W&T OFFSHORE INC
Form SC 13G
May 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

(Rule 13d-102)

Information Statement Pursuant to Rules 13d-1 and 13d-2

Under the Securities Exchange Act of 1934

(Amendment No. __)*

W&T Offshore, Inc.
(Name of Issuer)

Common stock, par value $0.00001 per share
(Title of Class of Securities)

92922P106
(CUSIP Number)

April 28, 2015
Date of Event Which Requires Filing of the Statement

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

¨Rule 13d-1(b)
xRule 13d-1(c)
¨Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person’s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Citadel Advisors LLC

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ¨

(b) ¨

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	5.	SOLE VOTING POWER **0**
	6.	SHARED VOTING POWER **3,562,098 shares**
	7.	SOLE DISPOSITIVE POWER

WITH **0**

8. SHARED DISPOSITIVE POWER

See Row 6 above

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

See Row 6 above

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

4.7%[1]

12. TYPE OF REPORTING PERSON

IA; OO; HC

[1] The percentages reported in this Schedule 13G are based upon 75,899,415 shares of common stock outstanding as of March 12, 2015 (according to the definitive proxy filed by the issuer with the Securities and Exchange Commission on March 24, 2015).

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1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Citadel Advisors Holdings III LP

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ¨

(b) ¨

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	5.	SOLE VOTING POWER **0**
	6.	SHARED VOTING POWER **3,906,357 shares**
	7.	SOLE DISPOSITIVE POWER

WITH **0**

8. SHARED DISPOSITIVE POWER

See Row 6 above

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

See Row 6 above

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.1%

12. TYPE OF REPORTING PERSON

PN; HC

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1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Citadel GP LLC

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ¨

(b) ¨

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	5.	SOLE VOTING POWER **0**
	6.	SHARED VOTING POWER **3,925,357 shares**
	7.	SOLE DISPOSITIVE POWER

WITH **0**

8. SHARED DISPOSITIVE POWER

See Row 6 above.

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

See Row 6 above.

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.2%

12. TYPE OF REPORTING PERSON

OO; HC

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1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Kenneth Griffin

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ¨

(b) ¨

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

U.S. Citizen

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

3,925,357 shares

7. SOLE DISPOSITIVE POWER

WITH **0**

8. SHARED DISPOSITIVE POWER

See Row 6 above

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

See Row 6 above

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.2%

12. TYPE OF REPORTING PERSON

IN; HC

Item 1(a) Name of Issuer
W&T Offshore, Inc.

Item 1(b) Address of Issuer's Principal Executive Offices
Nine Greenway Plaza, Suite 300, Houston, Texas 77046-0908

Item 2(a) Name of Person Filing
This Schedule 13G is being jointly filed by Citadel Advisors LLC ("Citadel Advisors"), Citadel Advisors Holdings III LP ("CAH3"), Citadel GP LLC ("CGP") and Mr. Kenneth Griffin (collectively with Citadel Advisors, CAH3 and CGP, the "Reporting Persons") with respect to shares of common stock (and options to purchase common stock) of the above-named issuer owned by Citadel Global Equities Master Fund Ltd., a Cayman Islands limited company ("CG"), Surveyor Capital Ltd., a Cayman Islands limited company ("SC"), Citadel Quantitative Strategies Master Fund Ltd., a Cayman Islands limited company ("CQ"), and Citadel Securities LLC, a Delaware limited liability company ("Citadel Securities").

Citadel Advisors is the portfolio manager for CG and SC. Citadel Advisors II LLC, a Delaware limited liability company ("CA2"), is the portfolio manager of CQ. CAH3 is the managing member of Citadel Advisors and CA2. CALC III LP, a Delaware limited partnership ("CALC3"), is the non-member manager of Citadel Securities. CGP is the general partner of CALC3 and CAH3. Mr. Griffin is the President and Chief Executive Officer of, and owns a controlling interest in, CGP.

The filing of this statement shall not be construed as an admission that any of the Reporting Persons is the beneficial owner of any securities covered by the statement other than the securities actually owned by such person (if any).

Item 2(b) Address of Principal Business Office
The address of the principal business office of each of the Reporting Persons is c/o Citadel LLC, 131 S. Dearborn Street, 32nd Floor, Chicago, Illinois 60603.

Item 2(c) Citizenship
Each of Citadel Advisors and CGP is organized as a limited liability company under the laws of the State of Delaware. CAH3 is organized as a limited partnership under the laws of the State of Delaware. Mr. Griffin is a U.S. citizen.

Item 2(d) Title of Class of Securities
Common stock, $0.00001 par value

Item 2(e) **CUSIP Number**
92922P106

Item 3 If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

(a) [__] Broker or dealer registered under Section 15 of the Exchange Act;

(b) [__] Bank as defined in Section 3(a)(6) of the Exchange Act;

(c) [__] Insurance company as defined in Section 3(a)(19) of the Exchange Act;

(d) [__] Investment company registered under Section 8 of the Investment Company Act;

(e) [__] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);

(f) [__] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);

(g) [__] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);

(h) [__] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;

(i) [__] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;

(j) [__] Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

If filing as a non-U.S. institution in accordance with Rule 13d-1(b)(1)(ii)(J), please specify the type of institution: ____________.

Item 4 Ownership

A. Citadel Advisors LLC

(a) Citadel Advisors may be deemed to beneficially own 3,562,098 shares of common stock.

(b) The number of shares Citadel Advisors may be deemed to beneficially own constitutes approximately 4.7% of the common stock outstanding.

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 0

(ii) shared power to vote or to direct the vote: 3,562,098

(iii) sole power to dispose or to direct the disposition of: 0

(iv) shared power to dispose or to direct the disposition of: 3,562,098

B. Citadel Advisors Holdings III LP

(a) CAH3 may be deemed to beneficially own 3,906,357 shares of common stock.

(b) The number of shares CAH3 may be deemed to beneficially own constitutes approximately 5.1% of the common stock outstanding.

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 0

(ii) shared power to vote or to direct the vote: 3,906,357

(iii) sole power to dispose or to direct the disposition of: 0

(iv) shared power to dispose or to direct the disposition of: 3,906,357

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C. Citadel GP LLC and Kenneth Griffin

(a) CGP and Griffin may be deemed to beneficially own 3,925,357 shares of common stock.

(b) The number of shares CGP and Griffin may be deemed to beneficially own constitutes approximately 5.2% of the common stock outstanding.

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 0

(ii) shared power to vote or to direct the vote: 3,925,357

(iii) sole power to dispose or to direct the disposition of: 0

(iv) shared power to dispose or to direct the disposition of: 3,925,357

Item 5 **Ownership of Five Percent or Less of a Class**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following ¨.

Item 6 **Ownership of More than Five Percent on Behalf of Another Person**

Not Applicable

Item 7 **Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company**

See Item 2 above

Item 8 **Identification and Classification of Members of the Group**

Not Applicable

Item 9 **Notice of Dissolution of Group**

Not Applicable

Item 10 **Certification**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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After reasonable inquiry and to the best of its knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated this 4th day of May, 2015.

