

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2019**

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: **1-13283**



**PENN VIRGINIA  
CORPORATION**

**PENN VIRGINIA CORPORATION**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction of  
incorporation or organization)

**23-1184320**

(I.R.S. Employer  
Identification Number)

**16285 PARK TEN PLACE, SUITE 500  
HOUSTON, TX 77084**

(Address of principal executive offices) (Zip Code)

**(713) 722-6500**

(Registrant's telephone number, including area code)

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 ("Exchange Act") 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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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

| Title of each class                   | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------------------------|-------------------|---|
| <b>Common Stock, \$0.01 Par Value</b> | <b>PVAC</b>       | <b>The Nasdaq Global Select Market</b>    |

As of May 3, 2019, 15,105,666 shares of common stock of the registrant were outstanding.

**PENN VIRGINIA CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarterly Period Ended March 31, 2019**  
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Part I. FINANCIAL INFORMATION

Item 1. *Financial Statements.*

PENN VIRGINIA CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – unaudited  
(in thousands, except per share data)

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2019                         | 2018      |
| <b>Revenues</b>                               |                              |           |
| Crude oil                                     | \$ 94,812                    | \$ 71,258 |
| Natural gas liquids                           | 5,548                        | 2,946     |
| Natural gas                                   | 4,277                        | 2,790     |
| Gain on sales of assets, net                  | 25                           | 75        |
| Other revenues, net                           | 566                          | 142       |
| Total revenues                                | 105,228                      | 77,211    |
| <b>Operating expenses</b>                     |                              |           |
| Lease operating                               | 11,004                       | 7,296     |
| Gathering, processing and transportation      | 3,929                        | 3,359     |
| Production and ad valorem taxes               | 5,692                        | 4,092     |
| General and administrative                    | 7,065                        | 6,471     |
| Depreciation, depletion and amortization      | 38,870                       | 22,081    |
| Total operating expenses                      | 66,560                       | 43,299    |
| <b>Operating income</b>                       | 38,668                       | 33,912    |
| <b>Other income (expense)</b>                 |                              |           |
| Interest expense                              | (9,478)                      | (4,601)   |
| Derivatives                                   | (68,017)                     | (18,795)  |
| Other, net                                    | 106                          | (58)      |
| Income (loss) before income taxes             | (38,721)                     | 10,458    |
| Income tax benefit (expense)                  | 24                           | (163)     |
| <b>Net income (loss)</b>                      | \$ (38,697)                  | \$ 10,295 |
| <b>Net income (loss) per share:</b>           |                              |           |
| Basic   | \$ (2.56)                    | \$ 0.68   |
| Diluted                                       | \$ (2.56)                    | \$ 0.68   |
| Weighted average shares outstanding – basic   | 15,098                       | 15,042    |
| Weighted average shares outstanding – diluted | 15,098                       | 15,081    |

*See accompanying notes to condensed consolidated financial statements.*

**PENN VIRGINIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – unaudited**  
**(in thousands)**

|  | <b>Three Months Ended March 31,</b> |                  |
|--|-------------------------------------|------------------|
|  | <b>2019</b>                         | <b>2018</b>      |
| Net income (loss)  | \$ (38,697)                         | \$ 10,295        |
| Other comprehensive income:                                  |                                     |                  |
| Change in pension and postretirement obligations, net of tax | (1)                                 | —                |
|  | (1)                                 | —                |
| Comprehensive income (loss)                                  | <u>\$ (38,698)</u>                  | <u>\$ 10,295</u> |

*See accompanying notes to condensed consolidated financial statements.*

**PENN VIRGINIA CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS – unaudited**  
(in thousands, except share data)

|   | March 31,<br>2019 | December 31,<br>2018 |
|---|-------------------|----------------------|
| <b>Assets</b>   |                   |                      |
| Current assets  |                   |                      |
| Cash and cash equivalents   | \$ 4,655          | \$ 17,864            |
| Accounts receivable, net of allowance for doubtful accounts   | 70,148            | 66,038               |
| Derivative assets   | 2,658             | 34,932               |
| Income taxes receivable   | 3,707             | 2,471                |
| Other current assets  | 4,553             | 5,125                |
| Total current assets  | 85,721            | 126,430              |
| Property and equipment, net (full cost method)  | 989,830           | 927,994              |
| Derivative assets   | 229               | 10,100               |
| Deferred income taxes   | 737               | 1,949                |
| Other assets  | 4,555             | 2,481                |
| Total assets  | \$ 1,081,072      | \$ 1,068,954         |
| <b>Liabilities and Shareholders' Equity</b>   |                   |                      |
| Current liabilities   |                   |                      |
| Accounts payable and accrued liabilities  | \$ 117,268        | \$ 103,700           |
| Derivative liabilities  | 25,107            | 991                  |
| Total current liabilities   | 142,375           | 104,691              |
| Other liabilities   | 7,684             | 5,533                |
| Derivative liabilities  | 6,150             | —                    |
| Long-term debt, net   | 515,919           | 511,375              |
| Commitments and contingencies (Note 12)   |                   |                      |
| Shareholders' equity:   |                   |                      |
| Preferred stock of \$0.01 par value – 5,000,000 shares authorized; none issued  | —                 | —                    |
| Common stock of \$0.01 par value – 45,000,000 shares authorized; 15,105,251 and 15,080,594 shares issued as of March 31, 2019 and December 31, 2018, respectively | 151               | 151                  |
| Paid-in capital   | 198,011           | 197,630              |
| Retained earnings   | 210,701           | 249,492              |
| Accumulated other comprehensive income  | 81                | 82                   |
| Total shareholders' equity  | 408,944           | 447,355              |
| Total liabilities and shareholders' equity  | \$ 1,081,072      | \$ 1,068,954         |

*See accompanying notes to condensed consolidated financial statements.*

**PENN VIRGINIA CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – unaudited**  
(in thousands)

|  | Three Months Ended March 31, |                  |
|--|------------------------------|------------------|
|  | 2019                         | 2018             |
| <b>Cash flows from operating activities</b>  |                              |                  |
| Net income (loss)  | \$ (38,697)                  | \$ 10,295        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                              |                  |
| Depreciation, depletion and amortization   | 38,870                       | 22,081           |
| Derivative contracts:  |                              |                  |
| Net losses   | 68,017                       | 18,795           |
| Cash settlements, net  | 4,394                        | (7,576)          |
| Deferred income tax expense  | 1,212                        | 163              |
| Gain on sales of assets, net   | (25)                         | (75)             |
| Non-cash interest expense  | 921                          | 796              |
| Share-based compensation (equity-classified)   | 1,038                        | 1,576            |
| Other, net   | 13                           | 13               |
| Changes in operating assets and liabilities, net   | (6,484)                      | (7,386)          |
| Net cash provided by operating activities  | <u>69,259</u>                | <u>38,682</u>    |
| <b>Cash flows from investing activities</b>  |                              |                  |
| Acquisitions, net  | —                            | (83,338)         |
| Capital expenditures   | (86,486)                     | (77,839)         |
| Proceeds from sales of assets, net   | 18                           | 1,551            |
| Net cash used in investing activities  | <u>(86,468)</u>              | <u>(159,626)</u> |
| <b>Cash flows from financing activities</b>  |                              |                  |
| Proceeds from credit facility borrowings   | 12,000                       | 118,000          |
| Repayment of credit facility borrowings  | (8,000)                      | —                |
| Debt issuance costs paid   | —                            | (754)            |
| Net cash provided by financing activities  | <u>4,000</u>                 | <u>117,246</u>   |
| Net decrease in cash and cash equivalents  | (13,209)                     | (3,698)          |
| Cash and cash equivalents – beginning of period  | 17,864                       | 11,017           |
| Cash and cash equivalents – end of period  | <u>\$ 4,655</u>              | <u>\$ 7,319</u>  |
| <b>Supplemental disclosures:</b>   |                              |                  |
| Cash paid for:   |                              |                  |
| Interest, net of amounts capitalized   | \$ 8,413                     | \$ 3,662         |
| Reorganization items, net  | \$ 79                        | \$ 161           |
| Non-cash investing and financing activities:   |                              |                  |
| Changes in accounts receivable related to acquisitions                                   | \$ —                         | \$ (26,627)      |
| Changes in other assets related to acquisitions  | \$ —                         | \$ (2,469)       |
| Changes in accrued liabilities related to acquisitions                                   | \$ —                         | \$ (15,320)      |
| Changes in accrued liabilities related to capital expenditures                           | \$ 13,569                    | \$ 9,616         |
| Changes in other liabilities for asset retirement obligations related to acquisitions    | \$ —                         | \$ 356           |

*See accompanying notes to condensed consolidated financial statements.*

**PENN VIRGINIA CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – unaudited**  
**For the Quarterly Period Ended March 31, 2019**  
**(in thousands, except per share amounts or where otherwise indicated)**

**1. Nature of Operations**

Penn Virginia Corporation (together with its consolidated subsidiaries, unless the context otherwise requires, “Penn Virginia,” the “Company,” “we,” “us” or “our”) is an independent oil and gas company engaged in the onshore exploration, development and production of oil, natural gas liquids (“NGLs”) and natural gas. Our current operations consist primarily of drilling unconventional horizontal development wells and operating our producing wells in the Eagle Ford Shale (the “Eagle Ford”) in Gonzales, Lavaca, Fayette and DeWitt Counties in South Texas.

On March 21, 2019, we and Denbury Resources Inc. (“Denbury”) entered into a Termination Agreement (the “Termination Agreement”) under which the parties mutually agreed to terminate our previously announced merger agreement. Subject to limited customary exceptions, the Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the contemplated merger transaction. We incurred a total of \$0.7 million of incremental costs associated with the merger transaction as well as the Termination Agreement during the three months ended March 31, 2019. These costs are included in the “General and administrative” (“G&A”) expenses caption in our Condensed Consolidated Statement of Operations.

**2. Basis of Presentation**

Our unaudited Condensed Consolidated Financial Statements include the accounts of Penn Virginia and all of our subsidiaries. Intercompany balances and transactions have been eliminated. Our Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Preparation of these statements involves the use of estimates and judgments where appropriate. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of our Condensed Consolidated Financial Statements, have been included. Our Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2018. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

*Adoption of Recently Issued Accounting Pronouncements*

Effective January 1, 2019, we adopted and began applying the relevant guidance provided in Accounting Standards Update (“ASU”) 2016–02, *Leases* (“ASU 2016–02”) and related amendments to GAAP which, together with ASU 2016–02, represent ASC Topic 842, *Leases* (“ASC Topic 842”). We adopted ASC Topic 842 using the optional transition approach with a charge to the beginning balance of retained earnings as of January 1, 2019 (see Note 9 for the impact and disclosures associated with the adoption of ASC Topic 842). Comparative periods and related disclosures have not been restated for the application of ASC Topic 842.

*Recently Issued Accounting Pronouncements Pending Adoption*

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016–13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016–13”), which changes the recognition model for the impairment of financial instruments, including accounts receivable, loans and held-to-maturity debt securities, among others. ASU 2016–13 is required to be adopted using the modified retrospective method by January 1, 2020, with early adoption permitted for fiscal periods beginning after December 15, 2018. In contrast to current guidance, which considers current information and events and utilizes a probable threshold, (an “incurred loss” model), ASU 2016–13 mandates an “expected loss” model. The expected loss model: (i) estimates the risk of loss even when risk is remote, (ii) estimates losses over the contractual life, (iii) considers past events, current conditions and reasonable supported forecasts and (iv) has no recognition threshold. ASU 2016–13 will have applicability to our accounts receivable portfolio, particularly those receivables attributable to our joint interest partners which have a higher credit risk than those associated with our traditional customer receivables. At this time, we do not anticipate that the adoption of ASU 2016–13 will have a significant impact on our Consolidated Financial Statements and related disclosures; however, we are continuing to evaluate the requirements as well as monitoring developments regarding ASU 2016–13 that are unique to our industry. We plan to adopt ASU 2016–13 effective January 1, 2020.

*Going Concern Presumption*

Our unaudited Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and other commitments in the normal course of business.

### Subsequent Events

Management has evaluated all of our activities through the issuance date of our Condensed Consolidated Financial Statements and has concluded that, with the exception of an amendment to our credit agreement (“Credit Facility”) as disclosed in Note 7, no subsequent events have occurred that would require recognition in our Condensed Consolidated Financial Statements or disclosure in the Notes thereto.

### 3. Acquisitions and Divestitures

#### Acquisitions

##### Hunt Acquisition

In December 2017, we entered into a purchase and sale agreement with Hunt Oil Company (“Hunt”) to acquire certain oil and gas assets in the Eagle Ford Shale, primarily in Gonzales County, Texas for \$86.0 million in cash, subject to adjustments (the “Hunt Acquisition”). The Hunt Acquisition had an effective date of October 1, 2017, and closed on March 1, 2018, at which time we paid cash consideration of \$84.4 million. In connection with the Hunt Acquisition, we also acquired working interests in certain wells that we previously drilled as operator in which Hunt had rights to participate prior to the transaction closing. Accumulated costs, net of suspended revenues for these wells was \$13.8 million, which we have reflected as a component of the total net assets acquired. We funded the Hunt Acquisition with borrowings under the Credit Facility.

The final settlement of the Hunt Acquisition occurred in July 2018, at which time an additional \$0.2 million of acquisition costs was allocated from certain working capital components and Hunt transferred \$1.4 million to us primarily for suspended revenues attributable to the acquired properties.

We incurred a total of \$0.5 million of transaction costs for legal, due diligence and other professional fees associated with the Hunt Acquisition, including \$0.1 million in 2017 and \$0.4 million in the first quarter of 2018. These costs have been recognized as a component of our G&A expenses.

We accounted for the Hunt Acquisition by applying the acquisition method of accounting as of March 1, 2018. The following table represents the final fair values assigned to the net assets acquired and the total acquisition cost incurred, including consideration transferred to Hunt:

| Assets  |                  |
|---|------------------|
| Oil and gas properties - proved   | \$ 82,443        |
| Oil and gas properties - unproved   | 16,339           |
| Liabilities   |                  |
| Revenue suspense  | 1,448            |
| Asset retirement obligations  | 356              |
| <b>Net assets acquired</b>  | <b>\$ 96,978</b> |
| Cash consideration paid to Hunt, net  | \$ 82,955        |
| Application of working capital adjustments  | 245              |
| Accumulated costs, net of suspended revenues, for wells in which Hunt had rights to participate | 13,778           |
| <b>Total acquisition costs incurred</b>   | <b>\$ 96,978</b> |

##### Valuation of Acquisitions

The fair value of the oil and gas properties acquired in the Hunt Acquisition was measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) reserves, (ii) future operating and development costs, (iii) future commodity prices, (iv) future cash flows, (v) the timing of our development plans and (vi) a market-based weighted-average cost of capital. Because many of these inputs are not observable, we have classified the initial fair value estimates as Level 3 inputs as that term is defined in GAAP.

