equity Facility and generated $9.1 million in proceeds net of financing costs. No shares were sold thereafter. As of September 30, 2026, the remaining availability under the Committed Equity Facility is the lesser of $15.9 million or the issuance limit of 15,328,477 shares of common stock.

Stock Option Plans

The Company may grant stock options under its incentive plans covering shares of common stock to employees and directors of the Company. Stock options, when exercised, are settled through the payment of the exercise price in exchange for new shares of stock underlying the option. These awards typically expire ten years from the grant date. Compensation cost is recognized on a straight-line basis over the requisite service period of each award and is included in general and administrative expense. Forfeitures are recognized as they occur.

Option activity for the nine months ended September 30, 2026 was as follows:

	Number of Options	Weighted-Avg. Exercise Price	Remaining Contractual Term (years)
Outstanding at December 31, 2025	16,500	$ 10.00	-
Granted	3,517,500	$ 1.11	-
Exercised	-	$ -	-
Outstanding at September 30, 2026	3,534,000	$ 1.15	9.4
Exercisable at September 30, 2026	821,500	$ 1.29	9.3

Options granted prior to 2026. The 16,500 options outstanding at December 31, 2025 were granted in 2017 under the Company's 2012 Equity Plan and were fully vested as of that date. These options have a weighted-average exercise price of $10.00 and expire between August 2027 and November 2027, with a weighted-average remaining contractual term of 1 year at September 30, 2026. No options in this group were granted, exercised, forfeited or expired during the nine months ended September 30, 2026 or 2025. These options were outstanding and vested as of September 30, 2026 and September 30, 2025. No stock-based compensation expense was recognized related to these options during the three or nine months ended September 30, 2026 or 2025, and no unrecognized compensation cost remains.

March 4, 2026 grant. On March 4, 2026, the Company granted stock options to employees and directors to purchase 3,517,500 shares of common stock at an exercise price of $1.11 per share, expiring March 4, 2036. Of these options, approximately 1.38 million vest by January 2027 (230,000 vested in May 2026 and the remainder vests in two equal installments on July 1, 2026 and January 2, 2027), 1.50 million vest ratably over four years, beginning January 2, 2027, and 637,500 vest ratably over two years, beginning January 2, 2027.

The weighted-average grant-date fair value of these options was approximately $0.77 per option, or $2.7 million in the aggregate, as determined using the Black-Scholes option pricing model utilizing the following weighted-average assumptions.

Expected Volatility	76%
Expected term	6.1 years
Risk-free interest rate	3.77%
Expected dividend yield	0%

Expected term ranged from 5.4 years to 6.9 years across the vesting groups described above.

Expected volatility was estimated based on the historical volatility of the Company's common stock over a look-back period deemed representative of the expected life of the options, taking into consideration the Company's historical trading data and significant corporate developments. The Company evaluated historical volatility using daily stock price data and considered the impact of changes in its business strategy and market conditions over the look-back period. Due to limited historical exercise data and changes in the Company's operations, management applied judgment in selecting an appropriate volatility assumption reflective of the expected term of the awards.

Activity for unvested options during the nine months ended September 30, 2026 was as follows:

	Number of Options	Weighted-Avg. Grant-Date Fair Value Per Option
Non-vested stock options at December 31, 2025	-	$ -
Granted	3,517,500	$ 0.77
Vested	(805,000)	$ 0.73
Non-vested stock options at September 30, 2026	2,712,500	$ 0.78

For the three and nine months ended September 30, 2026, the Company recognized stock-based compensation of approximately $396 thousand and $1.1 million, respectively, related to the March 4, 2026 grants. No stock-based compensation expense related to stock options was recognized during the three or nine months ended September 30, 2025. As of September 30, 2026, total unrecognized compensation cost related to these awards was approximately $1.6 million, which is expected to be recognized over a weighted-average period of 2.4 years.

Restricted Stock

The Company grants restricted stock under its incentive plans covering shares of common stock to employees and directors of the Company. All of the restricted stock awards are time-based awards and are amortized ratably from grant date over a requisite service period. Forfeitures of restricted stock awards are recognized as they occur. Restricted stock granted to employees is reduced by shares forfeited to pay withholding tax. Non-vested shares of restricted stock are not included in common shares outstanding until vesting has occurred.

The following table presents the changes in non-vested restricted stock awards to all employees and directors for the nine months ended September 30, 2026:

	Shares	Weighted-Avg. Grant Date Fair Value Per Share
Non-vested restricted stock as of December 31, 2025	1,428,680	$ 1.75
Granted	220,000	$ 1.11
Vested	(737,514)	$ 1.72
Non-vested restricted stock as of September 30, 2026	911,166	$ 1.63

For the three and nine months ended September 30, 2026, the Company recognized $182 thousand and $615 thousand, respectively, of stock compensation expense related to restricted stock grants, compared to $420 thousand and $1.5 million for the three and nine months ended September 30, 2025, respectively. Unrecognized compensation cost related to non-vested awards not yet recorded in the Company's Condensed Consolidated Statements of Operations as of September 30, 2026 was $470 thousand. This cost is expected to be recognized over a weighted average period of 1.2 years.

Share Repurchase Program

On January 29, 2025, the Board of Directors of the Company authorized and approved an extension of the ongoing share repurchase program for up to $5.0 million of the outstanding shares of the Company's common stock originally approved by the Board of Directors on April 26, 2023, and subsequently extended. The share repurchase program expired on June 30, 2026, but may be reauthorized at the discretion of the Board of Directors.

Under the stock repurchase program, shares are repurchased from time to time in the open market or through negotiated transactions at prevailing market prices, or by other means in accordance with federal securities laws. Repurchases are made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase program is funded using the Company's working capital. The repurchased shares are cancelled and therefore will not be held in treasury or reissued.