CITADEL ADVISORS LLC	**CITADEL ADVISORS HOLDINGS III LP**
By: /s/ Mark Polemeni Mark Polemeni, Authorized Signatory	By: /s/ Mark Polemeni Mark Polemeni, Authorized Signatory
CITADEL GP LLC	**KENNETH GRIFFIN**
By: /s/ Mark Polemeni Mark Polemeni, Authorized Signatory	By: /s/ Mark Polemeni Mark Polemeni, attorney-in-fact*

* Mark Polemeni is signing on behalf of Kenneth Griffin as attorney-in-fact pursuant to a power of attorney previously filed with the Securities and Exchange Commission on January 18, 2013, and hereby incorporated by reference herein. The power of attorney was filed as an attachment to a filing by Citadel Advisors LLC on Schedule 13G for TiVo Inc.

-family:times;margin-left:9pt;text-indent:-9pt;"> Preferred dividends on redeemable noncontrolling interest (896) (896)

Net income (loss) available to common stockholders

$(73,333) $36,372 $(151,256) $41,837

Net income (loss) per share of common stock:

Basic

$(0.18) $0.10 $(0.37) $0.12

Diluted

$(0.18) $0.08 $(0.37) $0.11

Weighted average common shares outstanding:

Basic

414,722 366,712 414,125 356,482

Diluted

414,722 441,145 414,125 412,412

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share and per share amounts)

	June 30, 2014	December 31, 2013
Current assets:		
Cash	$ 161,272	$ 2,834
Accounts receivable	308,879	312,518
Receivables from derivative contracts	343	2,028
Current portion of deferred income taxes	7,789	
Restricted cash	16,000	
Inventory	6,091	5,148
Prepaids and other	14,179	16,098
Total current assets	514,553	338,626
Oil and natural gas properties (full cost method):		
Evaluated	5,267,835	4,960,467
Unevaluated	2,245,173	2,028,044
Gross oil and natural gas properties	7,513,008	6,988,511
Less accumulated depletion	(2,498,864)	(2,189,515)
Net oil and natural gas properties	5,014,144	4,798,996
Other operating property and equipment:		
Gas gathering and other operating assets	144,795	125,837
Less accumulated depreciation	(11,736)	(8,461)
Net other operating property and equipment	133,059	117,376
Other noncurrent assets:		
Receivables from derivative contracts	351	22,734
Debt issuance costs, net	59,476	64,308
Deferred income taxes		8,474
Equity in oil and natural gas partnership	4,706	4,463
Funds in escrow and other	2,350	1,514
Total assets	$ 5,728,639	$ 5,356,491
Current liabilities:		

Accounts payable and accrued liabilities	$ 658,634	$ 636,589
Liabilities from derivative contracts	79,844	17,859
Asset retirement obligations	54	71
Current portion of deferred income taxes		8,474
Current portion of long-term debt	1,389	1,389
Total current liabilities	739,921	664,382
Long-term debt	3,445,638	3,183,823
Other noncurrent liabilities:		
Liabilities from derivative contracts	65,359	19,333
Asset retirement obligations	34,360	39,186
Deferred income taxes	7,789	
Other	8,059	2,157
Commitments and contingencies (Note 8)		
Mezzanine equity:		
Redeemable noncontrolling interest	108,038	
Stockholders' equity:		
Preferred stock: 1,000,000 shares of $0.0001 par value authorized; 345,000 shares of 5.75% Cumulative Perpetual Convertible Series A, issued and outstanding as of June 30, 2014 and December 31, 2013, respectively		
Common stock: 1,340,000,000 and 670,000,000 shares of $0.0001 par value authorized; 421,652,565 and 415,729,962 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	41	41
Additional paid-in capital	2,976,907	2,953,786
Accumulated deficit	(1,657,473)	(1,506,217)
Total stockholders' equity	1,319,475	1,447,610
Total liabilities and stockholders' equity	$ 5,728,639	$ 5,356,491

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Treasury Stock		Accumulated	Stockholders'
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Shares**	**Amount**	**Deficit**	**Equity**
Balances at December 31, 2012		$	259,802	$ 26	$ 1,681,717	1,650	$ (9,298)	$ (274,463)	$ 1,397,982
Net income (loss)								(1,222,662)	(1,222,662)
Dividends on Series A preferred stock			2,045		9,092			(9,092)	
Preferred stock conversion			108,801	11	695,227				695,238
Sale of Series A preferred stock	345				345,000				345,000
Common stock issuance			43,700	4	222,866				222,870
Offering costs					(17,346)				(17,346)
Long-term incentive plan grants			3,267						
Long-term incentive plan forfeitures			(205)						
Reduction in shares to cover individuals' tax withholding			(30)		(148)				(148)
Retirement of shares in treasury			(442)		(2,492)	(442)	2,492		
Long-term incentive plan grants issued out of treasury			(1,208)		(6,806)	(1,208)	6,806		
Share-based compensation					26,676				26,676
Balances at December 31, 2013	345	$	415,730	$ 41	$ 2,953,786		$	$ (1,506,217)	$ 1,447,610
Net income (loss)								(140,441)	(140,441)
Dividends on Series A preferred stock			2,300		9,919			(9,919)	
Dividends on redeemable noncontrolling interest								(896)	(896)
Offering costs					39				39
Long-term incentive plan grants			3,896						
Long-term incentive plan forfeitures			(165)						
Reduction in shares to cover individuals' tax withholding			(108)		(421)				(421)
Share-based compensation					13,584				13,584
Balances at June 30, 2014	345	$	421,653	$ 41	$ 2,976,907		$	$ (1,657,473)	$ 1,319,475

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net income (loss)	$ (140,441)	$ 42,553
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and accretion	253,378	177,173
Full cost ceiling impairment	61,165	
Other operating property and equipment impairment	3,789	
Deferred income tax provision (benefit)		21,305
Share-based compensation, net	9,246	6,975
Unrealized loss (gain) on derivative contracts	131,053	(19,139)
Amortization and write-off of deferred loan costs	2,161	508
Non-cash interest and amortization of discount and premium	1,232	1,054
Other income (expense)	1,230	(2,912)
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	71	(52,686)
Inventory	(943)	(768)
Prepaids and other	2,944	(5,438)
Accounts payable and accrued liabilities	86,057	62,741
Net cash provided by (used in) operating activities	410,942	231,366
Cash flows from investing activities:		
Oil and natural gas capital expenditures	(853,738)	(1,036,456)
Acquisition of Williston Basin Assets		(29,739)
Proceeds received from sale of oil and natural gas assets	465,452	10,466
Advance on carried interest	(189,442)	
Other operating property and equipment capital expenditures	(29,525)	(80,692)
Funds held in escrow and other	(307)	(30,805)
Net cash provided by (used in) investing activities	(607,560)	(1,167,226)
Cash flows from financing activities:		
Proceeds from borrowings	1,286,000	1,528,000
Repayments of borrowings	(1,027,000)	(915,400)
Debt issuance costs	(77)	(11,527)
Series A preferred stock issuance		345,000
HK TMS, LLC preferred stock issued	110,051	
HK TMS, LLC tranche rights	4,516	
HK TMS, LLC preferred stock dividends	(493)	
Restricted cash	(16,000)	
Offering costs and other	(1,941)	(9,658)