##### Impact of Acquisitions on Actual and Pro Forma Results of Operations

The results of operations attributable to the Hunt Acquisition have been included in our Consolidated Financial Statements for the periods after March 1, 2018. The Hunt Acquisition provided revenues and estimated earnings (including revenues less operating expenses and excluding allocations of interest expense and income taxes) of approximately \$0.4 million and \$0.2 million, respectively, for the period from March 1, 2018 through March 31, 2018. As the properties and working interests acquired in connection with the Hunt Acquisition are included within our existing Eagle Ford acreage, it is not practical or meaningful to disclose revenues and earnings unique to those assets for periods beyond those during which they were acquired, as they were fully integrated into our regional operations soon after their acquisition. The following table presents unaudited summary pro forma financial information for the three months ended March 31, 2018, assuming the Hunt



Acquisition occurred as of January 1, 2018. The pro forma financial information does not purport to represent what our actual results of operations would have been if the Hunt Acquisition had occurred as of this date, or the results of operations for any future periods.

|                                | <b>Three Months Ended<br/>March 31,</b> |        |
|--------------------------------|---|--------|
|                                | <b>2018</b>                             |        |
| Total revenues                 | \$                                      | 82,456 |
| Net income                     | \$                                      | 12,407 |
| Net income per share - basic   | \$                                      | 0.82   |
| Net income per share - diluted | \$                                      | 0.82   |

#### **Divestitures**

##### *Mid-Continent Divestiture*

In June 2018, we entered into a purchase and sale agreement with a third party to sell all of our remaining Mid-Continent oil and gas properties, located primarily in Oklahoma in the Granite Wash, for \$6.0 million in cash, subject to customary adjustments. The sale had an effective date of March 1, 2018 and closed on July 31, 2018, and we received proceeds of \$6.2 million. The sale proceeds and de-recognition of certain assets and liabilities were recorded as a reduction of our net oil and gas properties. In November 2018, we paid \$0.5 million, including \$0.2 million of suspended revenues, to the buyer in connection with the final settlement.

The Mid-Continent properties had asset retirement obligations ("AROs") of \$0.3 million as well as a net working capital deficit attributable to the oil and gas properties of \$1.3 million as of July 31, 2018. The net pre-tax operating income attributable to the Mid-Continent assets was \$0.8 million for the three months ended March 31, 2018.

##### *Sales of Undeveloped Acreage, Rights and Other Assets*

In February 2018, we sold our undeveloped acreage holdings in the Tuscaloosa Marine Shale in Louisiana that were scheduled to expire in 2019. In March 2018, we sold certain undeveloped deep leasehold rights in Oklahoma. We received a combined total of \$1.6 million for these leasehold and other assets which were applied as a reduction of our net oil and gas properties.

#### **4. Accounts Receivable and Revenues from Contracts with Customers**

##### *Accounts Receivable and Major Customers*

The following table summarizes our accounts receivable by type as of the dates presented:

|                                       | <b>March 31,</b> | <b>December 31,</b> |
|---------------------------------------|------------------|---------------------|
|                                       | <b>2019</b>      | <b>2018</b>         |
| Customers                             | \$ 61,560        | \$ 59,030           |
| Joint interest partners               | 8,010            | 6,404               |
| Other                                 | 629              | 640                 |
|                                       | <u>70,199</u>    | <u>66,074</u>       |
| Less: Allowance for doubtful accounts | (51)             | (36)                |
|                                       | <u>\$ 70,148</u> | <u>\$ 66,038</u>    |

For the three months ended March 31, 2019, three customers accounted for \$69.0 million, or approximately 66%, of our consolidated product revenues. The revenues generated from these customers during the three months ended March 31, 2019, were \$39.9 million, \$14.5 million and \$14.6 million, or 38%, 14% and 14% of the consolidated total, respectively. As of March 31, 2019 and December 31, 2018, \$42.9 million and \$34.8 million, or approximately 70% and 59%, of our consolidated accounts receivable from customers was related to these customers. No significant uncertainties exist related to the collectability of amounts owed to us by any of these customers. For the three months ended March 31, 2018, three customers accounted for \$70.6 million, or approximately 91%, of our consolidated product revenues.

## 5. Derivative Instruments

We utilize derivative instruments to mitigate our financial exposure to commodity price volatility. Our derivative instruments are not formally designated as hedges in the context of GAAP.

We typically utilize collars and swaps, which are placed with financial institutions that we believe to be acceptable credit risks, to hedge against the variability in cash flows associated with anticipated sales of our future production. While the use of derivative instruments limits the risk of adverse price movements, such use may also limit future revenues from favorable price movements.

The counterparty to a collar or swap contract is required to make a payment to us if the settlement price for any settlement period is below the floor or swap price for such contract. We are required to make a payment to the counterparty if the settlement price for any settlement period is above the ceiling or swap price for such contract. Neither party is required to make a payment to the other party if the settlement price for any settlement period is equal to or greater than the floor price and equal to or less than the ceiling price for such contract.

We determine the fair values of our commodity derivative instruments based on discounted cash flows derived from third-party quoted forward prices for West Texas Intermediate (“WTI”), Louisiana Light Sweet (“LLS”) and Magellan East Houston (“MEH”) crude oil closing prices as of the end of the reporting period. The discounted cash flows utilize discount rates adjusted for the credit risk of our counterparties if the derivative is in an asset position, and our own credit risk if the derivative is in a liability position. We are currently unhedged with respect to NGL and natural gas production.

The following table sets forth our commodity derivative positions, presented on a net basis by period of maturity, as of March 31, 2019:

|   | Instrument | Average    | Weighted    | Fair Value |           |
|---|------------|------------|-------------|------------|-----------|
|   |            | Volume Per | Average     | Asset      | Liability |
|   |            | Day        | Price       |            |           |
|   |            | (barrels)  | (\$/barrel) |            |           |
| <b>Crude Oil:</b>                           |            |            |             |            |           |
| Second quarter 2019                         | Swaps-WTI  | 6,421      | \$ 54.48    | \$ —       | \$ 3,361  |
| Second quarter 2019                         | Swaps-LLS  | 5,000      | \$ 59.17    | —          | 3,109     |
| Second quarter 2019                         | Swaps-MEH  | 1,000      | \$ 64.00    | —          | 183       |
| Third quarter 2019                          | Swaps-WTI  | 6,397      | \$ 54.50    | —          | 3,430     |
| Third quarter 2019                          | Swaps-LLS  | 5,000      | \$ 59.17    | —          | 2,592     |
| Third quarter 2019                          | Swaps-MEH  | 1,000      | \$ 64.00    | —          | 34        |
| Fourth quarter 2019                         | Swaps-WTI  | 6,398      | \$ 54.50    | —          | 3,130     |
| Fourth quarter 2019                         | Swaps-LLS  | 5,000      | \$ 59.17    | —          | 1,995     |
| Fourth quarter 2019                         | Swaps-MEH  | 1,000      | \$ 64.00    | 68         | —         |
| First quarter 2020                          | Swaps-WTI  | 6,000      | \$ 54.09    | —          | 2,904     |
| First quarter 2020                          | Swaps-MEH  | 2,000      | \$ 61.03    | —          | 58        |
| Second quarter 2020                         | Swaps-WTI  | 6,000      | \$ 54.09    | —          | 2,369     |
| Second quarter 2020                         | Swaps-MEH  | 2,000      | \$ 61.03    | —          | 57        |
| Third quarter 2020                          | Swaps-WTI  | 6,000      | \$ 54.09    | —          | 1,898     |
| Third quarter 2020                          | Swaps-MEH  | 2,000      | \$ 61.03    | —          | 40        |
| Fourth quarter 2020                         | Swaps-WTI  | 6,000      | \$ 54.09    | —          | 1,518     |
| Fourth quarter 2020                         | Swaps-MEH  | 2,000      | \$ 61.03    | —          | 39        |
| Settlements to be paid in subsequent period |            |            |             |            | 1,721     |

### Financial Statement Impact of Derivatives

The impact of our derivative activities on income is included in “Derivatives” in our Condensed Consolidated Statements of Operations. The following table summarizes the effects of our derivative activities for the periods presented:

|                   | Three Months Ended March 31, |             |
|-------------------|------------------------------|-------------|
|                   | 2019                         | 2018        |
| Derivative losses | \$ (68,017)                  | \$ (18,795) |

The effects of derivative gains and (losses) and cash settlements are reported as adjustments to reconcile net income (loss) to net cash provided by operating activities. These items are recorded in the “Derivative contracts” section of our Condensed Consolidated Statements of Cash Flows under “Net (gains) losses” and “Cash settlements, net.”

The following table summarizes the fair values of our derivative instruments presented on a gross basis, as well as the locations of these instruments on our Condensed Consolidated Balance Sheets as of the dates presented:

| Type                | Balance Sheet Location                     | March 31, 2019  |                  | December 31, 2018 |               |
|---------------------|--|-----------------|------------------|-------------------|---------------|
|                     |  | Derivative      | Derivative       | Derivative        | Derivative    |
|                     |  | Assets          | Liabilities      | Assets            | Liabilities   |
| Commodity contracts | Derivative assets/liabilities – current    | \$ 2,658        | \$ 25,107        | \$ 34,932         | \$ 991        |
| Commodity contracts | Derivative assets/liabilities – noncurrent | 229             | 6,150            | 10,100            | —             |
|                     |  | <u>\$ 2,887</u> | <u>\$ 31,257</u> | <u>\$ 45,032</u>  | <u>\$ 991</u> |

As of March 31, 2019, we reported net commodity derivative liabilities of \$28.4 million. The contracts associated with this position are with seven counterparties, all of which are investment grade financial institutions. This concentration may impact our overall credit risk in that these counterparties may be similarly affected by changes in economic or other conditions. We have neither paid to, nor received from, our counterparties any cash collateral in connection with our derivative positions. Furthermore, our derivative contracts are not subject to margin calls or similar accelerations. No significant uncertainties exist related to the collectability of amounts that may be owed to us by these counterparties.

## 6. Property and Equipment

The following table summarizes our property and equipment as of the dates presented:

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| Oil and gas properties:                              |                   |                      |
| Proved   | \$ 1,135,580      | \$ 1,037,993         |
| Unproved   | 64,429            | 63,484               |
| Total oil and gas properties                         | 1,200,009         | 1,101,477            |
| Other property and equipment                         | 22,502            | 20,383               |
| Total properties and equipment                       | 1,222,511         | 1,121,860            |
| Accumulated depreciation, depletion and amortization | (232,681)         | (193,866)            |
|  | <u>\$ 989,830</u> | <u>\$ 927,994</u>    |

Unproved property costs of \$64.4 million and \$63.5 million have been excluded from amortization as of March 31, 2019 and December 31, 2018, respectively. An additional \$0.3 million of costs, associated with wells in-progress for which we had not previously recognized any proved undeveloped reserves, were excluded from amortization as of March 31, 2019 and December 31, 2018. We transferred less than \$0.1 million and \$0.1 million of undeveloped leasehold costs associated with acreage unlikely to be drilled or associated with proved undeveloped reserves, including capitalized interest, from unproved properties to the full cost pool during the three months ended March 31, 2019 and 2018, respectively. We capitalized internal costs of \$1.0 million and \$0.7 million and interest of \$1.2 million and \$2.2 million during the three months ended March 31, 2019 and 2018, respectively, in accordance with our accounting policies. Average depreciation, depletion and amortization (“DD&A”) per barrel of oil equivalent of proved oil and gas properties was \$17.49 and \$15.20 for the three months ended March 31, 2019 and 2018, respectively.

**7. Long-Term Debt**

The following table summarizes our debt obligations as of the dates presented:

|   | March 31, 2019 |   | December 31, 2018 |   |
|---|----------------|---|-------------------|---|
|   | Principal      | Unamortized Discount and Deferred Issuance Costs <sup>1,2</sup> | Principal         | Unamortized Discount and Deferred Issuance Costs <sup>1,2</sup> |
| Credit facility                           | \$ 325,000     |   | \$ 321,000        |   |
| Second lien term loan                     | 200,000        | \$ 9,081  | 200,000           | \$ 9,625  |
| Totals                                    | 525,000        | \$ 9,081  | 521,000           | \$ 9,625  |
| Less: Unamortized discount                | (2,979)        |   | (3,159)           |   |
| Less: Unamortized deferred issuance costs | (6,102)        |   | (6,466)           |   |
| Long-term debt, net                       | \$ 515,919     |   | \$ 511,375        |   |

<sup>1</sup> Issuance costs of the Credit Facility, which represent costs attributable to the access to credit over its contractual term, have been presented as a component of Other assets (see Note 10) and are being amortized over the term of the Credit Facility using the straight-line method.

<sup>2</sup> Discount and issuance costs of the Second Lien Facility are being amortized over the term of the underlying loan using the effective-interest method.

*Credit Facility*

The Credit Facility provides a \$1.0 billion revolving commitment and \$500 million borrowing base and a \$25 million sublimit for the issuance of letters of credit. In May 2019, the borrowing base was increased to \$500 million from \$450 million pursuant to the Borrowing Base Increase Agreement and Amendment No. 6 to the Credit Agreement (the "Sixth Amendment"). In May 2019, we incurred and capitalized approximately \$2.5 million of issue and other costs associated with the Sixth Amendment. Availability under the Credit Facility may not exceed the lesser of the aggregate commitments or the borrowing base. The borrowing base under the Credit Facility is redetermined semi-annually generally in April and October of each year. Additionally, the Credit Facility lenders may, at their discretion, initiate a redetermination at any time during the six-month period between scheduled redeterminations. The Credit Facility is available to us for general corporate purposes, including working capital. We had \$0.4 million in letters of credit outstanding as of March 31, 2019 and December 31, 2018.

In connection with the Sixth Amendment, maturity of the Credit Facility has been extended to May 2024 from September 2020; provided that in June 2022, unless we have either extended the maturity date of our \$200 million Second Lien Credit Agreement dated as of September 29, 2017 (the "Second Lien Facility") described below to a date that is at least 91 days after the extended maturity date of May 2024 or have repaid our Second Lien Facility in full, the maturity date of the Credit Facility will mean June 2022. Prior to entry into the Sixth Amendment, we received consent from requisite lenders of our Second Lien Facility to extend the maturity of our Credit Facility to May 2024.