There were no share repurchases during the three and nine months ended September 30, 2026. During the three and nine months ended September 30, 2025, the Company repurchased zero shares and 197 thousand shares, respectively, at a weighted average price of $1.61 per share.

10. ASSET RETIREMENT OBLIGATIONS

The Company has asset retirement obligations ("ARO") associated with the future plugging and abandonment of proved properties. Initially, the fair value of a liability for an ARO is recorded in the period in which the ARO is incurred with a corresponding increase in the carrying amount of the related asset. The liability is accreted to its present value each period and the capitalized cost is depleted over the life of the related asset. If the liability is settled for an amount other than the recorded amount, an adjustment to the full cost pool is recognized. The Company had no assets that are restricted for the purpose of settling ARO.

In the fair value calculation for the ARO, there are a number of assumptions and judgments, including the ultimate retirement cost, inflation factors, credit-adjusted risk-free discount rates, timing of retirement and changes in legal, regulatory, environmental, and political environments. To the extent future revisions to assumptions and judgments impact the present value of the existing ARO, a corresponding adjustment is made to the oil and natural gas property balance.

The following is a reconciliation of the changes in the Company's liabilities for asset retirement obligations as of September 30, 2026 and December 31, 2025:

	September 30, 2026	December 31, 2025
	(in thousands)	
Balance, beginning of year	$ 8,006	$ 14,083
Acquired or incurred	-	26
Cost and life revisions	-	(1,304)
Plugged	(27)	(232)
Sold	-	(5,571)
Accretion	437	1,004
Balance, end of period	$ 8,416	$ 8,006

11. INCOME TAXES

The Company's tax provision or benefit from income taxes for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any. Each quarter the Company updates its estimate of the annual effective tax rate and makes a year-to-date adjustment to the provision. The Company's effective tax rate was approximately 0% and 0% for the nine months ended September 30, 2026 and 2025, respectively. The primary difference in the Company's effective tax rate and the statutory rate for both periods is related to the movement in the valuation allowance against the Company's net deferred tax assets.

Deferred taxes are recognized for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets, liabilities, net operating losses and tax credit carry-forwards. We review our deferred tax assets ("DTAs") and valuation allowance on a quarterly basis. As part of our review, we consider positive and negative evidence, including cumulative results in recent years.

The Company recognizes, measures, and discloses uncertain tax positions whereby tax positions must meet a "more-likely-than-not" threshold to be recognized. During the nine months ended September 30, 2026 and 2025, no adjustments were recognized for uncertain tax positions.

12. INCOME (LOSS) PER SHARE

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the respective period. Diluted net income (loss) per common share is calculated by dividing adjusted net income by the diluted weighted average number of common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for this calculation consist of stock options and unvested shares of restricted common stock, which are measured using the treasury stock method. When the Company recognizes a net loss, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of dilutive net loss per common share. Unvested shares of restricted stock participate in dividend distributions; however, they do not participate in losses. Therefore, dividends, if any, attributable to participating securities are not included as a reduction in the calculation of loss attributable to common shareholders.

The following table sets forth the calculation of basic and diluted net loss per share for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(in thousands except per share data)			
Net loss attributable to common shareholders	$ (3,496)	$ (3,341)	$ (8,960)	$ (12,510)
Basic weighted average common shares outstanding	52,495	32,793	48,556	33,631
Dilutive effect of potentially dilutive securities	-	-	-	-
Diluted weighted average common shares outstanding	52,495	32,793	48,556	33,631
Basic and Diluted net loss per share	$ (0.07)	$ (0.10)	$ (0.18)	$ (0.37)

Potential common shares, including restricted stock and stock options issued to employees and directors disclosed in *Note 9 – Shareholders' Equity*, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

13. FAIR VALUE MEASUREMENTS

The Company's fair value measurements are estimated pursuant to a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, giving highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability, and may affect the valuation of the assets and liabilities and their placement within the hierarchy level. The three levels of inputs that may be used to measure fair value are defined as:

Level 1 - Quoted prices for identical assets and liabilities traded in active markets.

Level 2 - Observable inputs other than Level 1 that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The following is a description of the valuation methodologies used for complex financial instruments measured at fair value:

Recurring Fair Value Measurements

Derivative Instruments

The Company measures its derivative instruments at fair value on a recurring basis. The fair values of these instruments are determined using valuation models that incorporate observable market inputs, including commodity futures prices, contractual terms, and applicable discount rates. Accordingly, the Company classifies its derivative instruments as Level 2 measurements within the fair value hierarchy. Changes in the fair value of derivative instruments are recognized in earnings in the period in which they occur.

Marketable Equity Securities

We measure the fair value of marketable equity securities based on quoted market prices obtained from independent pricing services. The Company has an investment in the marketable equity securities of Anfield Energy ("Anfield"), which it acquired as consideration for sales of certain mining operations. Anfield is traded in an active market under the trading symbol AEC:TSXV and has been classified as Level 1.

We have approximately 32.3 thousand shares of marketable equity securities valued at $89 thousand and $146 thousand as of September 30, 2026 and December 31, 2025, respectively.

Credit Facility

The Company's credit facility approximates fair value because the interest rate is variable and reflective of market rates.

Other Financial Instruments

The carrying value of financial instruments included in current assets and current liabilities approximate fair value due to the short-term nature of those instruments.

