



Non-GAAP Financial Information
Fourth Quarter and Full-Year 2014

Adjusted Net Income

We provide the non-GAAP financial measures adjusted net income and adjusted net income per diluted share, which excludes an unrealized (gain) loss on commodity derivatives, gain on the sale of our equity method investment and related income taxes.

The amounts included in the calculation of adjusted net income and adjusted net income per diluted share below were computed in accordance with GAAP. We believe adjusted net income and adjusted net income per diluted share are useful to investors because they provide readers with a more meaningful measure of our profitability before recording certain items whose timing or amount cannot be reasonably determined. However, these measures are provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below provides a reconciliation of adjusted net income and adjusted net income per diluted share to net income for the three and twelve months ended December 31, 2014 and 2013 (in thousands, except per-share amounts).

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net income	\$ 26,987	\$ 64,321	\$ 56,172	\$ 72,256
Adjustments for certain items:				
Unrealized (gain) loss on commodity derivatives	(36,907)	1,348	(42,113)	4,596
Gain on sale of equity method investment	—	(90,743)	—	(90,743)
Related income tax effect	13,287	33,076	15,161	31,874
Adjusted net income	<u>\$ 3,367</u>	<u>\$ 8,002</u>	<u>\$ 29,220</u>	<u>\$ 17,983</u>
Adjusted net income per diluted share	<u>\$ 0.08</u>	<u>\$ 0.20</u>	<u>\$ 0.74</u>	<u>\$ 0.46</u>

EBITDAX

We define EBITDAX as net income, plus (1) exploration expense, (2) gain on the sale of our equity method investment, (3) depletion, depreciation and amortization expense, (4) share-based compensation expense, (5) unrealized (gain) loss on commodity derivatives, (6) interest expense, net, and (7) income taxes. EBITDAX is not a measure of net income or cash flow as determined by GAAP. The amounts included in the calculation of EBITDAX were computed in accordance with GAAP. EBITDAX is presented herein and reconciled to the GAAP measure of net income because of its wide acceptance by the investment community as a financial indicator of a company's ability to internally fund development and exploration activities. This measure is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below provides a reconciliation of EBITDAX and EBITDAX per diluted share to net income for the three and twelve months ended December 31, 2014 and 2013 (in thousands, except per-share amounts).

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Net income	\$ 26,987	\$ 64,321	\$ 56,172	\$ 72,256
Exploration	236	228	3,831	2,238
Gain on sale of equity method investment	—	(90,743)	—	(90,743)
Depletion, depreciation and amortization	28,664	22,005	106,802	76,956
Share-based compensation	2,521	512	8,247	5,901
Unrealized (gain) loss on commodity derivatives	(36,907)	1,348	(42,113)	4,596
Interest expense, net	5,715	5,225	21,651	14,084
Income tax provision	17,102	38,207	33,692	42,507
EBITDAX	\$ 44,318	\$ 41,103	\$ 188,282	\$ 127,795
EBITDAX per diluted share	\$ 1.12	\$ 1.05	\$ 4.78	\$ 3.28

PV-10

The present value of our proved reserves, discounted at 10% (“PV-10”), was estimated at \$1.4 billion at December 31, 2014, and was calculated based on the first-of-the-month, twelve-month average prices for oil, NGLs and natural gas, of \$94.56 per Bbl of oil, \$31.50 per Bbl of NGLs and \$4.55 per MMBtu of natural gas.

PV-10 is our estimate of the present value of future net revenues from proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates of future income taxes. The estimated future net revenues are discounted at an annual rate of 10% to determine their “present value.” We believe PV-10 to be an important measure for evaluating the relative significance of our oil and gas properties and that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and investors in evaluating oil and gas companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating the Company. We believe that PV-10 is a financial measure routinely used and calculated similarly by other companies in the oil and gas industry.

The table below reconciles PV-10 to our standardized measure of discounted future net cash flows, the most directly comparable measure calculated and presented in accordance with GAAP. PV-10 should not be considered as an alternative to the standardized measure as computed under GAAP.