The outstanding borrowings under the Credit Facility bear interest at a rate equal to, at our option, either (a) a customary reference rate plus an applicable margin ranging from 0.50% to 1.50% (2.00% to 3.00% prior to May 2019), determined based on the average availability under the Credit Facility or (b) a customary London interbank offered rate ("LIBOR") plus an applicable margin ranging from 1.50% to 2.50% (3.00% to 4.00% prior to May 2019), determined based on the average availability under the Credit Facility. Interest on reference rate borrowings is payable quarterly in arrears and is computed on the basis of a year of 365/366 days, and interest on LIBOR borrowings is payable every one, three or six months, at our election, and is computed on the basis of a year of 360 days. As of March 31, 2019, the actual weighted-average interest rate on the outstanding borrowings under the Credit Facility was 6.00%. Unused commitment fees are charged at a rate of 0.375% to 0.50%, depending upon utilization.

The Credit Facility is guaranteed by us and all of our subsidiaries (the "Guarantor Subsidiaries"). The guarantees under the Credit Facility are full and unconditional and joint and several. Substantially all of our consolidated assets are held by the Guarantor Subsidiaries. There are no significant restrictions on our ability or any of the Guarantor Subsidiaries to obtain funds through dividends, advances or loans. The obligations under the Credit Facility are secured by a first priority lien on substantially all of our assets.

Prior to May 2019, the Credit Facility required us to maintain (1) a minimum interest coverage ratio (adjusted earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses as defined in the Credit Facility ("EBITDAX") to adjusted interest expense), measured as of the last day of each fiscal quarter, of 3.00 to 1.00, (2) a minimum current ratio (as defined in the Credit Facility, which considers the unused portion of the total commitment as a current asset), measured as of the last day of each fiscal quarter of 1.00 to 1.00, and (3) a maximum leverage ratio (consolidated indebtedness to EBITDAX), measured as of the last day of each fiscal quarter of 3.50 to 1.00. Effective May 2019, the Credit Facility requires us to maintain (1) a minimum current ratio of 1.00 to 1.00 and (2) a maximum leverage ratio of 4.00 to 1.00, both as defined in the Credit Facility.

The Credit Facility also contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), maintenance of required insurance, delivery of quarterly and annual financial statements, oil and gas engineering reports and budgets, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens and indebtedness, merger, consolidation or sale of assets, payment of dividends, and transactions with affiliates and other customary covenants.

Effective May 2019, the Sixth Amendment provided for the addition of an unlimited restricted payment basket, subject to (i) no default or event of default, (ii) pro forma leverage, after giving effect to the restricted payment, not exceeding 2.75 to 1.00 and (iii) pro forma availability no less than 20 percent of the borrowing base.

The Credit Facility contains customary events of default and remedies for credit facilities of this nature. If we do not comply with the financial and other covenants in the Credit Facility, the lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Credit Facility.

As of March 31, 2019, and through the date upon which the Condensed Consolidated Financial Statements were issued, we were in compliance with all of the covenants under the Credit Facility.

#### *Second Lien Facility*

On September 29, 2017, we entered into the Second Lien Facility. We received net proceeds of \$187.8 million from the Second Lien Facility net of an original issue discount ("OID") of \$4.0 million and issue costs of \$8.2 million. The proceeds from the Second Lien Facility were used concurrently to fund a significant acquisition and related fees and expenses. The maturity date under the Second Lien Facility is September 29, 2022.

The outstanding borrowings under the Second Lien Facility bear interest at a rate equal to, at our option, either (a) a customary reference rate based on the prime rate plus an applicable margin of 6.00% or (b) a customary LIBOR rate plus an applicable margin of 7.00%. As of March 31, 2019, the actual interest rate of outstanding borrowings under the Second Lien Facility was 9.50%. Amounts under the Second Lien Facility were borrowed at a price of 98% with an initial interest rate of 8.34%, resulting in an effective interest rate of 9.89%. Interest on reference rate borrowings is payable quarterly in arrears and is computed on the basis of a year of 365/366 days, and interest on eurocurrency borrowings is payable every one or three months (including in three-month intervals if we select a six-month interest period), at our election and is computed on the basis of a 360-day year. We have the right, to the extent permitted under the Credit Facility and an intercreditor agreement between the lenders under the Credit Facility and the lenders under the Second Lien Facility, to prepay loans under the Second Lien Facility at any time, subject to the following prepayment premiums (in addition to customary "breakage" costs with respect to eurocurrency loans): during year one, a customary "make-whole" premium; during year two, 102% of the amount being prepaid; during year three, 101% of the amount being prepaid; and thereafter, no premium. The Second Lien Facility also provides for the following prepayment premiums in the event of a change in control that results in an offer of prepayment that is accepted by the lenders under the Second Lien Facility: during years one and two, 102% of the amount being prepaid; during year three, 101% of the amount being prepaid; and thereafter, no premium.

The Second Lien Facility is collateralized by substantially all of the Company's and its subsidiaries' assets with lien priority subordinated to the liens securing the Credit Facility. The obligations under the Second Lien Facility are guaranteed by us and the Guarantor Subsidiaries.

The Second Lien Facility has no financial covenants, but contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), maintenance of required insurance, delivery of quarterly and annual financial statements, oil and gas engineering reports and budgets, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens and indebtedness, merger, consolidation or sale of assets, payment of dividends and transactions with affiliates and other customary covenants.

As illustrated in the table above, the OID and issue costs of the Second Lien Facility are presented as reductions to the outstanding term loans. These costs are subject to amortization using the interest method over the five-year term of the Second Lien Facility.

As of March 31, 2019, and through the date upon which the Consolidated Financial Statements were issued, we were in compliance with all of the covenants under the Second Lien Facility.

## 8. Income Taxes

We recognized a federal and state income tax benefit for the three months ended March 31, 2019 at the blended rate of 21.5%; however, the federal and state tax expense was offset by an adjustment to the valuation allowance against our net deferred tax assets resulting in an effective tax rate of less than 0.1%. The effect of this adjustment, as well as a reclassification of \$1.2 million from deferred tax assets to the current income tax receivable for refundable alternative minimum tax ("AMT") credit carryforwards, was to reduce our deferred tax asset to \$0.7 million as of March 31, 2019. We recognized a federal income tax expense for the three months ended March 31, 2018 at the blended rate of 21.6% which was similarly offset by a valuation allowance against our net deferred tax assets, along with an adjustment of \$0.2 million to the deferred tax asset related to sequestration of a portion of the aforementioned AMT credit carryforward resulting in an effective tax rate of 1.6%. We considered both the positive and negative evidence in determining that it was more likely than not that some portion or all of our deferred tax assets will not be realized, primarily as a result of cumulative losses.

We had no liability for unrecognized tax benefits as of March 31, 2019. There were no interest and penalty charges recognized during the periods ended March 31, 2019 and 2018. Tax years from 2014 forward remain open to examination by the major taxing jurisdictions to which the Company is subject; however, net operating losses originating in prior years are subject to examination when utilized.

## 9. Leases

### *Adoption of ASC Topic 842*

Effective January 1, 2019, we adopted ASC Topic 842 and have applied the guidance therein to all of our contracts and agreements explicitly identified as leases as well as other contractual arrangements that we have determined to include or otherwise have the characteristics of a lease as defined in ASC Topic 842. As illustrated in the disclosures below, the adoption of ASC Topic 842 resulted in the recognition of certain assets and liabilities on our Condensed Consolidated Balance Sheet and changes in the amounts and timing of lease cost recognition in our Condensed Consolidated Statements of Operations as compared to prior GAAP. We have adopted ASC Topic 842 using the optional transition approach with an adjustment to the beginning balance of retained earnings as of January 1, 2019. Accordingly, our 2019 financial statements are not comparable with respect to leases in effect during all periods prior to January 1, 2019. On January 1, 2019, we recognized operating lease right-of-use ("ROU") assets of \$2.5 million and operating lease obligations of \$2.8 million on our Condensed Consolidated Balance Sheet for operating leases in effect on that date. We recorded an immaterial adjustment to the beginning balance of retained earnings as of January 1, 2019 representing the difference between the operating lease ROU assets and operating lease obligations recognized upon adoption net of amounts already included in our liabilities as of December 31, 2018 that were attributable to straight-line lease expense in excess of amounts paid for certain operating leases. We did not identify any finance leases, as defined in ASC Topic 842, upon the date of initial adoption.

### *Accounting Policies for Leases*

We determine if an arrangement is a lease at the inception of the underlying contractual arrangement. Operating leases are included in the captions "Other assets," "Accounts payable and accrued liabilities" and "Other liabilities" on our Condensed Consolidated Balance Sheets and are identified as ROU assets - operating, Current operating lease obligations and Noncurrent operating lease obligations, respectively, below and in Note 10.

ROU assets represent our right to use an underlying asset for the lease term and lease obligations represent our obligation to make lease payments arising from the underlying contractual arrangement. Operating lease ROU assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. The operating lease ROU assets include any lease payments made in advance and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Most of our leasing arrangements do not identify or otherwise provide for an implicit interest rate. Accordingly, we utilize a secured incremental borrowing rate based on information available at the commencement date in the determination of the present value of the lease payments. As most of our lease arrangements have terms ranging from two to five years, our secured incremental borrowing rate is primarily based on the rates applicable to our Credit Facility.

We have lease arrangements that include lease and certain non-lease components, including amounts for related taxes, insurance, common area maintenance and similar terms. We have elected to apply a practical expedient provided in ASC Topic 842 to not separate the lease and non-lease components. Accordingly, the ROU assets and lease obligations for such leases will include the present value of the estimated payments for the non-lease components over the lease term.

Certain of our lease arrangements with contractual terms of 12 months or less are classified as short-term leases. Accordingly, we have elected to not include the underlying ROU assets and lease obligations on our Condensed Consolidated Balance Sheets. The associated costs are aggregated with all of our other lease arrangements and are disclosed in the tables that follow.

Certain of our lease arrangements result in variable lease payments which, in accordance with ASC Topic 842, do not give rise to lease obligations. Rather, the basis and terms and conditions upon which such variable lease payments are determined are disclosed in the summary below.

*Lease Arrangements and Supplemental Disclosures*

We have lease arrangements for office facilities and certain office equipment, certain field equipment including compressors, drilling rigs, land easements and similar arrangements for rights-of-way, and certain gas gathering and gas lift assets. Our short-term leases are primarily comprised of our contractual arrangements with certain vendors for operated drilling rigs and our field compressors. Our primary variable lease includes our field gas gathering and gas lift agreement with a midstream service provider and the lease payments are charged on a volumetric basis at a contractual fixed rate.

The following table summarizes the components of our total lease cost for the three months ended March 31, 2019:

|  |           |              |
|--|-----------|--------------|
| Operating lease cost   | \$        | 163          |
| Short-term lease cost  |           | 11,571       |
| Variable lease cost  |           | 5,095        |
| Less: Amounts charged as drilling costs <sup>1</sup>   |           | (10,851)     |
| <b>Total lease cost recognized in the Condensed Consolidated Statement of Operations<sup>2</sup></b> | <b>\$</b> | <b>5,978</b> |

<sup>1</sup> Represents the combined gross amounts paid and (i) capitalized as drilling costs for our working interest share and (ii) billed to joint interest partners for their working interest share for short-term leases of operated drilling rigs.

<sup>2</sup> Includes \$2.1 million recognized in Gathering, processing and transportation, \$ 3.7 million recognized in Lease operating and \$ 0.2 million recognized in G&A.

The following table summarizes supplemental cash flow information related to leases for the three months ended March 31, 2019:

|   |    |       |
|---|----|-------|
| Cash paid for amounts included in the measurement of lease liabilities: |    |       |
| Operating cash flows from operating leases                              | \$ | 39    |
| ROU assets obtained in exchange for lease obligations:                  |    |       |
| Operating leases  | \$ | 2,572 |

The following table summarizes supplemental balance sheet information related to leases as of March 31, 2019:

|  |           |              |
|--|-----------|--------------|
| ROU assets - operating leases            | \$        | 2,451        |
| Current operating lease obligations      | \$        | 689          |
| Noncurrent operating lease obligations   |           | 2,109        |
| <b>Total operating lease obligations</b> | <b>\$</b> | <b>2,798</b> |

|                                       |           |
|---------------------------------------|-----------|
| Weighted-average remaining lease term |           |
| Operating leases                      | 4.8 Years |

|                                |        |
|--------------------------------|--------|
| Weighted-average discount rate |        |
| Operating leases               | 5.96 % |

|   |           |              |
|---|-----------|--------------|
| Maturities of operating lease obligations for the years ending December 31, |           |              |
| 2019  | \$        | 516          |
| 2020  |           | 667          |
| 2021  |           | 647          |
| 2022  |           | 647          |
| 2023  |           | 644          |
| 2024 and thereafter   |           | 108          |
| Total undiscounted lease payments   |           | 3,229        |
| Less: imputed interest  |           | (431)        |
| <b>Total operating lease obligations</b>                                    | <b>\$</b> | <b>2,798</b> |

## 10. Additional Balance Sheet Detail

The following table summarizes components of selected balance sheet accounts as of the dates presented:

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| Other current assets:                          |                   |                      |
| Tubular inventory and well materials           | \$ 3,474          | \$ 4,061             |
| Prepaid expenses                               | 1,079             | 1,064                |
|  | <u>\$ 4,553</u>   | <u>\$ 5,125</u>      |
| Other assets:                                  |                   |                      |
| Deferred issuance costs of the Credit Facility | \$ 2,060          | \$ 2,437             |
| Right-of-use assets – operating leases         | 2,451             | —                    |
| Other  | 44                | 44                   |
|  | <u>\$ 4,555</u>   | <u>\$ 2,481</u>      |
| Accounts payable and accrued liabilities:      |                   |                      |
| Trade accounts payable                         | \$ 23,020         | \$ 16,507            |
| Drilling costs                                 | 36,003            | 22,434               |
| Royalties and revenue – related                | 46,521            | 51,212               |
| Production, ad valorem and other taxes         | 3,747             | 2,418                |
| Compensation – related                         | 2,091             | 4,489                |
| Interest                                       | 815               | 670                  |
| Current operating lease obligations            | 689               | —                    |
| Other  | 4,382             | 5,970                |
|  | <u>\$ 117,268</u> | <u>\$ 103,700</u>    |
| Other liabilities:                             |                   |                      |
| Asset retirement obligations                   | \$ 4,370          | \$ 4,314             |
| Noncurrent operating lease obligations         | 2,109             | —                    |
| Defined benefit pension obligations            | 828               | 857                  |
| Postretirement health care benefit obligations | 377               | 362                  |
|  | <u>\$ 7,684</u>   | <u>\$ 5,533</u>      |

## 11. Fair Value Measurements

We apply the authoritative accounting provisions included in GAAP for measuring the fair value of both our financial and nonfinancial assets and liabilities. Fair value is an exit price representing the expected amount we would receive upon the sale of an asset or that we would expect to pay to transfer a liability in an orderly transaction with market participants at the measurement date.