Nonrecurring Fair Value Measurements

Asset Retirement Obligations

The Company measures the fair value of asset retirement obligations as of the date a well is acquired, the date a well begins drilling, or the date the Company revises its ARO assumptions. The Company's estimated AROs are based on historical experience in plugging and abandoning wells, estimated economic lives, estimated plugging and abandonment costs and federal and state regulatory requirements, all unobservable inputs, and therefore, are designated as Level 3 within the valuation hierarchy. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised upwards. The credit adjusted risk-free rate used to discount the Company's plugging and abandonment liabilities range from 7.30% to 19.00%. See *Note 10-Asset Retirement Obligations*.

Stock Options

The Company measures the fair value of stock option awards as of the grant date using a Black-Scholes option pricing model. The fair value of stock options is based on a number of assumptions, including the expected term of the awards, expected volatility of the Company's common stock, risk-free interest rate, and expected dividend yield. These inputs involve significant management judgment and are therefore classified as Level 3 within the fair value hierarchy.

Expected volatility is estimated based on the historical volatility of the Company's common stock over a lookback period deemed representative of the expected life of the options, taking into consideration the Company's historical trading data and significant corporate developments. The expected term is estimated using the simplified method, as the Company does not have sufficient historical exercise data. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for maturities consistent with the expected term of the awards. The expected dividend yield is assumed to be zero, as the Company has not paid dividends since 2023 and does not anticipate doing so in the foreseeable future. See *Note 9—Shareholders' Equity.*

14. OTHER CURRENT ASSETS AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Other Current Assets

The following table presents the components of other current assets as of the dates indicated:

	September 30, 2026	December 31, 2025
	(in thousands)	
Prepaid insurance	$ 157	$ 42
Joint interest billings receivable	-	(31)
Income tax receivable	28	28
Deferred offering costs	532	776
Other	136	141
Total other current assets	$ 853	$ 956

Accounts Payable and Accrued Liabilities.

The following table presents the components of accounts payable and accrued liabilities as of the dates indicated:

	September 30, 2026	December 31, 2025
	(in thousands)	
Accounts payable	$ 5,836	$ 891
Operating and other accruals	366	499
Interest Payable	-	26
Production taxes payable	180	95
Accrued benefits and other	672	81
Total accounts payable and accrued expenses	$ 7,054	$ 1,592

15. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended	
	September 30, 2026	September 30, 2025
	(in thousands)	
Cash paid for interest	$ 224	$ -
Investing activities:		
Change in capital expenditure accruals	(4,944)	(305)
Common stock issued for acquisition of industrial gas properties	-	(2,632)
Asset retirement obligations	-	(1,900)

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2026, the Company borrowed an additional $2.5 million under its existing credit facility. The proceeds were used to fund capital expenditures associated with the construction of the Company's industrial gas processing facility.

On October 21, 2026, the Company divested 15 wells located in East Texas, receiving net proceeds of $371 thousand. In connection with the transaction, the buyer assumed approximately $0.9 million in asset retirement obligations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

This information should be read in conjunction with the interim unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited Consolidated Financial Statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2025, filed with the Securities and Exchange Commission on March 13, 2026 (the "Annual Report").

Certain abbreviations and oil and gas industry terms used throughout this Report are described and defined in greater detail under "Glossary of Oil, Natural and Industrial Gas Terms" on page 4 of our Annual Report.

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our unaudited Condensed Consolidated Financial Statements included above under "Part I - Financial Information" – "Item 1. Financial Statements."

In this Quarterly Report on Form 10-Q, we may rely on and refer to information regarding the industries in which we operate in general from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, we have not independently verified any of it, and we have not commissioned any such information.

See also "Cautionary Statement About "Forward-Looking Statements" above.

Unless the context requires otherwise, references to the "Company," "we," "us," "our," "Big Sky Industrial Inc.", and "Big Sky Industrial" refer specifically to Big Sky Industrial Inc. and its consolidated subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

- "Bbl" refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons;
- "BOE" refers to barrels of oil equivalent, determined using the ratio of one Bbl of crude oil, condensate, or natural gas liquids, to six Mcf of natural gas;
- "Bopd" refers to barrels of oil per day;
- "Industrial gases" refers to helium, carbon dioxide, and hydrocarbons;
- "Mcf" refers to a thousand cubic feet of natural gas;
- "Mcfe" means 1,000 cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids;
- "MMCF" refers to a million cubic feet of natural or industrial gases;
- "MMCF/d" refers to a million cubic feet of natural or industrial gases;
- "NGL" refers to natural gas liquids;
- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "SEC" or the "Commission" refers to the United States Securities and Exchange Commission;

- "Securities Act" refers to the Securities Act of 1933, as amended; and
- "WTI" means West Texas Intermediate.

Where You Can Find Other Information

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC like us at https://www.sec.gov (our filings can be found at https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000101594) and on the "Investors – SEC Filings" page of our website at https://bigskyindustrialinc.com. Copies of documents filed by us with the SEC are also available from us without charge, upon oral or written request to our Secretary, who can be contacted at the address and telephone number set forth on the cover page of this Report.

Summary of The Information Contained in Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying unaudited Condensed Consolidated Financial Statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- **General Overview**. A general overview of the Company and our operations.
- **Recent Developments**. Discussion of recent developments affecting the Company and our operations.
- **Plan of Operations and Strategy**. Discussion of our strategy moving forward and how we plan to seek to increase stockholder value.
- **Critical Accounting Policies and Estimates**. Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- **Results of Operations**. An analysis of our financial results comparing the three and nine months ended September 30, 2026 and 2025.
- **Liquidity and Capital Resources**. A discussion of our financial condition, including descriptions of balance sheet information and cash flows.

General Overview

Big Sky Industrial Inc. (collectively with its wholly-owned subsidiaries are referred to as the "Company") is incorporated in the State of Delaware. The Company's principal business activities are focused on the acquisition, exploration, and development of industrial gases, oil and natural gas properties in the United States.