Net cash provided by (used in) financing activities		355,056		936,415
Net increase (decrease) in cash		158,438		555
Cash at beginning of period		2,834		2,506
Cash at end of period	$	161,272	$	3,061
Disclosure of non-cash investing and financing activities:				
Accrued capitalized interest	$	(1,068)	$	(1,476)
Asset retirement obligations		(4,450)		5,394
Series A preferred dividends paid in common stock		9,919		
HK TMS deemed dividends		403		

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

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL STATEMENT PRESENTATION

Basis of Presentation and Principles of Consolidation

Halcón Resources Corporation (Halcón or the Company) is an independent energy company focused on the acquisition, production, exploration and development of onshore liquids-rich assets in the United States. The unaudited condensed consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries and an equity method investment. The Company operates in one segment which focuses on oil and natural gas acquisition, production, exploration and development. The Company's oil and natural gas properties are managed as a whole rather than through discrete operating areas. Operational information is tracked by operating area; however, financial performance is assessed as a whole. Allocation of capital is made across the Company's entire portfolio without regard to operating area. All intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements reflect, in the opinion of the Company's management, all adjustments, consisting of normal and recurring adjustments, necessary to present fairly the financial position as of, and the results of operations for, the periods presented. During interim periods, Halcón follows the accounting policies disclosed in its 2013 Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (SEC). Please refer to the notes in the 2013 Annual Report on Form 10-K when reviewing interim financial results.

During the year ended 2013, the Company determined that *"Net cash provided by operating activities*" and "*Net cash used in investing activities*" for the six month period ended June 30, 2013 were both understated by $1.5 million as a result of the inclusion of capitalized non-cash interest in the change in "*Accounts payable and accrued liabilities*" line item in operating cash flows and "*Oil and natural gas capital expenditures*" and "*Other operating property and equipment capital expenditures*" in investing cash flows. The Company has corrected the error, which had no impact to the net cash flows for the period, and provided related supplemental non-cash information in the accompanying unaudited condensed consolidated statements of cash flows for the six month period ended June 30, 2013.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Estimates and assumptions that, in the opinion of management of the Company, are significant include oil and natural gas revenue, capital and operating expense accruals, oil and natural gas reserves, depletion relating to oil and natural gas properties, asset retirement obligations, fair value estimates and income taxes. The Company bases its estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of the Company's unaudited condensed consolidated financial statements.

Interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

accordance with accounting principles generally accepted in the United States, has been condensed or omitted. The Company has evaluated events or transactions through the date of issuance of these unaudited condensed consolidated financial statements.

Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable are primarily receivables from joint interest owners and oil and natural gas purchasers. Accounts receivable are recorded at the amount due, less an allowance for doubtful accounts, when applicable. The Company establishes provisions for losses on accounts receivable if it determines that collection of all or part of the outstanding balance is doubtful. The Company regularly reviews collectability and establishes or adjusts the allowance for doubtful accounts as necessary using the specific identification method. There were no allowances for doubtful accounts as of June 30, 2014 or December 31, 2013.

Other Operating Property and Equipment

Gas gathering systems and equipment are recorded at cost. Depreciation is calculated using the straight-line method over a 30-year estimated useful life. Upon disposition, the cost and accumulated depreciation are removed and any gains or losses are reflected in current operations. Maintenance and repair costs are charged to operating expense as incurred. Material expenditures which increase the life or productive capacity of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The Company capitalized $106.5 million and $92.0 million as of June 30, 2014 and December 31, 2013, respectively, related to the construction of its gas gathering systems.

Other operating assets are recorded at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives: automobiles and computers, three years; computer software, fixtures, furniture and equipment, five years; trailers, seven years; heavy equipment, ten years; an airplane and buildings, twenty years and leasehold improvements, lease term. Upon disposition, the cost and accumulated depreciation are removed and any gains or losses are reflected in current operations. Maintenance and repair costs are charged to operating expense as incurred. Material expenditures which increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset.

The Company reviews its gas gathering systems and equipment and other operating assets for impairment in accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360). ASC 360 requires the Company to evaluate gas gathering systems and equipment and other operating assets for impairment as events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. If the carrying amount is not recoverable from its undiscounted cash flows, then the Company would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, the Company evaluates the remaining useful lives of its gas gathering systems and other operating assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

Operating results for the six months ended June 30, 2014 reflect the impact of approximately $3.8 million in charges related to the disposition of midstream infrastructure assets associated with certain non-core property divestitures. These charges are included in *"Other operating property and equipment impairment"* in the Company's unaudited condensed consolidated statements of operations.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements, such as debt arrangements, other contractual obligations and settled litigation and judicial rulings. This pronouncement must be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-04 did not have an impact to the Company's operating results, financial position and disclosures.

In February 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This pronouncement should be applied prospectively to all unrecognized tax benefits that exist at the effective date and retrospective application is permitted. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this pronouncement did not have an impact to the Company's operating results and financial position.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides five steps an entity should apply in determining its revenue recognition. ASU 2014-09 must be applied retrospectively and is effective for annual reporting periods, and interim periods with that reporting period, beginning after December 15, 2016. Early adoption is not permitted. The Company is currently assessing the impact of the adoption of ASU 2014-09 on the Company's operating results, financial position and disclosures.

2. ACQUISITIONS AND DIVESTITURES

Divestitures

East Texas Assets

On May 9, 2014, the Company completed the divestiture of certain non-core assets in East Texas (the East Texas Assets) to a privately-owned company for a total purchase price of $425.3 million after closing adjustments for (i) operating expenses, capital expenditures and revenues between the effective date and the closing date, (ii) title and environmental defects, and (iii) other purchase price adjustments customary in oil and gas purchase and sale agreements. Proceeds from the sale were recorded as a reduction to the carrying value of the Company's full cost pool with no gain or loss recorded. The effective date of the transaction was April 1, 2014. Upon the closing of the sale of the East Texas Assets, the borrowing base on the Company's Senior Credit Agreement was reduced by $100 million, to $700 million.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS AND DIVESTITURES (Continued)

Non-core Properties

During the third quarter of 2013, the Company entered into three separate purchase and sale agreements with unrelated parties to divest parcels of non-core properties located in the United States for total consideration of approximately $277.3 million, all of which closed by December 31, 2013. The consideration is subject to customary post-closing adjustments, with an effective date of July 1, 2013. Proceeds from the sales were recorded as a reduction to the carrying value of the Company's full cost pool with no gain or loss recorded.