Our financial instruments that are subject to fair value disclosure consist of cash and cash equivalents, accounts receivable, accounts payable, derivatives and our Credit Facility and Second Lien Facility borrowings. As of March 31, 2019, the carrying values of all of these financial instruments approximated fair value.



### Recurring Fair Value Measurements

Certain financial assets and liabilities are measured at fair value on a recurring basis on our Condensed Consolidated Balance Sheets. The following tables summarize the valuation of those assets and (liabilities) as of the dates presented:

| Description                                   | March 31, 2019 |                                       |             |         |  |
|---|----------------|---------------------------------------|-------------|---------|--|
|   | Fair Value     | Fair Value Measurement Classification |             |         |  |
|   | Measurement    | Level 1                               | Level 2     | Level 3 |  |
| <b>Assets:</b>                                |                |                                       |             |         |  |
| Commodity derivative assets – current         | \$ 2,658       | \$ —                                  | \$ 2,658    | \$ —    |  |
| Commodity derivative assets – noncurrent      | 229            | —                                     | 229         | —       |  |
| <b>Liabilities:</b>                           |                |                                       |             |         |  |
| Commodity derivative liabilities – current    | \$ (25,107)    | \$ —                                  | \$ (25,107) | \$ —    |  |
| Commodity derivative liabilities – noncurrent | (6,150)        | —                                     | (6,150)     | —       |  |

| Description                                   | December 31, 2018 |                                       |           |         |  |
|---|-------------------|---------------------------------------|-----------|---------|--|
|   | Fair Value        | Fair Value Measurement Classification |           |         |  |
|   | Measurement       | Level 1                               | Level 2   | Level 3 |  |
| <b>Assets:</b>                                |                   |                                       |           |         |  |
| Commodity derivative assets – current         | \$ 34,932         | \$ —                                  | \$ 34,932 | \$ —    |  |
| Commodity derivative assets – noncurrent      | 10,100            | —                                     | 10,100    | —       |  |
| <b>Liabilities:</b>                           |                   |                                       |           |         |  |
| Commodity derivative liabilities – current    | \$ (991)          | \$ —                                  | \$ (991)  | \$ —    |  |
| Commodity derivative liabilities – noncurrent | —                 | —                                     | —         | —       |  |

Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one level of the fair value hierarchy to another level. In such instances, the transfer is deemed to have occurred at the beginning of the quarterly period in which the event or change in circumstances that caused the transfer occurred. There were no transfers during the three months ended March 31, 2019 and 2018.

We used the following methods and assumptions to estimate fair values for the financial assets and liabilities described below:

- *Commodity derivatives:* We determine the fair values of our commodity derivative instruments based on discounted cash flows derived from third-party quoted forward prices for WTI, LLS and MEH crude oil closing prices as of the end of the reporting periods. We generally use the income approach, using valuation techniques that convert future cash flows to a single discounted value. Each of these is a Level 2 input.

### Non-Recurring Fair Value Measurements

In addition to the fair value measurements applied with respect to the Hunt Acquisition, as described in Note 3, the most significant non-recurring fair value measurements utilized in the preparation of our Condensed Consolidated Financial Statements are those attributable to the initial determination of AROs associated with the ongoing development of new oil and gas properties. The determination of the fair value of AROs is based upon regional market and facility specific information. The amount of an ARO and the costs capitalized represent the estimated future cost to satisfy the abandonment obligation using current prices that are escalated by an assumed inflation factor after discounting the future cost back to the date that the abandonment obligation was incurred using a rate commensurate with the risk, which approximates our cost of funds. Because these significant fair value inputs are typically not observable, we have categorized the initial estimates as Level 3 inputs.

## 12. Commitments and Contingencies

### Gathering and Intermediate Transportation Commitments

We have long-term agreements with Republic Midstream, LLC (“Republic Midstream”) and Republic Midstream Marketing, LLC (“Republic Marketing”) and, together with Republic Midstream, collectively, “Republic”) to provide gathering and intermediate pipeline transportation services for a substantial portion of our crude oil and condensate production in the South Texas region as well as volume capacity support for certain downstream interstate pipeline transportation.

Republic is obligated to gather and transport our crude oil and condensate from within a dedicated area in the Eagle Ford via a gathering system and intermediate takeaway pipeline connecting to a downstream interstate pipeline operated by a third party through 2041. We have a minimum volume commitment (“MVC”) of 8,000 gross barrels of oil per day to Republic through 2031 under the gathering agreement.

Under the marketing agreement, we have a commitment to sell 18,000 barrels per day of crude oil (gross) to Republic, or to any third party, utilizing Republic Marketing's capacity on a downstream interstate pipeline through 2026.

Excluding the potential impact of the effects of price escalation from commodity price changes, the minimum fee requirements attributable to the MVC under the gathering and transportation agreement are as follows: \$9.0 million for the remainder of 2019, \$13.0 million per year for 2020 through 2025, \$7.4 million for 2026, \$3.8 million per year for 2027 through 2030 and \$2.2 million for 2031.

#### *Drilling, Completion and Other Commitments*

As of March 31, 2019, we had contractual commitments on a pad-to-pad basis for two drilling rigs. Additionally, we have a one-year commitment, effective January 1, 2019, which can be terminated with 60 days' notice by either party, to utilize of certain frac services. We have a minimum obligation of \$14.9 million associated with this commitment.

#### *Legal and Regulatory*

We are involved, from time to time, in various legal proceedings arising in the ordinary course of business. While the ultimate results of these proceedings cannot be predicted with certainty, our management believes that these claims will not have a material effect on our financial position, results of operations or cash flows. As of March 31, 2019, we had a reserve in the amount of \$0.3 million included in "Accounts payable and accrued liabilities" for the estimated settlement of disputes with partners regarding certain transactions that occurred in prior years. As of March 31, 2019, we had AROs of approximately \$4.4 million attributable to the plugging of abandoned wells.

### 13. Shareholders' Equity

The following tables summarize the components of our shareholders' equity and the changes therein as of and for the three months ended March 31, 2019 and 2018.

|  | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|--|--------------|-----------------|-------------------|--|----------------------------|
| Balance as of December 31, 2018                                  | \$ 151       | \$ 197,630      | \$ 249,492        | \$ 82                                  | \$ 447,355                 |
| Net loss   | —            | —               | (38,697)          | —                                      | (38,697)                   |
| Cumulative effect of change in accounting principle <sup>1</sup> | —            | —               | (94)              | —                                      | (94)                       |
| All other changes <sup>2</sup>                                   | —            | 381             | —                 | (1)                                    | 380                        |
| Balance as of March 31, 2019                                     | \$ 151       | \$ 198,011      | \$ 210,701        | \$ 81                                  | \$ 408,944                 |

<sup>1</sup> Attributable to the adoption of ASC Topic 842 as of January 1, 2019 (see Note 9).

<sup>2</sup> Includes equity-classified share-based compensation of \$1.0 million during the three months ended March 31, 2019. During the three months ended March 31, 2019, 24,657 shares of common stock were issued in connection with the vesting of certain time-vested restricted stock units ("RSUs"), net of shares withheld for income taxes.

|  | Common Stock | Paid-in Capital | Retained Earnings/(Accumulated Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|--|--------------|-----------------|---|--|----------------------------|
| Balance as of December 31, 2017                                  | \$ 150       | \$ 194,123      | \$ 27,366                               | \$ —                                   | \$ 221,639                 |
| Net income   | —            | —               | 10,295                                  | —                                      | 10,295                     |
| Cumulative effect of change in accounting principle <sup>1</sup> | —            | —               | (2,659)                                 | —                                      | (2,659)                    |
| All other changes <sup>2</sup>                                   | 1            | 988             | —                                       | —                                      | 989                        |
| Balance as of March 31, 2018                                     | \$ 151       | \$ 195,111      | \$ 35,002                               | \$ —                                   | \$ 230,264                 |

<sup>1</sup> Reflects a write-off for certain accounts receivable attributable to natural gas imbalances accounted for under the entitlements method prior to January 1, 2018, in connection with the adoption of ASC Topic 606, *Revenues from Contracts with Customers*.

<sup>2</sup> Includes equity-classified share-based compensation of \$1.6 million during the three months ended March 31, 2018. During the three months ended March 31, 2018, 37,845 and 1,495 shares of common stock were issued in connection with the vesting of certain RSUs and performance restricted stock units ("PRSUs"), net of shares withheld for income taxes, respectively.

#### 14. Share-Based Compensation and Other Benefit Plans

##### *Share-Based Compensation*

We recognize share-based compensation expense related to our share-based compensation plans as a component of G&A expenses in our Condensed Consolidated Statements of Operations.

We reserved 749,600 shares of common stock for issuance under the Penn Virginia Corporation Management Incentive Plan for future share-based compensation awards. A total of 347,440 RSUs and 98,526 PRSUs have been granted to employees and directors as of March 31, 2019.

We recognized \$1.0 million and \$1.6 million of expense attributable to the RSUs and PRSUs for the three months ended March 31, 2019 and 2018, respectively. Approximately \$0.6 million of the expense for the three months ended March 31, 2018 was attributable to the accelerated vesting of certain awards of our former Executive Chairman upon his retirement. We also paid him \$0.3 million for certain transition and support services during this period in connection with his retirement.

In the three months ended March 31, 2018, we granted 5,719 RSUs to certain employees with an average grant-date fair value of \$36.52 per RSU. No equity awards were granted during the three months ended March 31, 2019. The RSUs are being charged to expense on a straight-line basis over a range of four to five years. In the three months ended March 31, 2019 and 2018, 24,657 and 37,845 shares were issued upon vesting/settlement of equity awards, net of shares withheld for income taxes, respectively.

No PRSUs were granted during the three months ended March 31, 2019 or 2018. In the three months ended March 31, 2018, 1,495 shares were issued upon vesting/settlement of equity awards, net of shares withheld for income taxes. The PRSUs were granted collectively in two to three separate tranches with individual three-year performance periods beginning in January 2017, 2018 and 2019, respectively. Vesting of the PRSUs can range from zero to 200 percent of the original grant based on the performance of our common stock relative to an industry index. Due to their market condition, the PRSUs are being charged to expense using graded vesting over a maximum of five years. The fair value of each PRSU award was estimated on their applicable grant date using a Monte Carlo simulation with a range of \$47.70 to \$65.28 per PRSU. Expected volatilities were based on historical volatilities and range from 59.63% to 62.18%. A risk-free rate of interest with a range of 1.44% to 1.51% was utilized, which is equivalent to the yield, as of the measurement date, of the zero-coupon U.S. Treasury bill commensurate with the longest remaining performance measurement period for each tranche. We assumed no payment of dividends during the performance periods.

##### *Other Benefit Plans*

We maintain the Penn Virginia Corporation and Affiliated Companies Employees 401(k) Plan (the "401(k) Plan"), a defined contribution plan, which covers substantially all of our employees. We recognized \$0.2 million and \$0.1 million of expense attributable to the 401(k) Plan for the three months ended March 31, 2019 and 2018, respectively. The charges for the 401(k) Plan are recorded as a component of "G&A expenses" in our Condensed Consolidated Statements of Operation.

We maintain unqualified legacy defined benefit pension and defined benefit postretirement plans that cover a limited number of former employees, all of whom retired prior to 2000. The combined expense recognized with respect to these plans was less than \$0.1 million for each of the three months ended March 31, 2019 and 2018. The charges for these plans are recorded as a component of "Other income (expense)" in our Condensed Consolidated Statements of Operation.

**15. Interest Expense**

The following table summarizes the components of interest expense for the periods presented:

|   | Three Months Ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2019                         | 2018            |
| Interest on borrowings and related fees           | \$ 9,711                     | \$ 6,048        |
| Accretion of original issue discount <sup>1</sup> | 180                          | 165             |
| Amortization of debt issuance costs               | 741                          | 631             |
| Capitalized interest                              | (1,154)                      | (2,243)         |
|   | <u>\$ 9,478</u>              | <u>\$ 4,601</u> |

<sup>1</sup> Attributable to the Second Lien Facility (see Note 7).

**16. Earnings per Share**

The following table provides a reconciliation of the components used in the calculation of basic and diluted earnings per share for the periods presented:

|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2019                         | 2018          |
| Net income (loss) - basic and diluted      | \$ (38,697)                  | \$ 10,295     |
| Weighted-average shares – basic            | 15,098                       | 15,042        |
| Effect of dilutive securities <sup>1</sup> | —                            | 39            |
| Weighted-average shares – diluted          | <u>15,098</u>                | <u>15,081</u> |

<sup>1</sup> For the three months ended March 31, 2019, approximately 0.2 million potentially dilutive securities, represented by RSUs and PRSUs, had the effect of being anti-dilutive and were excluded from the calculation of diluted earnings per share.