Recent Developments

Final Investment Decision – Big Sky Carbon Hub

During the first quarter of 2026, the Company reached a final investment decision ("FID") for the construction of its processing facility at the Big Sky Carbon Hub ("Big Sky") in Montana and executed a fixed-scope engineering, procurement and construction agreement, initiating capital deployment for the project. The planned facility is designed with an initial inlet capacity up to 7.7 MMCF/d, targeting approximately 14.4 MMCF of annual helium production and 125,000 metric tons of refined CO_2 per year. The Company expects its gathering pipeline installation to be completed in the 4th quarter of 2026, and initial gas processing and helium sales, and carbon management operations are anticipated in 2027.

In anticipation of reaching FID, during the nine months ended September 30, 2026, the Company generated $17.2 million in proceeds from equity issuances. Additionally, on April 17, 2026, the Company entered into an amendment to its Credit Facility with FirstBank Southwest that among other things, (i) increased the borrowing base from $10.0 million to $20.0 million, (ii) revised the applicable margin on outstanding borrowings to a fixed 2.00% per annum, and (iii) suspended testing of financial covenants through the fiscal quarter ending March 31, 2027. The Credit Facility maturity date remains May 31, 2029.

Helium Sales Agreement

On April 27, 2026, the Company executed a five-year helium sales agreement with an investment-grade global industrial gas company for the sale of contained helium to be produced at the Company's Big Sky Carbon Hub in Montana. The Agreement provides for a 100% take-or-pay commitment by the counterparty for up to approximately 1.2 MMCF per month (14.4 MMCF annually) of helium production, with fixed pricing of $285 per MCF, which includes counterparty transport from the plant gate, subject to annual (consumer price index) CPI-based escalation beginning March 1, 2028, and includes a price redetermination mechanism in year three with a right of first refusal.

Plan of Operations and Strategy

During the remainder of 2026 and beyond, we intend to pursue opportunities across the industrial gas sector, with a strategic emphasis on the next phase of development and monetization of our helium and carbon dioxide resources. While we plan to continue to operate oil and gas assets, our primary focus is on maximizing value from associated industrial gases. Our activities may include the acquisition of assets, participation with industry partners in development projects, acquisition of existing companies, and the purchase or development of industrial gas-related assets. Planned operations include construction of processing facilities, negotiating operating arrangements, finalizing gathering and infrastructure designs, and pursuing the use of a portion of produced CO_2 in tertiary recovery operations in our Montana oil operations.

Key elements of our business strategy include:

- *Deploy our Capital in a Conservative and Strategic Manner and Review Opportunities to Bolster our Liquidity*. In the current industry environment, maintaining liquidity remains critical. We intend to be selective in evaluating projects, prioritizing those that enhance industrial gas value, and to review opportunities to strengthen our liquidity and financial position through disciplined capital allocation and other means.

- *Evaluate and Pursue Value-Enhancing Transactions*. We plan to continuously evaluate strategic alternatives, including transactions that expand our industrial gas platform or optimize our oil and gas assets, with the objective of enhancing long-term stockholder value.

Critical Accounting Policies and Estimates

The preparation of our unaudited Condensed Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is detailed in *Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2025 Annual Report on Form 10-K filed with the SEC on March 13, 2026.

Results of Operations

Comparison of our Statements of Operations for the Three Months Ended September 30, 2026 and 2025

For the three months ended September 30, 2026, we recorded a net loss of $3.5 million, which was primarily due to lower production resulting from divestitures in prior periods. In the following sections, we discuss our revenue, operating expenses, and other income (expense) for the three months ended September 30, 2026 compared to the three months ended September 30, 2025.

Revenue. Presented below is a comparison of our oil and natural gas sales, production quantities and average sales prices for the three months ended September 30, 2026 and 2025:

	Three months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands except average prices and production quantities)			
Revenue:				
Oil	$ 1,810	$ 1,587	$ 223	14%
Natural gas and liquids	145	151	(6)	(4)%
Total revenue	$ 1,955	$ 1,738	$ 217	12%
Production quantities:				
Oil (Bbls)	23,415	26,399	(2,984)	(11)%
Natural gas and liquids (Mcfe)	43,278	53,562	(10,284)	(19)%
BOE	30,628	35,326	(4,698)	(13)%
BOE/Day	333	384	(51)	(13)%
Average sales prices:				
Oil (Bbls)	$ 77.30	$ 60.12	$ 17.18	29%
Natural gas and liquids (Mcfe)	$ 3.35	$ 2.82	$ 0.53	19%
BOE	$ 63.83	$ 49.20	$ 14.63	30%

The increase in our oil and natural gas revenue of $0.2 million for the three months ended September 30, 2026, as compared to the three months ended September 30, 2025, was primarily due to a 30% increase in average BOE sales prices offset by a reduction in production volumes. For the three months ended September 30, 2026, we produced 30,628 BOE, or an average of 333 BOE per day, as compared to 35,326 BOE or an average of 384 BOE per day during the comparable period in 2025. The decrease in our production quantities primarily relates to the divestitures of our properties in Wyoming and West Texas and the natural decline in production in remaining producing assets.

Oil and Natural Gas Production Costs. Presented below is a comparison of our oil and natural gas production costs for the three months ended September 30, 2026 and 2025:

	Three months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Lease operating expenses	$ 2,110	$ 1,045	$ 1,065	102%
Production taxes	158	136	$ 22	16%
Exploration expense	88	128	$ (40)	(31)%
Total	$ 2,356	$ 1,309	$ 1,047	80%
Lease operating expense per BOE	$ 68.89	$ 29.58	$ 39.31	133%

For the three months ended September 30, 2026, lease operating expenses were $2.1 million, or $68.89 per BOE, including $1.2 million of environmental remediation costs associated with a fluid release. These costs are subject to an insurance claim with a $0.1 million deductible. Excluding the environmental remediation costs, lease operating expenses were $0.9 million, or $29.71 per BOE, compared to $1.0 million or $29.58 per BOE, for the prior-year period.