Eagle Ford Assets

On July 19, 2013, the Company completed the sale of its interest in Eagle Ford assets located in Fayette and Gonzales Counties, Texas, previously acquired as part of the merger with GeoResources, Inc. (the Merger), to private buyers for proceeds of approximately $148.5 million, after post-closing adjustments. The transaction had an effective date of January 1, 2013. Proceeds from the sale were recorded as a reduction to the carrying value of the Company's full cost pool with no gain or loss recorded.

3. OIL AND NATURAL GAS PROPERTIES

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas reserves (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred. To the extent capitalized costs of evaluated oil and natural gas properties, net of accumulated depletion, exceed the discounted future net revenues of proved oil and natural gas reserves, net of deferred taxes, such excess capitalized costs are charged to expense.

The Company assesses all properties classified as unevaluated property on a quarterly basis for possible impairment or reduction in value. The Company assesses properties on an individual basis or as a group, if properties are individually insignificant. The assessment includes consideration of the following factors, among others: intent to drill; remaining lease term; geological and geophysical evaluations; drilling results and activity; the assignment of proved reserves; and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to depletion and the full cost ceiling test limitation.

Investments in unevaluated oil and natural gas properties and exploration and development projects for which depletion expense is not currently recognized, and for which exploration or development activities are in progress, qualify for interest capitalization. The capitalized interest is determined by multiplying the Company's weighted-average borrowing cost on debt by the average amount of qualifying costs incurred that are excluded from the full cost pool; however, the amount of capitalized interest cannot exceed the amount of gross interest expense incurred in any given period. The capitalized interest amounts are recorded as additions to unevaluated oil and natural gas properties on the unaudited condensed consolidated balance sheets. As the costs excluded are transferred to the full cost pool, the associated capitalized interest is also transferred to the full cost

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. OIL AND NATURAL GAS PROPERTIES (Continued)

pool. For the six months ended June 30, 2014 and 2013, the Company capitalized interest costs of $88.6 million and $106.4 million, respectively.

At June 30, 2014, the ceiling test value of the Company's reserves was calculated based on the first-day-of-the-month average for the 12-months ended June 30, 2014 of the West Texas Intermediate (WTI) spot price of $100.27 per barrel, adjusted by lease or field for quality, transportation fees, and regional price differentials, and the first-day-of-the-month average for the 12-months ended June 30, 2014 of the Henry Hub price of $4.10 per million British thermal units (MMBtu), adjusted by lease or field for energy content, transportation fees, and regional price differentials. The Company's net book value of oil and natural gas properties at June 30, 2014 did not exceed the ceiling amount. At March 31, 2014, the Company recorded a full cost ceiling test impairment before income taxes of $61.2 million ($39.0 million after taxes). The Company recorded the full cost ceiling test impairment in *"Full cost ceiling impairment"* in the Company's unaudited condensed consolidated statements of operations and in *"Accumulated depletion"* in the Company's unaudited condensed consolidated balance sheets. Changes in production rates, levels of reserves, future development costs, transfers of unevaluated properties, and other factors will determine the Company's ceiling test calculations and impairment analyses in future periods.

At June 30, 2013, the ceiling test value of the Company's reserves was calculated based on the first day average of the 12-months ended June 30, 2013 of the WTI spot price of $91.60 per barrel, adjusted by lease or field for quality, transportation fees, and regional price differentials, and the first day average of the 12-months ended June 30, 2013 of the Henry Hub price of $3.45 per MMBtu, adjusted by lease or field for energy content, transportation fees, and regional price differentials. Using these prices, the Company's net book value of oil and natural gas properties at June 30, 2013 did not exceed the ceiling amount.

4. LONG-TERM DEBT

Long-term debt as of June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014[(1)]	December 31, 2013[(1)]
	(In thousands)	
Senior revolving credit facility	$ 259,000	$
9.25% senior notes due 2022	400,000	400,000
8.875% senior notes due 2021[(2)]	1,371,216	1,372,355
9.75% senior notes due 2020[(3)]	1,151,961	1,152,099
8.0% convertible note due 2017[(4)]	263,461	259,369
	$ 3,445,638	$ 3,183,823

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(1) Table excludes $1.4 million of deferred premiums on derivative contracts which were classified as current at June 30, 2014 and December 31, 2013.

(2) Amounts are net of a $4.9 million and a $5.1 million unamortized discount at June 30, 2014 and December 31, 2013, respectively, related to the issuance of the original 2021 Notes. The unamortized premium related to the additional 2021 Notes was approximately

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

$26.1 million and $27.5 million at June 30, 2014 and December 31, 2013, respectively. See "8.875% Senior Notes" below for more details.

(3) Amounts are net of a $8.4 million and a $8.9 million unamortized discount at June 30, 2014 and December 31, 2013, respectively, related to the issuance of the original 2020 Notes. On December 19, 2013, the Company completed the issuance of an additional $400 million principal amount of these notes. The unamortized premium related to these additional 2020 Notes was approximately $10.3 million and $11.0 million at June 30, 2014 and December 31, 2013, respectively. See "9.75% Senior Notes" below for more details.

(4) Amount is net of a $26.2 million and a $30.3 million unamortized discount at June 30, 2014 and December 31, 2013, respectively. See "8.0% Convertible Note" below for more details.

Senior Revolving Credit Facility

On February 8, 2012, the Company entered into a senior secured revolving credit agreement (the Senior Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. The Senior Credit Agreement provides for a $1.5 billion facility with a current borrowing base of $700.0 million. Amounts borrowed under the Senior Credit Agreement will mature on February 8, 2017. The borrowing base will be redetermined semi-annually, with the lenders and the Company each having the right to one interim unscheduled redetermination between any two consecutive semi-annual redeterminations. The borrowing base takes into account the Company's oil and natural gas properties, proved reserves, total indebtedness, and other relevant factors consistent with customary oil and natural gas lending criteria. The borrowing base is subject to a reduction equal to the product of 0.25 multiplied by the stated principal amount (without regard to any initial issue discount) of any future notes or other long-term debt securities that the Company may issue. Funds advanced under the Senior Credit Agreement may be paid down and re-borrowed during the five-year term of the facility. Amounts outstanding under the Senior Credit Agreement bear interest at specified margins over the base rate of 0.50% to 1.50% for ABR-based loans or at specified margins over LIBOR of 1.50% to 2.50% for Eurodollar-based loans. These margins fluctuate based on the Company's utilization of the facility. Advances under the Senior Credit Agreement are secured by liens on substantially all of the Company's and its restricted subsidiaries' properties and assets. The Senior Credit Agreement contains customary representations, warranties and covenants including, among others, restrictions on the payment of dividends on the Company's capital stock and financial covenants, including minimum working capital levels (the ratio of current assets plus the unused commitment under the Senior Credit Agreement to current liabilities) of not less than 1.0 to 1.0 and minimum coverage of interest expenses of i) not less than 2.0 to 1.0 through December 31, 2014 (pursuant to the Seventh Amendment, discussed below) and ii) not less than 2.5 to 1.0 for subsequent periods.