## Forward-Looking Statements

Certain statements contained herein that are not descriptions of historical facts are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We use words such as “anticipate,” “guidance,” “assumptions,” “projects,” “estimates,” “expects,” “continues,” “intends,” “plans,” “believes,” “forecasts,” “future,” “potential,” “may,” “possible,” “could” and variations of such words or similar expressions to identify forward-looking statements. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from those expressed or implied by such forward-looking statements. These risks, uncertainties and contingencies include, but are not limited to, the following:

- risks related to completed acquisitions, including our ability to realize their expected benefits;
- our ability to satisfy our short-term and long-term liquidity needs, including our inability to generate sufficient cash flows from operations or to obtain adequate financing to fund our capital expenditures and meet working capital needs;
- negative events or publicity adversely affecting our ability to maintain our relationships with our suppliers, service providers, customers, employees, and other third parties;
- plans, objectives, expectations and intentions contained in this report that are not historical;
- our ability to execute our business plan in volatile and depressed commodity price environments;
- the decline in and volatility of commodity prices for oil, natural gas liquids, or NGLs, and natural gas;
- our ability to develop, explore for, acquire and replace oil and gas reserves and sustain production;
- our ability to generate profits or achieve targeted reserves in our development and exploratory drilling and well operations;
- our ability to meet guidance, market expectations and internal projections, including type curves;
- any impairments, write-downs or write-offs of our reserves or assets;
- the projected demand for and supply of oil, NGLs and natural gas;
- our ability to contract for drilling rigs, frac crews, materials, supplies and services at reasonable costs;
- our ability to renew or replace expiring contracts on acceptable terms;
- our ability to obtain adequate pipeline transportation capacity or other transportation for our oil and gas production at reasonable cost and to sell our production at, or at reasonable discounts to, market prices;
- the uncertainties inherent in projecting future rates of production for our wells and the extent to which actual production differs from that estimated in our proved oil and gas reserves;
- use of new techniques in our development, including choke management and longer laterals;
- drilling and operating risks;
- our ability to compete effectively against other oil and gas companies;
- leasehold terms expiring before production can be established and our ability to replace expired leases;
- environmental obligations, costs and liabilities that are not covered by an effective indemnity or insurance;
- the timing of receipt of necessary regulatory permits;
- the effect of commodity and financial derivative arrangements with other parties and counterparty risk related to the ability of these parties to meet their future obligations;
- the occurrence of unusual weather or operating conditions, including force majeure events;
- our ability to retain or attract senior management and key employees;
- our reliance on a limited number of customers and a particular region for substantially all of our revenues and production;
- compliance with and changes in governmental regulations or enforcement practices, especially with respect to environmental, health and safety matters;
- physical, electronic and cybersecurity breaches;
- uncertainties relating to general domestic and international economic and political conditions;
- the impact and costs associated with litigation or other legal matters;
- and
- other factors set forth in our filings with the Securities and Exchange Commission, or SEC, including the risks set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Additional information concerning these and other factors can be found in our press releases and public filings with the SEC. Many of the factors that will determine our future results are beyond the ability of management to control or predict. Readers should not place undue reliance on forward-looking statements, which reflect management’s views only as of the date hereof. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable law.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis of the financial condition and results of operations of Penn Virginia Corporation and its consolidated subsidiaries ("Penn Virginia," the "Company," "we," "us" or "our") should be read in conjunction with our Condensed Consolidated Financial Statements and Notes thereto included in Part I, Item 1, "Financial Statements." All dollar amounts presented in the tables that follow are in thousands unless otherwise indicated. Also, due to the combination of different units of volumetric measure, the number of decimal places presented and rounding, certain results may not calculate explicitly from the values presented in the tables. References to "quarters" represent the three months ended March 31, 2019 or 2018, as applicable.

**Overview and Executive Summary**

We are an independent oil and gas company engaged in the onshore exploration, development and production of crude oil, natural gas liquids, or NGLs, and natural gas. Our current operations consist primarily of drilling unconventional horizontal development wells and operating our producing wells in the Eagle Ford Shale, or the Eagle Ford, in Gonzales, Lavaca, Fayette and DeWitt Counties in South Texas.

**Industry Environment and Recent Operating and Financial Highlights**

Crude oil prices increased throughout the first quarter of 2019, rising from levels in the upper \$40 per barrel range at the beginning of the year to the upper \$50 per barrel range at the end of March 2019, and with moderate progression continuing into April 2019 due primarily to global supply and demand dynamics. While impacting us to a lesser extent, natural gas pricing has steadily declined from year-end 2018 levels due primarily to excess domestic supply. While we have commitments for drilling rigs and dedicated frac crew costs at fixed rates for the calendar year, other costs for drilling and completion activities have exhibited moderate increases. Oilfield products and services remained relatively stable during the first quarter of 2019.

As discussed in further detail in Notes 2 and 9 to the Condensed Consolidated Financial Statements, we have adopted Accounting Standards Codification Topic 842, *Leases*, or ASC Topic 842, effective January 1, 2019. We adopted ASC Topic 842 utilizing the optional transition approach.

The following summarizes our key operating and financial highlights for the three months ended March 31, 2019, with comparison to the three months ended December 31, 2018. The year-over-year highlights are addressed in further detail under *Financial Condition and Results of Operations* that follow.

- Daily production decreased approximately four percent to 24,692 barrels of oil equivalent per day, or BOEPD, from 25,686 BOEPD due primarily to the timing of wells turned to sales, which included nine gross (7.8 net) wells turned to sales in the first quarter of 2019 and four gross (4.0 net wells) turned to sales in mid-March 2019, compared to 10 gross (8.9 net) wells turned to sales in the fourth quarter of 2018, the majority of which were turned to sales in October 2018. Total production declined to 2,222 thousand barrels of oil equivalent, or MBOE, from 2,363 MBOE.
- Product revenues decreased approximately 16 percent to \$104.6 million from \$124.6 million due primarily to nine percent lower crude oil volume and seven percent lower crude oil prices. Lower NGL revenues were due to 19 percent lower prices partially offset by four percent higher volume. Lower natural gas revenues were due to 27 percent lower natural gas pricing partially offset by six percent higher volume.
- Production and lifting costs (consisting of Lease operating expenses, or LOE, and Gathering, processing and transportation expenses, or GPT) decreased on an absolute basis to \$14.9 million from \$15.7 million, and increased on a per unit basis to \$6.72 per barrel of oil equivalent, or BOE, from \$6.65 per BOE due primarily to the effects of lower volume and lower chemical costs partially offset by higher gas lift and compression costs.
- Production and ad valorem taxes decreased on an absolute and per unit basis to \$5.7 million and \$2.56 per BOE from \$6.5 million and \$2.75 per BOE, respectively, due to lower production volume and lower overall product pricing.
- General and administrative, or G&A, expenses decreased on an absolute and per unit basis to \$7.1 million and \$3.18 per BOE from \$8.1 million and \$3.43 per BOE, respectively, due primarily to lower transaction costs associated with the merger with Denbury which was terminated in March 2019.
- Depreciation, depletion and amortization, or DD&A, decreased on an absolute basis to \$38.9 million and increased on a per unit basis to \$17.49 per BOE from \$39.6 million and \$16.75 per BOE, respectively, due primarily to lower production volume partially offset by the effects of additional drilling and completion costs. The rate increase was due primarily to higher drilling costs in the 2019 period.
- Operating income decreased to \$38.7 million from \$54.9 million due to the combined impact of the matters noted in the bullets above.

The following table sets forth certain historical summary operating and financial statistics for the periods presented:

|   | Three Months Ended |              |            |
|---|--------------------|--------------|------------|
|   | March 31,          | December 31, | March 31,  |
|   | 2019               | 2018         | 2018       |
| Total production (MBOE)                                 | 2,222              | 2,363        | 1,453      |
| Average daily production (BOEPD)                        | 24,692             | 25,686       | 16,145     |
| Crude oil production (MBbl)                             | 1,652              | 1,818        | 1,127      |
| Crude oil production as a percent of total              | 74%                | 77%          | 78%        |
| Product revenues  | \$ 104,637         | \$ 124,572   | \$ 76,994  |
| Crude oil revenues                                      | \$ 94,812          | \$ 112,452   | \$ 71,258  |
| Crude oil revenues as a percent of total                | 91%                | 90%          | 93%        |
| Realized prices:  |                    |              |            |
| Crude oil (\$ per Bbl)                                  | \$ 57.39           | \$ 61.84     | \$ 63.23   |
| NGLs (\$ per Bbl)                                       | \$ 17.60           | \$ 21.79     | \$ 17.94   |
| Natural gas (\$ per Mcf)                                | \$ 2.79            | \$ 3.80      | \$ 2.87    |
| Aggregate (\$ per BOE)                                  | \$ 47.08           | \$ 52.72     | \$ 52.99   |
| Prices adjusted for derivatives:                        |                    |              |            |
| Crude oil (\$ per Bbl)                                  | \$ 60.05           | \$ 54.64     | \$ 56.51   |
| Aggregate (\$ per BOE)                                  | \$ 49.06           | \$ 47.17     | \$ 47.77   |
| Production and lifting costs:                           |                    |              |            |
| Lease operating (\$ per BOE)                            | \$ 4.95            | \$ 4.21      | \$ 5.02    |
| Gathering, processing and transportation (\$ per BOE)   | \$ 1.77            | \$ 2.44      | \$ 2.31    |
| Production and ad valorem taxes (\$ per BOE)            | \$ 2.56            | \$ 2.75      | \$ 2.82    |
| General and administrative (\$ per BOE) <sup>1</sup>    | \$ 3.18            | \$ 3.43      | \$ 4.45    |
| Depreciation, depletion and amortization (\$ per BOE)   | \$ 17.49           | \$ 16.75     | \$ 15.20   |
| Capital expenditure program costs <sup>2</sup>          | \$ 101,288         | \$ 105,099   | \$ 84,228  |
| Cash provided by operating activities <sup>3</sup>      | \$ 69,259          | \$ 79,227    | \$ 38,682  |
| Cash paid for capital expenditures <sup>4</sup>         | \$ 86,486          | \$ 107,333   | \$ 77,839  |
| Cash and cash equivalents at end of period              | \$ 4,655           | \$ 17,864    | \$ 7,319   |
| Debt outstanding at end of period, net                  | \$ 515,919         | \$ 511,375   | \$ 383,766 |
| Credit available under credit facility at end of period | \$ 124,600         | \$ 128,600   | \$ 144,245 |
| Net development wells drilled and completed             | 7.8                | 8.9          | 10.0       |

<sup>1</sup> Includes combined amounts of \$0.79, \$1.56 and \$1.55 per BOE for the three months ended March 31, 2019, December 31, 2018 and March 31, 2018, respectively, attributable to equity-classified share-based compensation and significant special charges, including acquisition, divestiture and strategic transaction and other costs, as described in the discussion of "Results of Operations - General and Administrative" that follows.

<sup>2</sup> Includes amounts accrued and excludes capitalized interest and capitalized labor.

<sup>3</sup> Includes net cash received from derivative settlements of \$4.4 million for the three months ended March 31, 2019 and net cash paid for derivative settlements of \$13.1 million and \$7.6 million for the three months ended December 31, 2018 and March 31, 2018, respectively. Reflects changes in operating assets and liabilities of \$(6.5) million, \$(0.7) million and \$(7.4) million for the three months ended March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

<sup>4</sup> Represents actual cash paid for capital expenditures including capitalized interest and capitalized labor.

## Key Developments

The following general business developments had or may have a significant impact on our results of operations, financial position and cash flows:

### *Termination of Merger Agreement with Denbury*

On March 21, 2019, we and Denbury Resources Inc., or Denbury, entered into a Termination Agreement, or the Termination Agreement, under which the parties mutually agreed to terminate our previously announced merger agreement. Subject to limited customary exceptions, the Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the contemplated merger transaction. We incurred a total of \$0.7 million of incremental costs associated with the merger transaction as well as the Termination Agreement during the three months ended March 31, 2019. These costs are included in the G&A caption in our Condensed Consolidated Statement of Operations.

### *Production and Development Plans*

Total production for the first quarter of 2019 was 2,222 MBOE, or 24,692 barrels of oil equivalent per day, or BOEPD, with approximately 74 percent, or 1,652 MBOE, of production from crude oil, 14 percent from NGLs and 12 percent from natural gas.

We drilled and turned nine gross (7.8 net) Eagle Ford wells to sales during the first quarter of 2019. Subsequent to March 31, 2019, we drilled and turned an additional four gross (3.5 net) wells to sales. As of May 3, 2019, we were drilling five gross (4.5 net) wells with two operated drilling rigs and two gross (1.9 net) wells were completing.

As of May 3, 2018, we had approximately 98,200 gross (84,200 net) acres in the Eagle Ford, net of expirations. Approximately 93 percent of our acreage is held by production and substantially all is operated by us.

### *Amendment to Credit Facility*

In May 2019, we entered into the Borrowing Base Increase Agreement and Amendment No. 6 to the Credit Agreement, or the Sixth Amendment, increasing the lender commitment under our credit agreement, or Credit Facility, to \$1.0 billion from \$450 million and the borrowing base to \$500 million from \$450 million and extending the maturity to May 2024 from September 2020, among other things. In addition, the applicable margin ranges associated with borrowings applicable to the Credit Facility were each reduced by 150 basis points. We incurred and capitalized approximately \$2.5 million of issue and other costs associated with the Sixth Amendment.

### *Commodity Hedging Program*

We have hedged a portion of our estimated future crude oil production from April 2019 through the end of 2020 with a mix of West Texas Intermediate, or WTI-, Light Louisiana Sweet, or LLS- and Magellan East Houston, or MEH- indexed swaps. We are currently unhedged with respect to NGL and natural gas production. The following table summarizes our hedge positions for the periods presented:

|                       | WTI Volumes<br>(Barrels per day) | WTI Average Swap<br>Price<br>(\$ per barrel) | LLS Volumes<br>(Barrels per day) | LLS Average Swap<br>Price<br>(\$ per barrel) | MEH Volumes<br>(Barrels per day) | MEH Average Swap<br>Price<br>(\$ per barrel) |
|-----------------------|----------------------------------|--|----------------------------------|--|----------------------------------|--|
| April - December 2019 | 7,300                            | \$ 55.58                                     | 5,000                            | \$ 59.17                                     | \$ 1,000                         | \$ 64.00                                     |
| 2020                  | 7,000                            | \$ 54.94                                     | —                                | —  | 2,000                            | \$ 61.03                                     |



## Financial Condition

### Liquidity

Our primary sources of liquidity include our cash on hand, cash provided by operating activities and borrowings under the Credit Facility. The Credit Facility provides us with up to \$1.0 billion in borrowing commitments. The current borrowing base under the Credit Facility is \$500.0 million. As of May 7, 2019, we had \$162.6 million available under the Credit Facility.

Our cash flows from operating activities are subject to significant volatility due to changes in commodity prices for crude oil, NGL and natural gas products, as well as variations in our production. The prices for these commodities are driven by a number of factors beyond our control, including global and regional product supply and demand, weather, product distribution, refining and processing capacity and other supply chain dynamics, among other factors. The level of our hedging activity and duration of the financial instruments employed depend on our desired cash flow protection, available hedge prices, the magnitude of our capital program and our operating strategy. In order to mitigate this volatility, we entered into derivative contracts hedging a portion of our estimated future crude oil production through the end of 2020.

### Capital Resources

Under our capital program for 2019, we anticipate capital expenditures, excluding acquisitions, to total between \$345 million and \$365 million for 2019 with approximately 95 percent of capital being directed to drilling and completions on our Eagle Ford acreage. We plan to fund our 2019 capital spending primarily with cash from operating activities and, if necessary, borrowings under the Credit Facility. Based upon current price and production expectations for 2019, we believe that our cash from operating activities and borrowings under our Credit Facility will be sufficient to fund our operations through year-end 2019; however, future cash flows are subject to a number of variables and significant additional capital expenditures may be required to more fully develop our properties. For a detailed analysis of our historical capital expenditures, see the "Cash Flows" discussion that follows.

*Cash on Hand and Cash From Operating Activities.* As of May 3, 2019, we had approximately \$5 million of cash on hand. For additional information and an analysis of our historical cash from operating activities, see the "Cash Flows" discussion that follows.