For the three months ended September 30, 2026, production taxes consistently remained between 6% and 8% of revenue. This increase in production taxes was attributable to the increase in revenue of 12% during the same period, as discussed above.

Exploration expense decreased $40 thousand, which was attributable to a reduction in professional fees.

Impairment of oil and natural gas properties. The Company recorded a ceiling test write down of $0.9 million for the three months ended September 30, 2025, resulting from a decrease in commodity prices used in the full cost pool ceiling test calculation.

Depreciation, Depletion and Amortization. Our depreciation, depletion, and amortization ("DD&A") was $0.5 million and $0.8 million for the three months ended September 30, 2026 and 2025, respectively. Depletion expense on our oil and natural gas properties is the primary driver of DD&A expense. Our depletion rate was $10.92 per BOE and $14.19 per BOE for the three months ended September 30, 2026 and 2025, respectively. Our depletion rate can fluctuate modestly for a number of reasons including the size and timing of capital costs, acquisitions and divestitures, impairments and changes to estimated reserve volumes.

General and Administrative Expenses. Presented below is a comparison of our general and administrative expenses for the three months ended September 30, 2026 and 2025:

	Three months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Compensation and benefits	$ 865	$ 845	$ 20	2%
Stock-based compensation	578	420	158	38%
Professional fees, insurance and other	758	848	(90)	(11)%
Total general and administrative expenses	$ 2,201	$ 2,113	$ 88	4%

General and administrative expenses increased by $0.1 million for the three months ended September 30, 2026 as compared to the prior year period. The increase was primarily attributable to equity-based compensation issued to consultants, and higher investor relations expense, partially offset by lower fees for accounting and tax professional services in the three months ended September 30, 2026.

Other Income (Expense). Presented below is a comparison of our other income (expense) for the three months ended September 30, 2026 and 2025:

	Three months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Commodity derivative gain (loss), net	$ (336)	$ -	$ (336)	(100)%
Interest expense, net	-	(72)	72	100%
Other income (expense), net	(27)	110	(137)	(125)%
Total other income (expense)	$ (363)	$ 38	$ (401)	(1055)%

The commodity derivative loss as of September 30, 2026 was due to the prevailing oil prices were above the costless collar ceiling price resulting in a loss.

Interest expense primarily consists of interest and fees associated with our credit facility. During the three months ended September 30, 2026, we capitalized $160 thousand of interest expense and related fees as part of the industrial gas processing plant construction expenses.

As of September 30, 2026 and December 31, 2025, outstanding borrowings under our credit facility were $8.5 million and $2.5 million, respectively.

For the three months ended September 30, 2026, interest expense consisted of interest on outstanding borrowings, financing costs and fees associated with maintaining our credit facility. For the three months ended September 30, 2025, we had no outstanding borrowings under the credit facility, and interest expense consisted solely of fees associated with the credit facility.

Comparison of our Statements of Operations for the Nine Months Ended September 30, 2026 and 2025

For the nine months ended September 30, 2026, we recorded a net loss of $9.0 million, which was primarily due to lower production resulting from divestitures in prior periods. In the following sections, we discuss our revenue, operating expenses, and other income (expense) for the nine months ended September 30, 2026 compared to the nine months ended September 30, 2025.

Revenue. Presented below is a comparison of our oil and natural gas sales, production quantities and average sales prices for the nine months ended September 30, 2026 and 2025:

	Nine months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands except average prices and production quantities)			
Revenue:				
Oil	$ 5,221	$ 5,201	$ 20	0%
Natural gas and liquids	473	758	(285)	(38)%
Total revenue	$ 5,694	$ 5,959	$ (265)	(4)%
Production quantities:				
Oil (Bbls)	71,423	89,837	(18,414)	(20)%
Natural gas and liquids (Mcfe)	163,458	247,878	(84,420)	(34)%
BOE	98,666	131,150	(32,484)	(25)%
BOE/Day	361	480	(119)	(25)%
Average sales prices:				
Oil (Bbls)	$ 73.10	$ 57.89	$ 15.21	26%
Natural gas and liquids (Mcfe)	$ 2.89	$ 3.06	$ (0.17)	(6)%
BOE	$ 57.71	$ 45.44	$ 12.27	27%

The decrease in our oil and natural gas revenue of $0.3 million for the nine months ended September 30, 2026, as compared to the nine months ended September 30, 2025, was primarily due to a reduction in production volumes offset by a 27% increase in average BOE sales prices. For the nine months ended September 30, 2026, we produced 98,666 BOE, or an average of 361 BOE per day, as compared to 131,150 BOE or an average of 480 BOE per day during the comparable period in 2025. The decrease in our production quantities primarily relates to the divestitures of our properties in Wyoming and West Texas and the natural decline in production in remaining producing assets.