At June 30, 2014, under the borrowing base of $700.0 million, the Company had $259.0 million of indebtedness outstanding, $1.1 million of letters of credit outstanding and approximately $266 million of borrowing capacity under the indebtedness limitations in the Company's indentures.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

On October 31, 2013, the Company entered into the Sixth Amendment to the Senior Credit Agreement, which, among other things, provides for EBITDA (as defined in the Senior Credit Agreement) to be annualized for three fiscal quarters starting with the fiscal quarter ended December 31, 2013 for purposes of measuring compliance with the interest coverage test. Specifically, (i) for the fiscal quarter ended December 31, 2013, the Interest Coverage Ratio shall be calculated by utilizing EBITDA for the three month period then ended multiplied by 4; (ii) for the fiscal quarter ended March 31, 2014, the Interest Coverage Ratio shall be calculated by utilizing EBITDA for the six month period then ended multiplied by 2; and (iii) for the fiscal quarter ended June 30, 2014, the Interest Coverage Ratio shall be calculated by utilizing EBITDA for the nine month period then ended multiplied by 1.333.

On March 21, 2014, the Company entered into the Seventh Amendment to its Senior Credit Agreement (the Seventh Amendment). The Seventh Amendment increased the borrowing base to $800.0 million, which was subsequently reduced to $700 million upon the closing of the East Texas Assets divestiture in May 2014, as discussed in Note 2 *"Acquisitions and Divestitures."* The Seventh Amendment also provided the Company additional flexibility under the interest coverage test by modifying the minimum Interest Coverage Ratio to be 2.0 to 1.0 for any fiscal quarter ending on or before December 31, 2014.

At June 30, 2014, the Company was in compliance with the financial covenants under the Senior Credit Agreement.

9.25% Senior Notes

On August 13, 2013, the Company issued at par $400.0 million aggregate principal amount of 9.25% senior notes due 2022 (the 2022 Notes). The net proceeds from the offering of approximately $392.1 million (after deducting commissions and offering expenses) were used to repay a portion of the then outstanding borrowings under the Company's Senior Credit Agreement.

The 2022 Notes bear interest at a rate of 9.25% per annum, payable semi-annually on February 15 and August 15 of each year, beginning on February 15, 2014. The 2022 Notes will mature on February 15, 2022. The 2022 Notes are senior unsecured obligations of the Company, rank equally with all of its current and future senior indebtedness and are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by the Company's existing 100% owned subsidiaries, except for one subsidiary, HK TMS, LLC. Halcón, the issuer of the 2022 Notes, has no material independent assets or operations apart from the assets and operations of its subsidiaries.

On May 23, 2014, the Company completed a registered exchange offer of the outstanding 2022 Notes for new registered notes having terms substantially identical to the 2022 Notes.

On or before August 15, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 2022 Notes with the net cash proceeds of certain equity offerings at a redemption price of 109.25% of the principal amount plus accrued and unpaid interest to the redemption date provided that: at least 65% in aggregate principal amount of the 2022 Notes originally issued remains outstanding immediately after the redemption and the redemption occurs within 180 days of the related equity offering. In addition, at any time prior to August 15, 2017, the Company may redeem some or all of the 2022 Notes for the principal amount thereof, plus accrued and unpaid interest plus a make whole premium equal to the excess, if any of (a) the present value at such time of (i) the redemption

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

price of such note at August 15, 2017, plus (ii) any required interest payments due on the notes through August 15, 2017 (excluding currently accrued and unpaid interest) computed using a discount rate equal to the Treasury Rate plus 50 basis points, discounted to the redemption date on a semi-annual basis, over (b) the principal amount of such note.

The indenture governing the 2022 Notes contains affirmative and negative covenants that, among other things, limit the ability of the Company and its subsidiaries that guarantee notes to incur indebtedness; purchase or redeem stock or subordinated indebtedness; make investments; create liens; enter into transactions with affiliates; sell assets; refinance certain indebtedness; merge with or into other companies or transfer substantially all of their assets; and, in certain circumstances, to pay dividends or make other distributions on stock. With respect to indebtedness, the indenture limits the Company's ability to incur additional indebtedness, including borrowings under its Senior Credit Agreement, unless the Company meets one of two tests: the fixed charge coverage ratio test, which requires that after giving effect to the incurrence of additional debt the ratio of the Company's adjusted consolidated EBITDA (as defined in the indenture) to its adjusted consolidated interest expense over the trailing four fiscal quarters will be at least 2.0 to 1.0; or, in the alternative, the Company may incur additional debt under Credit Facilities (as defined in the indenture) if the amount of such additional indebtedness is not more than the greater of a fixed sum of $750 million or 30% of the Company's adjusted consolidated net tangible assets (as defined in the indenture), which is determined primarily by the value of discounted future net revenues from proved oil and natural gas reserves as of the date of such determination.

8.875% Senior Notes

On November 6, 2012, the Company issued $750.0 million aggregate principal amount of its 8.875% senior notes due 2021 (the 2021 Notes), at a price to the initial purchasers of 99.247% of par. The net proceeds from the offering of approximately $725.6 million (after deducting the initial purchasers' discounts, commissions and offering expenses) were used to fund a portion of the cash consideration paid in the acquisition of two wholly-owned subsidiaries of Petro-Hunt Holdings, LLC and Pillar Holdings, LLC, which owned acreage prospective for the Bakken / Three Forks formations located in North Dakota, in Williams, Mountrail, McKenzie and Dunn Counties.

On January 14, 2013, the Company issued an additional $600.0 million aggregate principal amount of the 2021 Notes at a price to the initial purchasers of 105% of par. The net proceeds from the sale of the additional 2021 Notes of approximately $619.5 million (after the initial purchasers' premiums, commissions and offering expenses) were used to repay all of the then outstanding borrowings under the Senior Credit Agreement and for general corporate purposes, including funding a portion of the Company's 2013 capital expenditures program. These notes were issued as "additional notes" under the indenture governing the 2021 Notes and under the indenture are treated as a single series with substantially identical terms as the 2021 Notes previously issued.

The 2021 Notes bear interest at a rate of 8.875% per annum, payable semi-annually on May 15 and November 15 of each year, beginning on May 15, 2013. The Notes will mature on May 15, 2021. The 2021 Notes are senior unsecured obligations of the Company and rank equally with all of its current and future senior indebtedness. The 2021 Notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by the Company's existing 100% owned

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

subsidiaries, except for one subsidiary, HK TMS, LLC. Halcón, the issuer of the 2021 Notes, has no material independent assets or operations apart from the assets and operations of its subsidiaries.

On June 4, 2013, the Company completed a registered exchange offer of outstanding 2021 Notes for new registered notes having terms substantially identical to the 2021 Notes.