*Credit Facility Borrowings.* During the three months ended March 31, 2019, we borrowed \$4.0 million, net of repayments, under the Credit Facility. For additional information regarding the terms and covenants under the Credit Facility, see the "Capitalization" discussion that follows.

The following table summarizes our borrowing activity under the Credit Facility for the periods presented:

|                                   | Borrowings Outstanding |            |                       |
|-----------------------------------|------------------------|------------|-----------------------|
|                                   | Weighted-Average       | Maximum    | Weighted-Average Rate |
| Three months ended March 31, 2019 | \$ 319,133             | \$ 325,000 | 6.00%                 |

*Proceeds from Sales of Assets.* For additional information and an analysis of our historical proceeds from sales of assets, see the "Cash Flows" discussion that follows.

*Capital Market Transactions.* From time-to-time and under market conditions that we believe are favorable to us, we may consider capital market transactions, including the offering of debt and equity securities.

## Cash Flows

The following table summarizes our cash flows for the periods presented:

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2019  | March 31,<br>2018 |
| <b>Cash flows from operating activities</b>                   |                    |                   |
| Operating cash flows, net of working capital changes          | \$ 75,031          | \$ 50,762         |
| Crude oil derivative settlements received (paid), net         | 4,394              | (7,576)           |
| Interest payments, net of amounts capitalized                 | (8,413)            | (3,662)           |
| Acquisition, divestiture and strategic transaction costs paid | (1,674)            | (431)             |
| Reorganization-related administration fees and costs paid     | (79)               | (161)             |
| Consulting costs paid to former Executive Chairman            | —                  | (250)             |
| Net cash provided by operating activities                     | 69,259             | 38,682            |
| <b>Cash flows from investing activities</b>                   |                    |                   |
| Acquisitions, net   | —                  | (83,338)          |
| Capital expenditures  | (86,486)           | (77,839)          |
| Proceeds from sales of assets, net                            | 18                 | 1,551             |
| Net cash used in investing activities                         | (86,468)           | (159,626)         |
| <b>Cash flows from financing activities</b>                   |                    |                   |
| Proceeds from credit facility borrowings, net                 | 4,000              | 118,000           |
| Debt issuance costs paid                                      | —                  | (754)             |
| Net cash provided by financing activities                     | 4,000              | 117,246           |
| Net decrease in cash and cash equivalents                     | <u>\$ (13,209)</u> | <u>\$ (3,698)</u> |

*Cash Flows from Operating Activities.* The increase in net cash from operating activities for the three months ended March 31, 2019 compared to the corresponding period in 2018 was primarily attributable to: (i) higher production volume in the 2019 period despite lower overall product pricing, (ii) two months of incremental net operating cash inflows from the acquisition of oil and gas assets from Hunt Oil Company, or the Hunt Acquisition, which was completed on March 1, 2018, (iii) net receipts of derivative settlements in the 2019 period compared to net payments in the 2018 period and (iv) lower payments in the 2019 period for reorganization-related administration costs and (v) the absence of consulting costs paid to our former Executive Chairman in the 2018 period. These items were partially offset by higher interest payments due to greater outstanding borrowings in the 2019 period and higher costs paid for acquisition, divestiture and strategic transaction costs in the 2019 period, including costs associated with the terminated merger transaction with Denbury.

*Cash Flows from Investing Activities.* As illustrated in the tables below, our cash payments for capital expenditures were substantially higher during the 2019 period as compared to the 2018 period, due primarily to the employment of three drilling rigs through most of the first quarter of 2019 as opposed to two drilling rigs during the 2018 period as well as the effect of higher working interests from the Hunt Acquisition. In the 2018 period, we paid a total of \$84.4 million for the Hunt Acquisition and received a total of \$1.1 million in connection with the final settlement of a 2017 acquisition transaction. In addition, we received proceeds of \$1.6 million in the 2018 period attributable to the sales of undeveloped acreage holdings in the Tuscaloosa Marine Shale in Louisiana.

The following table sets forth costs related to our capital expenditures program for the periods presented:

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2019  | March 31,<br>2018 |
| Drilling and completion                                 | \$ 98,658          | \$ 81,044         |
| Lease acquisitions and other land-related costs         | 259                | 2,061             |
| Pipeline, gathering facilities and other equipment, net | 2,331              | 973               |
| Geological and geophysical (seismic) costs              | 40                 | 150               |
|   | <u>\$ 101,288</u>  | <u>\$ 84,228</u>  |

The following table reconciles the total costs of our capital expenditures program with the net cash paid for capital expenditures as reported in our Condensed Consolidated Statements of Cash Flows for the periods presented:

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31,          | March 31,        |
|   | 2019               | 2018             |
| Total capital expenditures program costs (from above)                 | \$ 101,288         | \$ 84,228        |
| Increase in accrued capitalized costs                                 | (13,569)           | (9,616)          |
| Less:   |                    |                  |
| Transfers from tubular inventory and well materials                   | (2,245)            | (1,335)          |
| Sales and use tax refunds received and applied to property accounts   | (2,752)            | —                |
| Other, net  | (20)               | —                |
| Add:  |                    |                  |
| Tubular inventory and well materials purchased in advance of drilling | 1,658              | 1,580            |
| Capitalized internal labor  | 972                | 739              |
| Capitalized interest  | 1,154              | 2,243            |
| Total cash paid for capital expenditures                              | <u>\$ 86,486</u>   | <u>\$ 77,839</u> |

*Cash Flows from Financing Activities.* The 2019 period includes borrowings of \$12.0 million and repayments of \$8.0 million under the Credit Facility which were used to fund a portion of our capital program. The 2018 period includes borrowings of \$118 million under the Credit Facility, a substantial portion of which was used to fund the Hunt Acquisition. We also paid \$0.8 million of debt issue costs in the 2018 period in connection with an amendment to the Credit Facility.

#### Capitalization

The following table summarizes our total capitalization as of the dates presented:

|                                     | March 31,         | December 31,      |
|-------------------------------------|-------------------|-------------------|
|                                     | 2019              | 2018              |
| Credit facility                     | \$ 325,000        | \$ 321,000        |
| Second lien term loan, net          | 190,919           | 190,375           |
| Total debt, net                     | 515,919           | 511,375           |
| Shareholders' equity                | 408,944           | 447,355           |
|                                     | <u>\$ 924,863</u> | <u>\$ 958,730</u> |
| Debt as a % of total capitalization | 56%               | 53%               |

*Credit Facility.* The Credit Facility provides for a \$1.0 billion revolving commitment and \$500 million borrowing base and a \$25 million sublimit for the issuance of letters of credit. In May 2019, the borrowing base increased to \$500 million from \$450 million pursuant to the Sixth Amendment. The availability under the Credit Facility may not exceed the lesser of the aggregate commitments or the borrowing base. The borrowing base under the Credit Facility is redetermined semi-annually, generally in April and October of each year. Additionally, the Credit Facility lenders may, at their discretion, initiate a redetermination at any time during the six-month period between scheduled redeterminations. The Credit Facility is available to us for general corporate purposes including working capital. We had \$0.4 million in letters of credit outstanding as of March 31, 2019 and December 31, 2018, respectively.

In connection with the Sixth Amendment, maturity of the Credit Facility has been extended to May 2024 from September 2020; provided that in June 2022, unless we have either extended the maturity date of our \$200 million Second Lien Credit Agreement dated as of September 29, 2017, or the Second Lien Facility, to a date that is at least 91 days after the extended maturity date of May 2024 or have repaid our Second Lien Facility in full, the maturity date of the Credit Facility will mean June 2022. Prior to entry into the Sixth Amendment, we received consent from requisite lenders of our Second Lien Facility to extend the maturity of our Credit Facility to May 2024.

The outstanding borrowings under the Credit Facility bear interest at a rate equal to, at our option, either (a) a customary reference rate plus an applicable margin ranging from 0.50% to 1.50% (2.00% to 3.00% prior to May 2019), determined based on the average availability under the Credit Facility or (b) a customary London interbank offered rate, or LIBOR, plus an applicable margin ranging from 1.50% to 2.50% (3.00% to 4.00% prior to May 2019), determined based on the average availability under the Credit Facility. Interest on reference rate borrowings is payable quarterly in arrears and is computed on the basis of a year of 365/366 days, and interest on LIBOR borrowings is payable every one, three or six months, at our election, and is computed on the basis of a year of 360 days. As of March 31, 2019, the actual weighted-average interest rate on the outstanding borrowings under the Credit Facility was 6.00%. Unused commitment fees are charged at a rate of 0.375% to 0.50% depending upon utilization.

The Credit Facility is guaranteed by us and all of our subsidiaries, or the Guarantor Subsidiaries. The guarantees under the Credit Facility are full and unconditional and joint and several. Substantially all of our consolidated assets are held by the Guarantor Subsidiaries. There are no significant restrictions on our ability or any of the Guarantor Subsidiaries to obtain funds through dividends, advances or loans. The obligations under the Credit Facility are secured by a first priority lien on substantially all of our assets.

*Second Lien Facility.* On September 29, 2017, we entered into the Second Lien Facility. The maturity date under the Second Lien Facility is September 29, 2022.

The outstanding borrowings under the Second Lien Facility bear interest at a rate equal to, at our option, either (a) a customary reference rate based on the prime rate plus an applicable margin of 6.00% or (b) a customary LIBOR rate plus an applicable margin of 7.00%. Amounts under the Second Lien Facility were borrowed at a price of 98% with an initial interest rate of 8.34% resulting in an effective interest rate of 9.89%. As of March 31, 2019, the actual interest rate on the Second Lien Facility was 9.50%. Interest on reference rate borrowings is payable quarterly in arrears and is computed on the basis of a year of 365/366 days, and interest on eurocurrency borrowings is payable every one or three months (including in three month intervals if we select a six month interest period), at our election and is computed on the basis of a year of 360 days. We have the right, to the extent permitted under the Credit Facility and an intercreditor agreement between the lenders under the Credit Facility and the lenders under the Second Lien Facility, to prepay loans under the Second Lien Facility at any time, subject to the following prepayment premiums (in addition to customary “breakage” costs with respect to eurocurrency loans): during year one, a customary “make-whole” premium; during year two, 102% of the amount being prepaid; during year three, 101% of the amount being prepaid; and thereafter, no premium. The Second Lien Facility also provides for the following prepayment premiums in the event of a change in control that results in an offer of prepayment that is accepted by the lenders under the Second Lien Facility: during years one and two, 102% of the amount being prepaid; during year three, 101% of the amount being prepaid; and thereafter, no premium.

The Second Lien Facility is collateralized by substantially all of the Company’s and its subsidiaries’ assets with lien priority subordinated to the liens securing the Credit Facility. The obligations under the Second Lien Facility are guaranteed by us and the Guarantor Subsidiaries.

*Covenant Compliance.* Prior to May 2019, the Credit Facility required us to maintain (1) a minimum interest coverage ratio (adjusted earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses as defined in the Credit Facility, or EBITDAX, to adjusted interest expense), measured as of the last day of each fiscal quarter, of 3.00 to 1.00, (2) a minimum current ratio (as defined in the Credit Facility, which considers the unused portion of the total commitment as a current asset), measured as of the last day of each fiscal quarter of 1.00 to 1.00, and (3) a maximum leverage ratio (consolidated indebtedness to EBITDAX), measured as of the last day of each fiscal quarter of 3.50 to 1.00. Effective as of May 2019, the Credit Facility requires us to maintain (1) a minimum current ratio of 1.00 to 1.00 and (2) a maximum leverage ratio of 4.00 to 1.00, both as defined in the Credit Facility.

The Credit Facility and Second Lien Facility also contain customary affirmative and negative covenants, including as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), maintenance of required insurance, delivery of quarterly and annual financial statements, oil and gas engineering reports and budgets, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens and indebtedness, merger, consolidation or sale of assets, payment of dividends, and transactions with affiliates and other customary covenants.

The Sixth Amendment provided for the addition of an unlimited restricted payment basket, subject to (i) no default or event of default, (ii) pro forma leverage, after giving effect to the restricted payment, not exceeding 2.75 to 1.00 and (iii) pro forma availability no less than 20 percent of the borrowing base.

The Credit Facility and Second Lien Facility contain customary events of default and remedies. If we do not comply with the financial and other covenants in the Credit Facility and Second Lien Facility, as applicable, the lenders thereto may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Credit Facility and Second Lien Facility.

As of March 31, 2019, we were in compliance with all of the covenants under the Credit Facility and the Second Lien Facility.

## Results of Operations

### Production

The following tables set forth a summary of our total and average daily production volumes by product and geographic region for the periods presented:

|                               | Total Production   |           |               | Average Daily Production |           |               |
|-------------------------------|--------------------|-----------|---------------|--------------------------|-----------|---------------|
|                               | Three Months Ended |           | 2019 vs. 2018 | Three Months Ended       |           | 2019 vs. 2018 |
|                               | March 31,          | March 31, | Favorable     | March 31,                | March 31, | Favorable     |
|                               | 2019               | 2018      | (Unfavorable) | 2019                     | 2018      | (Unfavorable) |
| Crude oil (MBbl and BOPD)     | 1,652              | 1,127     | 525           | 18,355                   | 12,522    | 5,833         |
| NGLs (MBbl and BOPD)          | 315                | 164       | 151           | 3,503                    | 1,825     | 1,678         |
| Natural gas (MMcf and MMcfpd) | 1,531              | 971       | 560           | 17                       | 11        | 6             |
| Total (MBOE and BOEPD)        | 2,222              | 1,453     | 769           | 24,692                   | 16,145    | 8,547         |

  

|                            | Three Months Ended |           |               | Three Months Ended |           |               |
|----------------------------|--------------------|-----------|---------------|--------------------|-----------|---------------|
|                            | March 31,          | March 31, | Favorable     | March 31,          | March 31, | Favorable     |
|                            | 2019               | 2018      | (Unfavorable) | 2019               | 2018      | (Unfavorable) |
|                            | (MBOE)             |           |               | (BOE per day)      |           |               |
| South Texas                | 2,222              | 1,383     | 839           | 24,692             | 15,370    | 9,322         |
| Mid-Continent <sup>1</sup> | —                  | 70        | (70)          | —                  | 775       | (775)         |
|                            | 2,222              | 1,453     | 769           | 24,692             | 16,145    | 8,547         |

<sup>1</sup> Mid-Continent operations were sold on July 31, 2018.

Total production increased during the three month period in 2019 due primarily to more wells turned to sales in the second half of 2018 through the first quarter of 2019 when compared to the corresponding periods in the second half of 2017 through the first quarter of 2018 as well as incremental production from the Hunt Acquisition. These increases were partially offset by the effect of the divestiture in July 2018 of our former Mid-Continent operations, as well as natural production declines from our legacy Eagle Ford wells.