Oil and Natural Gas Production Costs. Presented below is a comparison of our oil and natural gas production costs for the nine months ended September 30, 2026 and 2025:

	Nine months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Lease operating expenses	$ 4,016	$ 4,189	$ (173)	(4)%
Production taxes	453	432	21	5%
Exploration expense	310	174	136	78%
Total	$ 4,779	$ 4,795	$ (16)	(0)%
Lease operating expense per BOE	$ 40.70	$ 31.94	$ 8.76	27%

For the nine months ended September 30, 2026, lease operating expenses were $4.0 million, or $40.70 per BOE, including $1.2 million of environmental remediation costs associated with a fluid release. These costs are subject to an insurance claim with a $0.1 million deductible. Excluding the environmental remediation costs, lease operating expenses were $2.8 million, or $28.54 per BOE, compared to $4.2 million, or $31.94 per BOE, for the comparable prior-year period. The decrease resulted from the 2025 divestiture of our Wyoming and West Texas properties that carried higher operating costs.

For the nine months ended September 30, 2026, production taxes consistently remained between 6% and 8% of revenue.

Exploration expense increased $136 thousand, which was attributable to an increase in exploration activities for our industrial gas development, namely professional services supporting resource estimation and analysis and legal work.

Impairment of oil and natural gas properties. The Company recorded a ceiling test write down of $3.6 million for the nine months ended September 30, 2025, resulting from a decrease in commodity prices used in the full cost pool ceiling test calculation.

Depreciation, Depletion and Amortization. Our depreciation, depletion, and amortization ("DD&A") was $1.7 million and $3.1 million for the nine months ended September 30, 2026 and 2025, respectively. Depletion expense on our oil and natural gas properties is the primary driver of DD&A expense. Our depletion rate was $11.24 per BOE and $14.54 per BOE for the nine months ended September 30, 2026 and 2025, respectively. Our depletion rate can fluctuate modestly for a number of reasons including the size and timing of capital costs, acquisitions and divestitures, impairments and changes to estimated reserve volumes.

General and Administrative Expenses. Presented below is a comparison of our general and administrative expenses for the nine months ended September 30, 2026 and 2025:

	Nine months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Compensation and benefits	$ 3,395	$ 2,246	$ 1,149	51%
Stock-based compensation	1,708	1,454	254	17%
Professional fees, insurance and other	2,792	3,054	(262)	(9)%
Total general and administrative expenses	$ 7,895	$ 6,754	$ 1,141	17%

General and administrative expenses increased by $1.1 million for the nine months ended September 30, 2026 as compared to the prior year period. The increase was primarily attributable to the timing of discretionary compensation, which occurred during the three months ended March 31, 2026. Professional fees decreased primarily due to a reduction in acquisition-related costs relative to the activity in the nine months ended September 30, 2025.

Other Income (Expense). Presented below is a comparison of our other income (expense) for the nine months ended September 30, 2026 and 2025:

	Nine months ended September 30,		Change	
	2026	2025	Amount	Percent
	(in thousands)			
Commodity derivative gain (loss), net	$ (169)	$ -	$ (169)	(100)%
Interest expense, net	(74)	(167)	93	56%
Other income (expense), net	(56)	362	(418)	(115)%
Total other income (expense)	$ (299)	$ 195	$ (494)	(253)%

The commodity derivative loss as of September 30, 2026 was due to the prevailing oil prices were above the costless collar ceiling price resulting in a loss

Interest expense primarily consists of interest and fees associated with maintaining our credit facility. During the nine months ended September 30, 2026, we capitalized $223 thousand of interest and related fees as part of the construction costs of our industrial gas processing plant.

As of September 30, 2026 and December 31, 2025, outstanding borrowings under our credit facility were $8.5 million and $2.5 million, respectively. For the nine months ended September 30, 2025, we had no outstanding borrowings under the credit facility, and interest expense consisted solely of fees associated with the credit facility.

Liquidity and Capital Resources

Based on the current commodity price environment and our existing working capital, we believe we have sufficient liquidity and capital resources to execute our business plan and meet our current financial obligations. Under the second amendment to our credit agreement, financial covenant test has been suspended through the fiscal quarter ending March 31, 2027. We continue to actively manage our capital commitments to maintain flexibility with respect to the timing and level of our development activities and capital expenditures.

For the remainder of 2026, the Company's capital program is designed to advance the Big Sky project toward initial commercial operations targeted for the first quarter of 2027. We anticipate the remaining aggregate, near-term capital program to range between $28.0 million and $32.0 million, primarily related to the construction of our gas processing plant, production gathering system, power generation, and related infrastructure at our industrial gas development project. In addition, we may incur up to approximately $0.5 million for plugging and abandonment activities, depending on regulatory requirements, timing, and weather conditions. We expect these expenditures to be funded through a combination of cash on hand, operating activities, proceeds from the divestiture of oil and natural gas properties, borrowings under our credit facility, additional equity issuances, and project-specific financing, including equity and debt capital.

Sources of Cash

For the nine months ended September 30, 2026, we funded our capital expenditures primarily through cash on hand, proceeds from equity issuances, and draws on our credit facility. During the period, we generated approximately $17.2 million from equity sales, issuances and had cash and cash equivalents of approximately $2.9 million, and $11.5 million available under our credit facility as of September 30, 2026.

On April 17, 2026, the Company entered into an amendment to its credit facility with FirstBank Southwest, which, among other things, increased the borrowing base from $10.0 million to $20.0 million, revised the applicable margin on outstanding borrowings to a fixed 2.00% per annum, and suspended testing of financial covenants through the fiscal quarter ending March 31, 2027. The maturity date of the credit facility remains May 31, 2029.

In future periods, if cash flows from operations are insufficient to fund capital expenditures and operating requirements, we may seek additional financing through public or private equity or debt offerings or other financing arrangements. We may also adjust the timing and scope of our capital program based on market conditions and capital availability. Our ability to access capital is subject to prevailing economic conditions, including changes in commodity prices, interest rates, capital markets, regulatory requirements, and other factors beyond our control.