(in millions)	<u>December 31, 2014</u>
PV-10	\$ 1,413
Less income taxes:	
Undiscounted future income taxes	(1,267)
10% discount factor	910
Future discounted income taxes	(357)
Standardized measure of discounted future net cash flows	\$ 1,056

Finding and Development Costs

All-in finding and development (“F&D”) costs are calculated by dividing the sum of property acquisition costs, exploration costs and development costs for the year by the sum of reserve extensions and discoveries, purchases of minerals in place and total revisions for the year.

Drill-bit F&D costs are calculated by dividing the sum of exploration costs and development costs for the year by the total of reserve extensions and discoveries for the year.

We believe that providing the above measures of F&D cost is useful to assist in an evaluation of how much it costs the Company, on a per Boe basis, to add proved reserves. However, these measures are provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our previous SEC filings and to be included in our annual report on Form 10-K to be filed with the SEC on February 26, 2015. Due to various factors, including timing differences, F&D costs do not necessarily reflect precisely the costs associated with particular reserves. For example, exploration costs may be recorded in periods before the periods in which related increases in reserves are recorded, and development costs may be recorded in periods after the periods in which related increases in reserves are recorded. In addition, changes in commodity prices can affect the magnitude of recorded increases (or decreases) in reserves independent of the related costs of such increases.

As a result of the above factors and various factors that could materially affect the timing and amounts of future increases in reserves and the timing and amounts of future costs, including factors disclosed in our filings with the SEC, we cannot assure you that the Company’s future F&D costs will not differ materially from those set forth above. Further, the methods used by us to calculate F&D costs may differ significantly from methods used by other companies to compute similar measures. As a result, our F&D costs may not be comparable to similar measures provided by other companies.

The table below reconciles our estimated F&D costs for 2014 to the information required by paragraphs 11 and 21 of ASC 932-235:

Cost summary (in thousands)	
Property acquisition costs	
Unproved properties	\$ 4,578
Proved properties	—
Exploration costs	3,831
Development costs	382,995
Total costs incurred	<u>\$ 391,404</u>
Reserve summary (MBoe)	
Balance—December 31, 2013	114,661
Extensions and discoveries	43,247
Production(1)	(5,281)
Revisions to previous estimates	(6,379)
Balance—December 31, 2014	<u>146,248</u>
Finding and development costs (\$/Boe)	
All-in F&D cost	\$ 10.62
Drill-bit F&D cost	\$ 8.94
Reserve replacement ratio	
Drill-bit	819%
<i>(Extensions and discoveries / Production)</i>	

(1) Production includes 1,390 MMcf related to field fuel.

Liquidity

Liquidity is calculated by adding the net funds available under our senior secured credit facility and cash and cash equivalents. We use liquidity as an indicator of the Company's ability to fund development and exploration activities. However, this measurement has limitations. This measurement can vary from year-to-year for the Company and can vary among companies based on what is or is not included in the measurement on a company's financial statements. This measurement is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below summarizes our liquidity at December 31, 2014 and 2013 (in thousands).

	Liquidity at December 31,	
	2014	2013
Borrowing base	\$ 450,000	\$ 350,000
Cash and cash equivalents	432	58,761
Credit facility	(150,000)	—
Outstanding letters of credit	(325)	(325)
Liquidity	\$ 300,107	\$ 408,436

Long-Term Debt-to-Capital

Long-term debt-to-capital ratio is calculated by dividing long-term debt (GAAP) by the sum of total stockholders' equity (GAAP) and long-term debt (GAAP). We use the long-term debt-to-capital ratio as a measurement of our overall financial leverage. However, this ratio has limitations. This ratio can vary from year-to-year for the Company and can vary among companies based on what is or is not included in the ratio on a company's financial statements. This ratio is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below summarizes our long-term debt-to-capital ratio at December 31, 2014 and 2013 (in thousands).

	Long-Term Debt-to-Capital at December 31,	
	2014	2013
Long-term debt(1)	\$ 400,000	\$ 250,000
Total stockholders' equity	774,327	710,495
	\$ 1,174,327	\$ 960,495
Long-term debt-to-capital	34.1%	26.0%

- (1) Long-term debt at December 31, 2014, is comprised of \$250 million in 7% senior notes and \$150 million in outstanding borrowings under our senior secured credit facility. Long-term debt at December 31, 2013, is comprised of \$250 million in 7% senior notes.