Approximately 74 percent of total production during the three month period in 2019 was attributable to crude oil when compared to approximately 78 percent during the corresponding period in 2018. During the three month period in 2019, we turned nine gross (7.8 net) Eagle Ford wells to sales compared to 13 gross (10.0 net) wells during the corresponding period in 2018.

### Product Revenues and Prices

The following tables set forth a summary of our revenues and prices per unit of volume by product and geographic region for the periods presented:

|             | Total Product Revenues |           |               | Product Revenues per Unit of Volume |           |               |
|-------------|------------------------|-----------|---------------|-------------------------------------|-----------|---------------|
|             | Three Months Ended     |           | 2019 vs. 2018 | Three Months Ended                  |           | 2019 vs. 2018 |
|             | March 31,              | March 31, | Favorable     | March 31,                           | March 31, | Favorable     |
|             | 2019                   | 2018      | (Unfavorable) | 2019                                | 2018      | (Unfavorable) |
|             |                        |           |               | (\$ per unit of volume)             |           |               |
| Crude oil   | \$ 94,812              | \$ 71,258 | \$ 23,554     | \$ 57.39                            | \$ 63.23  | \$ (5.84)     |
| NGLs        | 5,548                  | 2,946     | 2,602         | 17.60                               | 17.94     | (0.34)        |
| Natural gas | 4,277                  | 2,790     | 1,487         | 2.79                                | 2.87      | (0.08)        |
| Total       | \$ 104,637             | \$ 76,994 | \$ 27,643     | \$ 47.08                            | \$ 52.99  | \$ (5.91)     |

  

|                            | Three Months Ended |           |               | Three Months Ended |           |               |
|----------------------------|--------------------|-----------|---------------|--------------------|-----------|---------------|
|                            | March 31,          | March 31, | Favorable     | March 31,          | March 31, | Favorable     |
|                            | 2019               | 2018      | (Unfavorable) | 2019               | 2018      | (Unfavorable) |
|                            |                    |           |               | (\$ per BOE)       |           |               |
| South Texas                | \$ 104,637         | \$ 75,316 | \$ 29,321     | \$ 47.08           | \$ 54.45  | \$ (7.37)     |
| Mid-Continent <sup>1</sup> | —                  | 1,678     | (1,678)       | —                  | 24.05     | (24.05)       |
|                            | \$ 104,637         | \$ 76,994 | \$ 27,643     | \$ 47.08           | \$ 52.99  | \$ (5.91)     |

<sup>1</sup> Mid-Continent operations were sold on July 31, 2018.

The following table provides an analysis of the changes in our revenues for the periods presented:

|             | Three Months Ended March 31, 2019 vs. 2018 |                   |                  |
|-------------|--|-------------------|------------------|
|             | Revenue Variance Due to                    |                   |                  |
|             | Volume                                     | Price             | Total            |
| Crude oil   | \$ 33,201                                  | \$ (9,647)        | \$ 23,554        |
| NGLs        | 2,710                                      | (108)             | 2,602            |
| Natural gas | 1,608                                      | (121)             | 1,487            |
|             | <u>\$ 37,519</u>                           | <u>\$ (9,876)</u> | <u>\$ 27,643</u> |

Our product revenues during the three month period in 2019 increased over the corresponding period in 2018 due primarily to approximately 47 percent higher crude oil volumes partially offset by nine percent lower crude oil prices. Higher NGL revenues were primarily attributable to 92 percent higher production volumes partially offset by two percent lower pricing. Higher natural gas revenues were primarily attributable to 58 percent higher production volumes which were partially offset by the effect of three percent lower natural gas pricing during the three month period in 2019. Total crude oil revenues were approximately 91 percent of our total revenues during the three month period in 2019 as compared to 93 percent during the three month period in 2018.

*Effects of Derivatives*

The following table reconciles crude oil revenues to realized prices, as adjusted for derivative activities, for the periods presented:

|                                 | Three Months Ended |                  | 2019 vs. 2018    |
|---------------------------------|--------------------|------------------|------------------|
|                                 | March 31,          | March 31,        | Favorable        |
|                                 | 2019               | 2018             | (Unfavorable)    |
| Crude oil revenues, as reported | \$ 94,812          | \$ 71,258        | \$ 23,554        |
| Derivative settlements, net     | 4,394              | (7,576)          | 11,970           |
|                                 | <u>\$ 99,206</u>   | <u>\$ 63,682</u> | <u>\$ 35,524</u> |
| Crude oil prices per Bbl        | \$ 57.39           | \$ 63.23         | \$ (5.84)        |
| Derivative settlements per Bbl  | 2.66               | (6.72)           | 9.38             |
|                                 | <u>\$ 60.05</u>    | <u>\$ 56.51</u>  | <u>\$ 3.54</u>   |

*Gain on Sales of Assets*

We recognize gains and losses on the sale or disposition of assets other than our oil and gas properties upon the completion of the underlying transactions. The following table sets forth the total gains recognized for the periods presented:

|                                     | Three Months Ended |           | 2019 vs. 2018 |
|-------------------------------------|--------------------|-----------|---------------|
|                                     | March 31,          | March 31, | Favorable     |
|                                     | 2019               | 2018      | (Unfavorable) |
| <b>Gain on sales of assets, net</b> | \$ 25              | \$ 75     | \$ (50)       |

There were insignificant net gains and losses recognized during the three month periods in 2019 and 2018 primarily attributable to the disposition of certain support equipment, tubular inventory and well materials.

*Other Revenues, net*

Other revenues, net, includes fees for marketing and water disposal that we charge to third parties, net of related expenses, as well as other miscellaneous revenues and credits attributable to our operations.

The following table sets forth the total other revenues, net recognized for the periods presented:

|                            | Three Months Ended |           | 2019 vs. 2018 |
|----------------------------|--------------------|-----------|---------------|
|                            | March 31,          | March 31, | Favorable     |
|                            | 2019               | 2018      | (Unfavorable) |
| <b>Other revenues, net</b> | \$ 566             | \$ 142    | \$ 424        |

Other revenues, net increased during the three month period in 2019 from the corresponding period in 2018 due primarily to higher fees as described above charged to third parties due to substantially higher production upon which such fees are based.

### Lease Operating Expenses

LOE includes costs that we incur to operate our producing wells and field operations. The most significant costs include compression and gas-lift, chemicals, water disposal, repairs and maintenance, including down-hole repairs, field labor, pumping and well-tending, equipment rentals, utilities and supplies, among others.

The following table sets forth our LOE for the periods presented:

|                                     | Three Months Ended |           | 2019 vs. 2018 |
|-------------------------------------|--------------------|-----------|---------------|
|                                     | March 31,          | March 31, | Favorable     |
|                                     | 2019               | 2018      | (Unfavorable) |
| <b>Lease operating</b>              | \$ 11,004          | \$ 7,296  | \$ (3,708)    |
| Per unit of production (\$ per BOE) | \$ 4.95            | \$ 5.02   | \$ 0.07       |
| % change per unit of production     |                    |           | 1.4%          |

LOE increased on an absolute basis, but declined on a per unit basis during the three month period in 2019 when compared to the corresponding period in 2018. The absolute increases were due primarily to higher production volume as discussed above, as well as the effects of two additional months of production in the 2019 period attributable to the Hunt Acquisition. The higher production volume also had the effect of decreasing the overall per unit cost, particularly those costs that have a higher fixed cost component.

### Gathering, Processing and Transportation

GPT expense includes costs that we incur to gather and aggregate our crude oil, NGL and natural gas production from our wells and deliver them via pipeline or truck to a central delivery point, downstream pipelines or processing plants, and blend or process, as necessary, depending upon the type of production and the specific contractual arrangements that we have with the applicable midstream operators.

The following table sets forth our GPT expense for the periods presented:

|   | Three Months Ended |           | 2019 vs. 2018 |
|---|--------------------|-----------|---------------|
|   | March 31,          | March 31, | Favorable     |
|   | 2019               | 2018      | (Unfavorable) |
| <b>Gathering, processing and transportation</b> | \$ 3,929           | \$ 3,359  | \$ (570)      |
| Per unit of production (\$ per BOE)             | \$ 1.77            | \$ 2.31   | \$ 0.54       |
| % change per unit of production                 |                    |           | 23.4%         |

GPT expense increased on an absolute basis during the three month period in 2019 when compared to the corresponding period in 2018 due primarily to substantially higher production volumes as discussed above. Per unit costs declined in the 2019 period due primarily to the increase in production volume as well as the effect of additional production sold at the wellhead with no corresponding GPT expense subsequent to the achievement of required minimum crude oil volumes transported by pipeline.

### Production and Ad Valorem Taxes

Production or severance taxes represent taxes imposed by the states in which we operate for the removal of resources including crude oil, NGLs and natural gas. Ad valorem taxes represent taxes imposed by certain jurisdictions, primarily counties, in which we operate, based on the value of our operating properties. The assessments for ad valorem taxes are generally based on contemporary commodity prices.

The following table sets forth our production and ad valorem taxes for the periods presented:

|   | Three Months Ended |           | 2019 vs. 2018 |
|---|--------------------|-----------|---------------|
|   | March 31,          | March 31, | Favorable     |
|   | 2019               | 2018      | (Unfavorable) |
| <b>Production and ad valorem taxes</b>                        |                    |           |               |
| Production/severance taxes                                    | \$ 4,930           | \$ 3,609  | \$ (1,321)    |
| Ad valorem taxes  | 762                | 483       | (279)         |
|   | \$ 5,692           | \$ 4,092  | \$ (1,600)    |
| Per unit production (\$ per BOE)                              | \$ 2.56            | \$ 2.82   | \$ 0.26       |
| Production/severance tax rate as a percent of product revenue | 4.7%               | 4.7%      |               |

Production taxes increased on an absolute basis, but declined on a per unit basis during the three month period in 2019 when compared to the corresponding period in 2018 due primarily to increased production volume despite lower overall commodity sales prices. Accruals for ad valorem taxes also increased moderately for the 2019 period as we have grown our assessable property base and increased working interests.

*General and Administrative*

Our G&A expenses include employee compensation, benefits and other related costs for our corporate management and governance functions, rent and occupancy costs for our corporate facilities, insurance, and professional fees and consulting costs supporting various corporate-level functions, among others. In order to facilitate a meaningful discussion and analysis of our results of operations with respect to G&A expenses, we have disaggregated certain costs into three components as presented in the table below. Primary G&A encompasses all G&A costs except share-based compensation and certain significant special charges that are generally attributable to material stand-alone transactions or corporate actions that are not otherwise in the normal course.

The following table sets forth the components of our G&A for the periods presented:

|   | Three Months Ended |           | 2019 vs. 2018 |
|---|--------------------|-----------|---------------|
|   | March 31,          | March 31, | Favorable     |
|   | 2019               | 2018      | (Unfavorable) |
| Primary G&A   | \$ 5,303           | \$ 4,214  | \$ (1,089)    |
| Share-based compensation (equity-classified)  | 1,038              | 1,576     | 538           |
| Significant special charges:  |                    |           |               |
| Acquisition, divestiture and strategic transaction costs  | 724                | 431       | (293)         |
| Executive retirement costs  | —                  | 250       | 250           |
| Total G&A   | \$ 7,065           | \$ 6,471  | \$ (594)      |
| Per unit of production (\$ per BOE)   | \$ 3.18            | \$ 4.45   | \$ 1.27       |
| Per unit of production excluding share-based compensation and other significant special charges identified above (\$ per BOE) | \$ 2.39            | \$ 2.90   | \$ 0.51       |

Our primary G&A expenses increased on an absolute and decreased on a per unit basis during the three month period in 2019 compared to the corresponding period in 2018. The absolute increase is due primarily to the effects of higher payroll, benefits and support costs attributable to a higher overall employee headcount. Higher production volume had the effect of reducing G&A per unit of production during the 2019 three month period.

Equity-classified share-based compensation charges during the periods presented are attributable to the amortization of compensation cost associated with the grants of time-vested restricted stock units, or RSUs, and performance restricted stock units, or PRSUs. The grants of RSUs and PRSUs are described in greater detail in Note 14 to the Condensed Consolidated Financial Statements. A substantial portion of the share-based compensation expense is attributable to the RSU and PRSU grants made in the normal course in January 2017 and RSU grants in September 2016 in connection with our reorganization. The remainder is attributable to grants of RSUs and PRSUs to certain employees upon their hiring or as a result of promotion subsequent to the first quarter of 2017. The three month period in 2018 includes a charge of \$0.6 million attributable to the accelerated vesting of certain RSUs and PRSUs in connection with the retirement of our former Executive Chairman in February 2018.

During the first quarter of 2019, we incurred consulting and other costs, including legal and other professional fees primarily associated with the previously announced merger transaction with Denbury which was mutually terminated in March 2019. The 2018 period includes similar transaction costs associated with the Hunt Acquisition as well as certain costs attributable to the aforementioned retirement of our former Executive Chairman.

*Depreciation, Depletion and Amortization*

The following table sets forth total and per unit costs for DD&A for the periods presented:

|                        | Three Months Ended |           | 2019 vs. 2018 |
|------------------------|--------------------|-----------|---------------|
|                        | March 31,          | March 31, | Favorable     |
|                        | 2019               | 2018      | (Unfavorable) |
| DD&A expense           | \$ 38,870          | \$ 22,081 | \$ (16,789)   |
| DD&A Rate (\$ per BOE) | \$ 17.49           | \$ 15.20  | \$ (2.29)     |

DD&A increased on an absolute and per unit basis during the three month period ended in 2019 when compared to the corresponding period in 2018. Higher production volume provided for an increase of approximately \$11.7 million while \$5.1 million was attributable to the higher DD&A rates in the 2019 period. The higher DD&A rate in the 2019 period is attributable to higher costs added to the full cost pool in the 2019 period.