On or before November 15, 2015, the Company may redeem up to 35% of the aggregate principal amount of the 2021 Notes with the net cash proceeds of certain equity offerings at a redemption price of 108.875% of the principal amount plus accrued and unpaid interest to the redemption date provided that: at least 65% in aggregate principal amount of the 2021 Notes originally issued remains outstanding immediately after the redemption and the redemption occurs within 180 days of the date of closing of the related equity offering. In addition, at any time prior to November 15, 2016, the Company may redeem some or all of the 2021 Notes for the principal amount thereof, plus accrued and unpaid interest plus a make whole premium equal to the excess, if any of (a) the present value at such time of (i) the redemption price of such note at November 15, 2016, plus (ii) any required interest payments due on the notes through November 15, 2016 (excluding currently accrued and unpaid interest) computed using a discount rate equal to the Treasury Rate plus 50 basis points, discounted to the redemption date on a semi-annual basis, over (b) the principal amount of such note.

In conjunction with the issuance of the 2021 Notes, the Company recorded a discount of approximately $5.7 million to be amortized over the remaining life of the 2021 Notes using the effective interest method. The remaining unamortized discount was $4.9 million at June 30, 2014. In conjunction with the issuance of the additional 2021 Notes, the Company recorded a premium of approximately $30.0 million to be amortized over the remaining life of the additional 2021 Notes using the effective interest method. The remaining unamortized premium was $26.1 million at June 30, 2014.

The indenture governing the 2021 Notes contains affirmative and negative covenants that are substantially the same as those contained in the indenture governing the 9.25% senior notes, described above.

9.75% Senior Notes

On July 16, 2012, the Company issued $750.0 million aggregate principal amount of 9.75% senior notes due 2020 issued at 98.646% of par (the 2020 Notes). The net proceeds from the offering were approximately $723.1 million after deducting the initial purchasers' discounts, commissions and offering expenses and were used to fund a portion of the cash consideration paid in the Merger and the acquisition of certain oil and gas leaseholds located in East Texas.

On December 19, 2013, the Company issued an additional $400.0 million aggregate principal amount of the 2020 Notes at a price to the initial purchasers of 102.750% of par. The net proceeds from the sale of the additional 2020 Notes of approximately $406.1 million (after the initial purchasers' fees, commissions and offering expenses) were used to repay a portion of the then outstanding borrowings under the Senior Credit Agreement. These notes were issued as "additional notes" under the indenture governing the 2020 Notes and under the indenture are treated as a single series with substantially identical terms as the 2020 Notes previously issued.

The 2020 Notes bear interest at a rate of 9.75% per annum, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2013. The 2020 Notes will mature on July 15, 2020. The 2020 Notes are senior unsecured obligations of the Company and rank equally with all of its

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

current and future senior indebtedness. The 2020 Notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by the Company's existing 100% owned subsidiaries, except for one subsidiary, HK TMS, LLC. Halcón, the issuer of the 2020 Notes, has no material independent assets or operations apart from the assets and operations of its subsidiaries.

On June 4, 2013, the Company completed a registered exchange offer of the outstanding 2020 Notes originally issued, for new registered notes having terms substantially identical to the original 2020 Notes. On May 23, 2014, the Company completed a registered exchange offer of the outstanding additional 2020 Notes for new registered notes having terms substantially identical to the additional 2020 Notes.

On or before July 15, 2015, the Company may redeem up to 35% of the aggregate principal amount of the 2020 Notes with the net cash proceeds of certain equity offerings at a redemption price of 109.750% of the principal amount plus accrued and unpaid interest to the redemption date provided that: at least 65% in aggregate principal amount of the 2020 Notes originally issued remains outstanding immediately after the redemption and the redemption occurs within 180 days of the equity offering. In addition, at any time prior to July 15, 2016, the Company may redeem some or all of the 2020 Notes for the principal amount thereof, plus accrued and unpaid interest plus a make whole premium equal to the excess , if any of (a) the present value at such time of (i) the redemption price of such note at July 15, 2016, plus (ii) any required interest payments due on the notes through July 15, 2016 (excluding currently accrued and unpaid interest) computed using a discount rate equal to the Treasury Rate plus 50 basis points, discounted to the redemption date on a semi-annual basis, over (b) the principal amount of such note.

In conjunction with the issuance of the 2020 Notes, the Company recorded a discount of approximately $10.2 million to be amortized over the remaining life of the 2020 Notes using the effective interest method. The remaining unamortized discount was $8.4 million at June 30, 2014. In conjunction with the issuance of the additional 2020 Notes, the Company recorded a premium of approximately $11.0 million to be amortized over the remaining life of the additional 2020 Notes using the effective interest method. The remaining unamortized premium was approximately $10.3 million at June 30, 2014.

The indenture governing the 2020 Notes contains affirmative and negative covenants that are substantially the same as those contained in the indenture governing the 9.25% senior notes, described above.

8.0% Convertible Note

On February 8, 2012, the Company issued the 2017 Note in the principal amount of $275.0 million together with five year warrants (February 2012 Warrants) for an aggregate purchase price of $275.0 million. The 2017 Note bears interest at a rate of 8% per annum, payable quarterly on March 31, June 30, September 30 and December 31 of each year and matures on February 8, 2017. Through the March 31, 2014 interest payment date, the Company was permitted to elect to pay the interest in kind, by adding to the principal of the 2017 Note, all or any portion of the interest due on the 2017 Note. The Company elected to pay the interest in kind on March 31, June 30 and September 30, 2012, and added $3.2 million, $5.7 million and $5.8 million of interest incurred during the first, second and third quarters of 2012, respectively, into the 2017 Note, increasing the principal amount to $289.7 million. The Company did not elect to pay-in-kind interest for the quarterly payments

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

due subsequent to September 30, 2012. As of February 8, 2014, holders of the 2017 Note became entitled to convert at their election each $4.50 of principal and accrued but unpaid interest into one share of the Company's common stock. The 2017 Note is a senior unsecured obligation of the Company.

The Company allocated the proceeds received for the 2017 Note and February 2012 Warrants on a relative fair value basis. Consequently, the Company recorded a discount of $43.6 million to be amortized over the remaining life of the 2017 Note utilizing the effective interest rate method. The remaining unamortized discount was $26.2 million at June 30, 2014.

Debt Issuance Costs

The Company capitalizes certain direct costs associated with the issuance of long-term debt and amortizes such costs over the lives of the respective debt. During the first six months of 2014, the Company expensed $0.5 million of debt issuance costs in conjunction with a decrease in the Company's borrowing base under the Senior Credit Agreement. At June 30, 2014 and December 31, 2013, the Company had approximately $59.5 million and $64.3 million, respectively, of unamortized debt issuance costs.

5. FAIR VALUE MEASUREMENTS

Pursuant to ASC 820, the Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's unaudited condensed consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as of June 30, 2014 and December 31, 2013. As required by ASC 820, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no transfers between fair value hierarchy levels for the six months ended June 30, 2014.