Uses of Cash

We use cash primarily for the development of our industrial gas assets, including construction of processing and gathering infrastructure, as well as for operating expenses, general and administrative costs, and debt service obligations. During the nine months ended September 30, 2026, we spent approximately $15.2 million on the acquisition and development of industrial gas properties and expect to continue allocating capital to the Big Sky project for the remainder of the year.

Cash Flows

The following table summarizes our cash flows for the nine months ended September 30, 2026 and 2025:

	Nine months ended September 30,		
	2026	2025	Change
	(in thousands)		
Net cash provided by (used in):			
Operating activities	$ (4,764)	$ (6,281)	$ 1,517
Investing activities	(15,655)	(9,668)	(5,987)
Financing activities	22,905	9,641	13,264

Operating Activities. Cash used in operating activities of $4.8 million for the nine months ended September 30, 2026 was mainly due to a $9.0 million net loss offset by working capital changes of $0.3 million, and $1.7 million each of depreciation, depletion, accretion, and stock-based compensation. Cash used by operating activities of $6.3 million for the nine months ended September 30, 2025, was mainly due to a net loss of $12.5 million and a reduction of payables of $2.6 million offset by $3.1 million of depreciation, depletion, accretion, and amortization, and a $3.6 million impairment of oil and gas properties.

Investing Activities. Cash used in investing activities for the nine months ended September 30, 2026 was $15.7 million as compared to cash used in investing activities of $9.7 million for the comparable period in 2025. The primary use of cash in our investing activities for the nine months ended September 30, 2026 was attributable to industrial plant development activities. For the nine months ended September 30, 2025, the cash investment was primarily attributed to industrial gas capital expenditures and the Synergy acquisition.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2026 was $22.9 million as compared to $9.6 million for the comparable period in 2025. The primary drivers of this cash inflow were equity sales of $17.2 million and borrowings of $6.0 million during the nine months ended September 30, 2026, compared to $11.9 million of proceeds from underwritten offering in the prior period, which in the prior period were reduced by a related party share repurchase of $1.6 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We are required to maintain disclosure controls and procedures (as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As of September 30, 2026, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2026.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. In addition, the design of disclosure controls and procedures must reflect that resource constraints exist and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2026, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

Item 1A. Risk Factors.

Except as noted below, there have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2025, as filed with the SEC on March 13, 2026, under the heading "Item 1A. Risk Factors", except as set forth below, and investors should review the risks provided in the Annual Report and below, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Annual Report and below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

Geopolitical Conflict and Disruptions to Global Energy Markets, Including Risks Associated with the Strait of Hormuz, May Adversely Affect Our Business, Financial Condition, and Results of Operations

Ongoing geopolitical conflict involving Iran and other countries in the Middle East has created significant volatility and uncertainty in global energy markets. The Strait of Hormuz, a critical transit chokepoint through which approximately 20% of the world's oil supply and a significant portion of liquefied natural gas flows, has experienced material disruption, including reduced vessel traffic, military activity, and heightened security risks.

Although our operations are domestic, our business is indirectly exposed to global energy market conditions. Disruptions to supply, transportation constraints, or perceived risks of interruption in the Strait of Hormuz or surrounding regions may result in significant commodity price volatility, including rapid increases or decreases in oil and natural gas prices, as well as dislocations in supply chains and end markets.

In addition, military escalation or collateral damage affecting energy infrastructure, shipping routes, or regional production facilities in the Middle East may further exacerbate global supply shortages, increase input and operating costs, and contribute to broader macroeconomic instability, including inflationary pressures or recessionary conditions. These conditions may adversely impact demand for our products and services, disrupt capital markets, and impair our ability to access financing on acceptable terms.

Our ongoing development of a domestic industrial gas project, including the production and commercialization of helium and other gases, may also be adversely affected by such geopolitical events. Supply chain disruptions, equipment procurement delays, cost inflation, or volatility in industrial gas pricing could delay project timelines, increase capital expenditures, or reduce expected returns.

Furthermore, geopolitical instability may result in heightened regulatory scrutiny, trade restrictions, sanctions, or changes in U.S. energy policy, any of which could adversely affect our operations, counterparties, or strategic initiatives. The extent and duration of these risks remain uncertain and could have a material adverse effect on our business, financial condition, and results of operations.

Risks Associated with our Helium Sales Agreement

We have entered into a five-year helium sales agreement with an investment-grade counterparty that commits substantially all future helium production from our planned Big Sky project at a largely fixed price. While the agreement provides revenue visibility and supports project financing, it limits our ability to benefit from higher helium prices, may expose us to margin compression if production or inflation-related costs exceed the contract price, and restricts our flexibility to sell to alternative buyers on more favorable terms. The agreement also exposes us to counterparty, operational, commencement, and future price redetermination risks. As a result, the agreement could constrain our upside and could have a material adverse effect on our business, financial condition, and results of operations.

Construction and EPC Execution Risk

The Company's ability to successfully develop its gas processing facility depends on the timely and cost-effective execution of its engineering, procurement and construction ("EPC") agreement and the completion of both offsite fabrication and onsite construction activities. These efforts are subject to a variety of risks, including potential delays in engineering design, procurement of critical equipment, module fabrication, transportation logistics, site preparation, and field construction. The Company may also encounter cost overruns due to labor shortages, inflationary pressures, contractor performance issues, supply chain disruptions, adverse weather conditions, or unforeseen site or subsurface conditions. In addition, integration risks between offsite fabricated components and onsite installation could result in rework, inefficiencies, or commissioning delays. Any such delays or cost increases could materially impact the project schedule, capital expenditures, and expected timing of initial operations, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Future changes to U.S. tax laws and regulations, including potential changes to carbon capture incentives, could adversely affect our business, financial condition, results of operations, and cash flows.