### Interest Expense

The following table summarizes the components of our interest expense for the periods presented:

|   | Three Months Ended |                 | 2019 vs. 2018     |
|---|--------------------|-----------------|-------------------|
|   | March 31,          | March 31,       | Favorable         |
|   | 2019               | 2018            | (Unfavorable)     |
| Interest on borrowings and related fees | \$ 9,711           | \$ 6,048        | \$ (3,663)        |
| Accretion of original issue discount    | 180                | 165             | (15)              |
| Amortization of debt issuance costs     | 741                | 631             | (110)             |
| Capitalized interest                    | (1,154)            | (2,243)         | (1,089)           |
|   | <u>\$ 9,478</u>    | <u>\$ 4,601</u> | <u>\$ (4,877)</u> |

Interest expense increased during the three month period in 2019 as compared to the corresponding period in 2018 due primarily to higher outstanding balances under the Credit Facility, including amounts borrowed to fund our larger capital expenditure program and the Hunt Acquisition. Furthermore, the Credit Facility and the Second Lien Facility are variable-rate instruments and both have been subject to periodic increases in LIBOR rates on a consistent basis since the comparable period in 2018. The accretion of original issue discount is entirely attributable to the Second Lien Facility and the amortization of debt issuance costs includes amounts attributable to both the Credit Facility and Second Lien Facility. We capitalized a larger portion of interest during the 2018 period as we maintained a substantially larger portion of unproved property as compared to the corresponding period in 2019.

### Derivatives

The gains and losses for our derivatives portfolio reflect changes in the fair value attributable to changes in market values relative to our hedged commodity prices.

The following table summarizes the gains and (losses) attributable to our commodity derivatives portfolio for the periods presented:

|                             | Three Months Ended |             | 2019 vs. 2018 |
|-----------------------------|--------------------|-------------|---------------|
|                             | March 31,          | March 31,   | Favorable     |
|                             | 2019               | 2018        | (Unfavorable) |
| Crude oil derivative losses | \$ (68,017)        | \$ (18,795) | \$ (49,222)   |

In the three months period in both 2019 and 2018, the forward curve for commodity prices was increasing relative to our weighted-average hedged prices. We received cash settlements of \$4.4 million in the 2019 period and paid cash settlements of \$7.6 million in the 2018 period.

### Other, net

Other, net includes interest income, non-service costs associated with our retiree benefit plans and miscellaneous items of income and expense that are not directly associated with our current operations, including certain recoveries and write-offs attributable to prior years and properties that have been divested.

The following table sets forth the other income (expense), net recognized for the periods presented:

|            | Three Months Ended |           | 2019 vs. 2018 |
|------------|--------------------|-----------|---------------|
|            | March 31,          | March 31, | Favorable     |
|            | 2019               | 2018      | (Unfavorable) |
| Other, net | \$ 106             | \$ (58)   | \$ 164        |

Other, net income (expense) increased during the three month period in 2019 as compared to the corresponding period in 2018 due primarily to recoveries of sales and use taxes attributable to previously divested properties in the 2019 period. The 2018 period includes interest charges applicable to a settlement with a royalty owner. Each of the three month periods includes comparable charges associated with our retiree benefit plans.

## Income Taxes

The following table summarizes our income tax expense for the periods presented:

|                              | Three Months Ended |           | 2019 vs. 2018 |
|------------------------------|--------------------|-----------|---------------|
|                              | March 31,          | March 31, | Favorable     |
|                              | 2019               | 2018      | (Unfavorable) |
| Income tax benefit (expense) | \$ 24              | \$ (163)  | \$ 187        |
| Effective tax rate           | 0.1%               | 1.6%      |               |

We recognized a federal and state income tax benefit for the three months ended March 31, 2019 at the blended rate of 21.5%; however, the federal and state tax expense was offset by an adjustment to the valuation allowance against our net deferred tax assets resulting in an effective tax rate of less than 0.1%. The effect of this adjustment, as well as a reclassification of \$1.2 million from deferred tax assets to the current income tax receivable for refundable alternative minimum tax ("AMT") credit carryforwards, was to reduce our deferred tax asset to \$0.7 million as of March 31, 2019. We recognized a federal income tax expense for the three months ended March 31, 2018 at the blended rate of 21.6% which was similarly offset by a valuation allowance against our net deferred tax assets, along with an adjustment of \$0.2 million to the deferred tax asset related to sequestration of a portion of the aforementioned AMT credit carryforward resulting in an effective tax rate of 1.6%. We considered both the positive and negative evidence in determining that it was more likely than not that some portion or all of our deferred tax assets will not be realized, primarily as a result of cumulative losses.

### Off Balance Sheet Arrangements

As of March 31, 2019, we had no off-balance sheet arrangements other than information technology licensing, service agreements, in-kind commodity recovery arrangements for imbalances and letters of credit, all of which are customary in our business.

### Critical Accounting Estimates

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, requires our management to make estimates and judgments regarding certain items and transactions. It is possible that materially different amounts could be recorded if these estimates and judgments change or if the actual results differ from these estimates and judgments. Disclosure of our most critical accounting estimates that involve the judgment of our management can be found in our Annual Report on Form 10-K for the year ended December 31, 2018.

### Disclosure of the Impact of Recently Issued Accounting Pronouncements Pending Adoption

In June 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, or ASU 2016-13, which changes the recognition model for the impairment of financial instruments, including accounts receivable, loans and held-to-maturity debt securities, among others. ASU 2016-13 is required to be adopted using the modified retrospective method by January 1, 2020, with early adoption permitted for fiscal periods beginning after December 15, 2018. In contrast to current guidance, which considers current information and events and utilizes a probable threshold (an "incurred loss" model), ASU 2016-13 mandates an "expected loss" model. The expected loss model: (i) estimates the risk of loss even when risk is remote, (ii) estimates losses over the contractual life, (iii) considers past events, current conditions and reasonable supported forecasts and (iv) has no recognition threshold. ASU 2016-13 will have applicability to our accounts receivable portfolio, particularly those receivables attributable to our joint interest partners which have a higher credit risk than those associated with our traditional customer receivables. At this time, we do not anticipate that the adoption of ASU 2016-13 will have a significant impact on our Consolidated Financial Statements and related disclosures; however, we are continuing to evaluate the requirements as well as monitoring developments regarding ASU 2016-13 that are unique to our industry. We plan to adopt ASU 2016-13 effective January 1, 2020.

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

Market risk is the risk of loss arising from adverse changes in market rates and prices. The principal market risks to which we are exposed are interest rate risk and commodity price risk.

**Interest Rate Risk**

All of our long-term debt instruments are subject to variable interest rates. As of March 31, 2019, we had borrowings of \$325.0 million under the Credit Facility and \$200 million under the Second Lien Facility at interest rates of 6.00% and 9.50%, respectively. Assuming a constant borrowing level under the Credit Facility and Second Lien Facility, an increase (decrease) in the interest rate of one percent would result in an increase (decrease) in interest payments of approximately \$5.3 million on an annual basis.

**Commodity Price Risk**

We produce and sell crude oil, NGLs and natural gas. As a result, our financial results are affected when prices for these commodities fluctuate. Our price risk management programs permit the utilization of derivative financial instruments (such as swaps) to seek to mitigate the price risks associated with fluctuations in commodity prices as they relate to a portion of our anticipated production. The derivative instruments are placed with major financial institutions that we believe to be of acceptable credit risk. The fair values of our derivative instruments are significantly affected by fluctuations in the prices of crude oil. We have not typically entered into derivative instruments with respect to NGLs, although we may do so in the future.

As of March 31, 2019, our commodity derivative portfolio was in a net liabilities position. The contracts associated with this position are with seven counterparties, all of which are investment grade financial institutions. This concentration may impact our overall credit risk, either positively or negatively, in that these counterparties may be similarly affected by changes in economic or other conditions. We neither paid nor received collateral with respect to our derivative positions.

During the three months ended March 31, 2019, we reported net commodity derivative loss of \$68.0 million. We have experienced and could continue to experience significant changes in the estimate of derivative gains or losses recognized due to fluctuations in the value of our derivative instruments. Our results of operations are affected by the volatility of unrealized gains and losses and changes in fair value, which fluctuate with changes in crude oil, NGL and natural gas prices. These fluctuations could be significant in a volatile pricing environment. See Note 5 to the Condensed Consolidated Financial Statements for a further description of our price risk management activities.

The following table sets forth our commodity derivative positions as of March 31, 2019:

|   | Instrument | Average        | Weighted      | Fair Value |           |
|---|------------|----------------|---------------|------------|-----------|
|   |            | Volume Per Day | Average Price | Asset      | Liability |
| Crude Oil:                                  |            | (barrels)      | (\$/barrel)   |            |           |
| Second quarter 2019                         | Swaps-WTI  | 6,421          | \$ 54.48      | \$ —       | \$ 3,361  |
| Second quarter 2019                         | Swaps-LLS  | 5,000          | \$ 59.17      | —          | 3,109     |
| Second quarter 2019                         | Swaps-MEH  | 1,000          | \$ 64.00      | —          | 183       |
| Third quarter 2019                          | Swaps-WTI  | 6,397          | \$ 54.50      | —          | 3,430     |
| Third quarter 2019                          | Swaps-LLS  | 5,000          | \$ 59.17      | —          | 2,592     |
| Third quarter 2019                          | Swaps-MEH  | 1,000          | \$ 64.00      | —          | 34        |
| Fourth quarter 2019                         | Swaps-WTI  | 6,398          | \$ 54.50      | —          | 3,130     |
| Fourth quarter 2019                         | Swaps-LLS  | 5,000          | \$ 59.17      | —          | 1,995     |
| Fourth quarter 2019                         | Swaps-MEH  | 1,000          | \$ 64.00      | 68         | —         |
| First quarter 2020                          | Swaps-WTI  | 6,000          | \$ 54.09      | —          | 2,904     |
| First quarter 2020                          | Swaps-MEH  | 2,000          | \$ 61.03      | —          | 58        |
| Second quarter 2020                         | Swaps-WTI  | 6,000          | \$ 54.09      | —          | 2,369     |
| Second quarter 2020                         | Swaps-MEH  | 2,000          | \$ 61.03      | —          | 57        |
| Third quarter 2020                          | Swaps-WTI  | 6,000          | \$ 54.09      | —          | 1,898     |
| Third quarter 2020                          | Swaps-MEH  | 2,000          | \$ 61.03      | —          | 40        |
| Fourth quarter 2020                         | Swaps-WTI  | 6,000          | \$ 54.09      | —          | 1,518     |
| Fourth quarter 2020                         | Swaps-MEH  | 2,000          | \$ 61.03      | —          | 39        |
| Settlements to be paid in subsequent period |            |                |               |            | 1,721     |

The following table illustrates the estimated impact on the fair values of our derivative financial instruments and operating income attributable to hypothetical changes in the underlying commodity prices. This illustration assumes that crude oil prices and production volumes remain constant at anticipated levels. The estimated changes in operating income exclude potential cash receipts or payments in settling these derivative positions.

|   | Change of \$10.00 per Bbl of Crude Oil<br>(\$ in millions) |          |
|---|--|----------|
|   | Increase   | Decrease |
| Effect on the fair value of crude oil derivatives <sup>1</sup>  | \$ (63.5)  | \$ 60.8  |
| Effect of crude oil price changes for the remainder of 2019 on operating income, excluding derivatives <sup>2</sup> | \$ 53.0  | \$ 53.0  |

<sup>1</sup> Based on derivatives outstanding as of March 31, 2019.

<sup>2</sup> These sensitivities are subject to significant change.

**Item 4. Controls and Procedures.**

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, performed an evaluation of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of March 31, 2019. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of March 31, 2019, such disclosure controls and procedures were effective.

(b) Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2019, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### Item 1. *Legal Proceedings.*

We are not aware of any material pending legal or governmental proceedings against us, any material proceedings by governmental officials against us that are pending or contemplated to be brought against us and no such proceedings have been terminated during the period covered by this quarterly report on Form 10-Q. See Note 12 to our Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements" for additional information regarding our legal and regulatory matters.

### Item 1A. *Risk Factors.*

There have been no material changes to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

### Item 5. *Other Information.*

As previously announced, it is currently anticipated that the Company's 2019 Annual Meeting of Shareholders, or the 2019 Annual Meeting, will be held 11:00 a.m. on July 31, 2019. The location of the 2019 Annual Meeting will be specified in the Company's proxy statement for the 2019 Annual Meeting.

Because the 2019 Annual Meeting will be held more than 30 days after the anniversary of the Company's 2018 Annual Meeting of Shareholders, the Company is disclosing a new deadline for submission of shareholder proposals for inclusion into the Company's proxy materials for the 2019 Annual Meeting under Rule 14a-8 under the Exchange Act, or Rule 14a-8. Specifically, to be considered for inclusion in the Company's proxy statement for the 2019 Annual Meeting, shareholder proposals submitted under Rule 14a-8 must be in writing and received by the Company's Corporate Secretary at the Company's principal executive offices at 16285 Park Ten Place, Suite 500, Houston, Texas 77084, no later than June 1, 2019. Such proposals must also comply with the remaining requirements of Rule 14a-8.

### Item 6. *Exhibits.*

- (2.1) Termination Agreement, dated as of March 21, 2019, among Denbury Resources Inc, Dragon Merger Sub Inc, DR Sub LLC and Penn Virginia Corporation (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on March 22, 2019).
- (31.1) \* Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) \* Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) † Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) † Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (101.INS) \* XBRL Instance Document
- (101.SCH) \* XBRL Taxonomy Extension Schema Document
- (101.CAL) \* XBRL Taxonomy Extension Calculation Linkbase Document
- (101.DEF) \* XBRL Taxonomy Extension Definition Linkbase Document
- (101.LAB) \* XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) \* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed  
herewith.

† Furnished  
herewith.

**SIGNATURES**

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

**PENN VIRGINIA CORPORATION**

May 10, 2019

By: \_\_\_\_\_  
*/s/ STEVEN A. HARTMAN*  
**Steven A. Hartman**  
**Senior Vice President, Chief Financial Officer and Treasurer**  
**(Principal Financial Officer)**

May 10, 2019

By: \_\_\_\_\_  
*/s/ TAMMY L. HINKLE*  
**Tammy L. Hinkle**  
**Vice President and Controller**  
**(Principal Accounting Officer)**

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

I, John A. Brooks, President and Chief Executive Officer of Penn Virginia Corporation (the "Registrant"), certify that:

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

Date: May 10, 2019

/s/ JOHN A. BROOKS

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**John A. Brooks**  
**President and Chief Executive Officer**

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

I, Steven A. Hartman, Senior Vice President, Chief Financial Officer and Treasurer of Penn Virginia Corporation (the "Registrant"), certify that:

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

Date: May 10, 2019

/s/ STEVEN A. HARTMAN

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**Steven A. Hartman**  
**Senior Vice President, Chief Financial Officer and Treasurer**



**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 of Penn Virginia Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Brooks, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of 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.

Date: May 10, 2019

/s/ JOHN A. BROOKS

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**John A. Brooks**  
**President and Chief Executive Officer**

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of Penn Virginia Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. Hartman, Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of 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.

Date: May 10, 2019

/s/ STEVEN A. HARTMAN

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**Steven A. Hartman**  
**Senior Vice President, Chief Financial Officer and Treasurer**

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.