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Receivables from derivative contracts	$	$ 694	$	$ 694
Liabilities				
Liabilities from derivative contracts	$	$ 140,033	$ 5,170	$ 145,203

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Receivables from derivative contracts	$	$ 24,762	$	$ 24,762
Liabilities				
Liabilities from derivative contracts	$	$ 34,376	$ 2,816	$ 37,192

Derivative contracts listed above as Level 2 include collars, swaps and put options that are carried at fair value. The Company records the net change in the fair value of these positions in *"Net gain (loss) on derivative contracts"* in the Company's unaudited condensed consolidated statements of operations. The Company is able to value the assets and liabilities based on observable market data for similar instruments, which resulted in the Company reporting its derivatives as Level 2. This observable data includes the forward curves for commodity prices based on quoted markets prices and implied volatility factors related to changes in the forward curves. See Note 6, *"Derivative and Hedging Activities"* for additional discussion of derivatives.

Derivative contracts listed above as Level 3 include extendable collars that are carried at fair value. The significant unobservable inputs for these Level 3 contracts include unpublished forward strip prices

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

and market volatilities. The following table sets forth a reconciliation of changes in the fair value of the Company's extendable collar contracts classified as Level 3 in the fair value hierarchy (in thousands):

	Significant Unobservable Inputs (Level 3)	
	June 30, 2014	December 31, 2013
Beginning Balance	$ (2,816)	$
Net gain (loss) on derivative contracts	(2,354)	(2,816)
Settlements		
Purchase of derivative contracts		
Buy out of derivative contracts		
Ending Balance	$ (5,170)	$ (2,816)
Change in unrealized gains (losses) included in earnings related to derivatives still held at June 30, 2014 and December 31, 2013	$ (2,354)	$ (2,816)

As of June 30, 2014 and December 31, 2013, the Company's derivative contracts were with major financial institutions with investment grade credit ratings which are believed to have a minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts; however, the Company does not anticipate such nonperformance. Each of the counterparties to the Company's current derivative contracts is a lender or an affiliate of a lender in the Company's Senior Credit Agreement. The Company did not post collateral under any of these contracts as they are secured under the Senior Credit Agreement.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of ASC 825, *Financial Instruments*. The estimated fair value amounts have been determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. The estimated fair value of the Company's Senior Credit Agreement approximates carrying value because the interest rates approximate current market rates. The following table presents the estimated fair values of the Company's fixed interest rate, long-term debt instruments as of June 30, 2014 and December 31, 2013 (excluding discounts, premiums and deferred premiums on derivative contracts):

	June 30, 2014		December 31, 2013	
Debt	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
	(In thousands)			
9.25% $400 million senior notes	$ 400,000	$ 437,000	$ 400,000	$ 407,432
8.875% $1.35 billion senior notes	1,350,000	1,454,625	1,350,000	1,390,500
9.75% $1.15 billion senior notes	1,150,000	1,263,563	1,150,000	1,197,438
8.0% $289.7 million convertible note	289,669	538,709	289,669	368,418

	$	3,189,669	$	3,693,897	$	3,189,669	$	3,363,788

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

The fair value of the Company's fixed interest debt instruments was calculated using Level 2 criteria at June 30, 2014 and December 31, 2013. The fair value of the Company's senior notes is based on quoted market prices from trades of such debt. The fair value of the Company's convertible note is based on published market prices and risk-free rates.

On June 16, 2014, the Company entered into a transaction to develop its Tuscaloosa Marine Shale assets with credit funds and accounts managed by affiliates of Apollo Global Management, LLC. See Note 9, *"Mezzanine Equity,"* for a discussion of the valuation approach used to allocate the investment proceeds to the transaction's components and the classification of the estimate within the fair value hierarchy.

The Company follows the provisions of ASC 820, for nonfinancial assets and liabilities measured at fair value on a non-recurring basis. These provisions apply to the Company's initial recognition of asset retirement obligations for which fair value is used. The asset retirement obligation estimates are derived from historical costs and management's expectation of future cost environments; and therefore, the Company has designated these liabilities as Level 3. See Note 7, "*Asset Retirement Obligations,"* for a reconciliation of the beginning and ending balances of the liability for the Company's asset retirement obligations.

6. DERIVATIVE AND HEDGING ACTIVITIES

The Company is exposed to certain risks relating to its ongoing business operations, such as commodity price risk and interest rate risk. Derivative contracts are utilized to economically hedge the Company's exposure to price fluctuations and reduce the variability in the Company's cash flows associated with anticipated sales of future oil and natural gas production. The Company generally hedges a substantial, but varying, portion of anticipated oil and natural gas production for future periods. Derivatives are carried at fair value on the unaudited condensed consolidated balance sheets as assets or liabilities, with the changes in the fair value included in the unaudited condensed consolidated statements of operations for the period in which the change occurs. Historically, the Company has also entered into interest rate swaps to mitigate exposure to market rate fluctuations. The Company does not enter into derivative contracts for speculative trading purposes.

It is the Company's policy to enter into derivative contracts, including interest rate derivatives, only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market makers. Each of the counterparties to the Company's current derivative contracts is a lender or an affiliate of a lender in its Senior Credit Agreement. The Company did not post collateral under any of these contracts as they are secured under the Company's Senior Credit Agreement.

At June 30, 2014 and December 31, 2013, the Company's crude oil and natural gas derivative positions consisted of swaps, swaptions, costless put/call "collars," extendable costless collars and put options. Swaps are designed so that the Company receives or makes payments based on a differential between fixed and variable prices for crude oil and natural gas. A costless collar consists of a sold call, which establishes a maximum price the Company will receive for the volumes under contract and a purchased put that establishes a minimum price. Extendable collars are costless put/call contracts that may be extended annually at the option of the counterparty on a designated date. A sold put option limits the exposure of the counterparty's risk should the price fall below the strike price. Sold put options limit the effectiveness of purchased put options at the low end of the put/call collars to market

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)

prices in excess of the strike price of the put option sold. Swaptions are swap contracts that may be extended annually at the option of the counterparty on a designated date. The Company has elected not to designate any of its derivative contracts for hedge accounting. Accordingly, the Company records the net change in the mark- to-market valuation of these derivative contracts, as well as all payments and receipts on settled derivative contracts, in *"Net gain (loss) on derivative contracts"* on the unaudited condensed consolidated statements of operations.

At June 30, 2014, the Company had 107 open commodity derivative contracts summarized in the following tables: 11 natural gas collar arrangements, 69 crude oil collar arrangements, 15 crude oil swaps, one crude oil put option, one crude oil call option, eight crude oil swaptions and two crude oil extendable collars.

At December 31, 2013, the Company had 86 open commodity derivative contracts summarized in the following tables: 10 natural gas collar arrangements, 52 crude oil collar arrangements, five crude oil three-way collars, one crude oil put option, eight crude oil swaps, eight crude oil swaptions and two crude oil extendable collars.