From time to time, legislative and regulatory proposals are introduced that could significantly affect the U.S. tax treatment of companies engaged in industrial gas, oil and natural gas exploration, development, and production. These proposals have included, among other items, the elimination of the immediate deduction for intangible drilling and development costs, the repeal of the percentage depletion allowance for oil and gas properties, changes to the treatment of certain domestic production activities, and the extension of amortization periods for geological and geophysical expenditures. The enactment of any such changes, or other similar measures that reduce or eliminate tax benefits currently available to our industry, could increase our tax burden, reduce cash flows, and adversely impact the economics of our projects.

In addition, our business strategy includes the development of carbon management initiatives that may be eligible for federal tax incentives, including credits available under Section 45Q of the Internal Revenue Code for the capture and sequestration or utilization of carbon dioxide. The availability, value, and timing of benefits under Section 45Q depend on a number of factors, including final regulatory guidance, compliance with detailed technical and operational requirements, verification and reporting obligations, and our ability to place qualifying facilities in service and operate them in accordance with applicable standards. Legislative, regulatory, or administrative changes could reduce, delay, or eliminate the availability of these credits, including changes to eligibility thresholds, credit amounts, transferability provisions, or recapture rules. In addition, failure to satisfy applicable requirements or to sustain qualifying operations over the required period could result in the loss or recapture of previously claimed credits. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

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

Recent Sales of Unregistered Securities

During the nine months ended September 30, 2026, the Company issued an aggregate of 177,771 restricted shares of common stock to two consultants in exchange for investor relations and marketing services valued at approximately $176,000. The Company received no cash proceeds from these issuances, which had not previously been reported in a Current Report on Form 8-K. The shares were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, because the issuances did not involve a public offering. No underwriters were involved and no commissions were paid.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth share repurchase activity for the three months ended September 30, 2026:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31, 2026	245	$ 1.080	245	$ —
August 1 - August 31, 2026	—	$ —	—	$ —
September 1 - September 30, 2026	—	$ —	—	$ —
Total	245	$ 1.080	245	$ —

As of June 30, 2026, the Company's share repurchase program expired. The Board of Directors may reauthorize and extend the share repurchase program at their discretion. The above shares purchased reflect withholding of employee vesting of restricted stock.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(c) Rule 10b5-1 Trading Plans. Our directors and executive officers may from time to time enter into plans or other arrangements for the purchase or sale of our shares that are intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or may represent a non-Rule 10b5-1 trading arrangement under the Exchange Act. During the quarter ended September 30, 2026, none of the Company's directors or officers (as defined in Rule 16a-1(f)) adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

Item 6. Exhibits

Exhibit No.	Description	Form	File No.	Exhibit	Filing Date	Filed / Furnished Herewith
3.1	Certificate of Amendment to the Certificate of Incorporation of U.S. Energy Corp. as filed with the Secretary of State of Delaware on June 3, 2026, and effective on June 8, 2026	8-K	000-06814	3.1	06/04/2026	
3.2	Amended and Restated Bylaws of Big Sky Industrial Inc. effective June 8, 2026	8-K	000-06814	3.2	06/04/2026	
10.1	Credit Agreement dated as of January 5, 2022, among U.S. Energy Corp., as borrower, Firstbank Southwest, as Administrative Agent and the Lenders party thereto	8-K	000-06814	10.6	01/10/2022	
10.2†	First Amendment to Credit Agreement and Limited Waiver dated September 16, 2025, among U.S. Energy Corp., as borrower, Firstbank Southwest, as Administrative Agent and the Lenders party thereto	8-K	000-06814	10.3	09/19/2025	
10.3†	Second Amendment to Credit Agreement dated April 17, 2026, among U.S. Energy Corp., as borrower, Firstbank Southwest, as Administrative Agent and the Lenders party thereto	8-K	000-06814	10.4	04/20/2026	
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
32.1♦	Certification of Chief Executive Officer under Rule 13a-14(b)					X
32.2♦	Certification of Chief Financial Officer under Rule 13a-14(b)					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH*	Inline XBRL Schema Document					X
101.CAL*	Inline XBRL Calculation Linkbase Document					X
101.DEF*	Inline XBRL Definition Linkbase Document					X
101.LAB*	Inline XBRL Label Linkbase Document					X
101.PRE*	Inline XBRL Presentation Linkbase Document					X
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set					X

* Filed herewith.

† Certain schedules and exhibits have been omitted pursuant to Item 601(b)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however, that Big Sky Industrial Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

♦ Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BIG SKY INDUSTRIAL INC.

Date: November 10, 2026

By: */s/ Ryan L. Smith*
RYAN L. SMITH,
Chief Executive Officer (Principal Executive Officer)

Date: November 10, 2026

By: */s/ Mark L. Zajac*
MARK L. ZAJAC,
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Ryan L. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big Sky Industrial 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: November 10, 2026

By: */s/ Ryan L. Smith*
Ryan L. Smith
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Mark L. Zajac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big Sky Industrial 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: November 10, 2026

By: */s/ Mark L. Zajac*
Mark L. Zajac
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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 Big Sky Industrial Inc. (the "Company") for the period ended September 30, 2026 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Ryan L. Smith, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company, at the dates and for the periods indicated.

Date: November 10, 2026

By: */s/ Ryan L. Smith*
Ryan L. Smith
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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 Big Sky Industrial Inc. (the "Company") for the period ended September 30, 2026 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark L. Zajac, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company, at the dates and for the periods indicated.

Date: November 10, 2026

By: */s/ Mark L. Zajac*
Mark L. Zajac
Chief Financial Officer
(Principal Financial and Accounting Officer)