All derivative contracts are recorded at fair market value in accordance with ASC 815 and ASC 820 and included in the unaudited condensed consolidated balance sheets as assets or liabilities. The following table summarizes the location and fair value amounts of all derivative contracts in the unaudited condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013:

Derivatives not designated as hedging contracts under ASC 815	Balance sheet	Asset derivative contracts June 30, 2014	Asset derivative contracts December 31, 2013	Balance sheet	Liability derivative contracts June 30, 2014	Liability derivative contracts December 31, 2013
		(In thousands)			(In thousands)	
Commodity contracts	Current assets receivables from derivative contracts	$ 343	$ 2,028	Current liabilities liabilities from derivative contracts	$ (79,844)	$ (17,859)
Commodity contracts	Other noncurrent assets receivables from derivative contracts	351	22,734	Other noncurrent liabilities liabilities from derivative contracts	(65,359)	(19,333)
Total derivatives not designated as hedging contracts under ASC 815		$ 694	$ 24,762		$ (145,203)	$ (37,192)

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)

The following table summarizes the location and amounts of the Company's realized and unrealized gains and losses on derivative contracts in the Company's unaudited condensed consolidated statements of operations:

Derivatives not designated as hedging contracts under ASC 815	Location of gain or (loss) recognized in income on derivative contracts	Amount of gain or (loss) recognized in income on derivative contracts for the Three Months Ended June 30, 2014	2013	Amount of gain or (loss) recognized in income on derivative contracts for the Six Months Ended June 30, 2014	2013
		(In thousands)		(In thousands)	
Commodity contracts:					
Unrealized gain (loss) oncommodity contracts	Other income (expenses) net gain (loss) on derivative contracts	$ (105,897)	$ 34,515	$ (132,813)	$ 17,716
Realized gain (loss) on commodity contracts	Other income (expenses) net gain (loss) on derivative contracts	$ (15,145)	$ (415)	$ (21,885)	(2,038)
Total net gain (loss) on derivative contracts	Other income (expenses) net gain (loss) on derivative contracts	$ (121,042)	$ 34,100	$ (154,698)	$ 15,678

At June 30, 2014 and December 31, 2013, the Company had the following open crude oil and natural gas derivative contracts:

				June 30, 2014							
				Floors		Ceilings		Put Options		Call Options	
Period	Instrument	Commodity	Volume in Mmbtu's/ Bbl's	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price
July 2014 - December 2014	Call	Crude Oil	184,000							$ 95.00	$ 95.00
July 2014 - December 2014	Collars	Crude Oil	4,738,000	85.00 - 95.00	88.83	92.50 - 108.45	96.58				
July 2014 - December 2014	Collars	Natural Gas	6,900,000	3.75 - 4.00	3.87	4.26 - 4.55	4.36				
July 2014 - December 2014	Put	Crude Oil	184,000					90.00	90.00		
July 2014 - December 2014	Swaps	Crude Oil	276,000	96.00 - 96.17	96.11						
January 2015 - June 2015	Collars	Crude Oil	1,583,750	85.00 - 90.00	86.29	91.00 - 98.50	93.14				
January 2015 - December 2015	Collars	Natural Gas	6,387,500	4.00	4.00	4.55 - 4.85	4.68				
January 2015 - December 2015(1)	Collars	Crude Oil	6,205,000	82.50 - 90.00	86.47	90.00 - 100.25	94.39				
January 2015 - December 2015(2)	Swaps	Crude Oil	1,825,000	91.00 - 92.75	91.76						
March 2015 - December 2015	Collars	Crude Oil	306,000	87.50	87.50	92.50	92.50				
	Collars	Crude Oil	412,500	87.50	87.50	92.50	92.50				

April 2015 - December 2015							
July 2015 - December 2015	Collars	Crude Oil	1,104,000	85.00 - 87.50	85.83	90.00 - 92.50	90.92
January 2016 - June 2016	Collars	Crude Oil	182,000	90.00	90.00	96.85	96.85
January 2016 - December 2016	Collars	Crude Oil	1,830,000	87.50 - 90.00	88.55	92.70 - 95.10	93.84
January 2016 - December 2016	Collars	Natural Gas	732,000	4.00	4.00	4.22	4.22
January 2016 - December 2016(3)	Swaps	Crude Oil	2,928,000	88.00 - 91.50	89.04		

(1) Includes an outstanding crude oil collar which may be extended at a floor of $85.00 per Bbl and a ceiling of $96.20 per Bbl for a total of 732,000 Bbls for the year ended December 31, 2016. Also includes an outstanding crude oil collar which may be extended at a floor of $85.00 per Bbl and a ceiling of $96.00 per Bbl for a total of 366,000 Bbls for the year ended December 31, 2016.

(2) Includes an outstanding crude oil swap of which may be extended at a price of $91.25 per Bbl for 732,000 Bbls for the year ended December 31, 2016. Also includes certain outstanding crude oil swaps which may be extended at a price of $91.00 per Bbl totaling 366,000 Bbls for the year ended December 31, 2016.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)

(3) Includes an outstanding crude oil swap which may be extended at a price of $88.25 per Bbl for a total of 730,000 Bbls for the year ended December 31, 2017. Also includes certain outstanding crude oil swaps which may be extended at a price of $88.00 per Bbl totaling 912,500 Bbls for the year ended December 31, 2017. Includes an outstanding crude oil swap which may be extended at a price of $88.87 per Bbl totaling 547,500 Bbls for the year ended December 31, 2017.

				December 31, 2013					
				Floors		Ceilings		Put Options	
Period	Instrument	Commodity	Volume in Mmbtu's/ Bbl's	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price
January 2014 - March 2014	Three-Way Collars	Crude Oil	144,000	$ 95.00	$ 95.00	$ 98.60 - 109.50	$ 100.03	$ 70.00	$ 70.00
January 2014 - June 2014	Collars	Crude Oil	724,000	90.00	90.00	96.50 - 99.50	98.00		
January 2014 - December 2014	Collars	Crude Oil	7,573,750	85.00 - 95.00	88.67	93.60 - 108.45	96.22		
January 2014 - December 2014	Collars	Natural Gas	11,862,500	3.75 - 4.00	3.85	4.26 - 4.55	4.35		
April 2014 - June 2014	Three-Way Collars	Crude Oil	136,500	95.00	95.00	98.20 - 101.00	99.13	70.00	70.00
July 2014 - December 2014	Collars	Crude Oil	920,000	87.50 - 90.00	89.50	92.50 - 100.25	97.87		
July 2014 - December 2014	Collars	Natural Gas	920,000	4.00	4.00	4.42	4.42		
July 2014 - December 2014	Put	Crude Oil	184,000					90.00	90.00
January 2015 - June 2015	Collars	Crude Oil	1,583,750	85.00 - 90.00	86.29	91.00 - 98.50	93.14		
January 2015 - December 2015(1)	Collars	Crude Oil	5,110,000	82.50 - 90.00	86.07	90.00 - 100.25	94.65		
January 2015 - December 2015	Collars	Natural Gas	6,387,500	4.00	4.00	4.55 - 4.85	4.68		
January 2015 - December 2015(2)	Swaps	Crude Oil	1,095,000	91.00 - 91.25	91.17				