

HALCON RESOURCES CORP  
Form 10-Q  
July 28, 2016

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

**OR**

o **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: 001-35467**

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**Halcón Resources Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1311**  
(Primary Standard Industrial  
Classification Code Number)  
**1000 Louisiana Street, Suite 6700, Houston, TX 77002**  
(Address of principal executive offices)

**20-0700684**  
(I.R.S. Employer  
Identification Number)

**(832) 538-0300**  
(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer       Accelerated Filer       Non-Accelerated Filer       Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At July 22, 2016, 122,639,612 shares of the Registrant's Common Stock were outstanding.

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**Special note regarding forward-looking statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, concerning, among other things, planned capital expenditures, potential increases in oil and natural gas production, the number and location of wells to be drilled in the future, future cash flows and borrowings, pursuit of potential acquisition or divestiture opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as "may," "expect," "estimate," "project," "plan," "objective," "believe," "predict," "intend," "achievable," "anticipate," "will," "continue," "potential," "should," "could" and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements. Readers should consider carefully the risks described under the "Risk Factors" section of our previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and herein as well as the other disclosures contained herein and therein, which describe factors that could cause our actual results to differ from those anticipated in the forward-looking statements, including, but not limited to, the following factors:

the potential adverse impact of the restructuring transactions on our operations, management, and employees and the risks associated with operating our business during the restructuring process;

our ability to satisfy the conditions set forth in the Restructuring Support Agreement and consummate the Plan outlined in the Restructuring Support Agreement or another plan of reorganization;

risks and uncertainties associated with chapter 11 proceedings;

our ability to reduce the level of our debt and lower our cash interest obligations through consummation of the Plan or otherwise;

volatility in commodity prices for oil and natural gas, including the current sustained decline in the price for oil;

our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fund our operations, satisfy our obligations and fully develop our undeveloped acreage positions;

we have substantial indebtedness and may incur more debt;

higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business;

our ability to replace our oil and natural gas reserves;

our ability to successfully develop our large inventory of undeveloped acreage in our resource plays;

our ability to retain key members of senior management, the board of directors, and key technical employees;

access to and availability of water and other treatment materials to carry out fracture stimulations in our resource plays;

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access to adequate gathering systems, processing facilities, transportation take-away capacity to move our production to market and marketing outlets to sell our production at market prices;

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the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;

contractual limitations that affect our management's discretion in managing our business, including covenants that, among other things, limit our ability to incur debt, make investments and pay cash dividends;

the potential for production decline rates for our wells to be greater than we expect;

competition, including competition for acreage in resource play holdings;

environmental risks;

drilling and operating risks;

exploration and development risks;

the possibility that the industry may be subject to future regulatory or legislative actions (including additional taxes and changes in environmental regulations);

general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business, may be less favorable than expected, including the possibility that economic conditions in the United States will worsen and that capital markets are disrupted, which could adversely affect demand for oil and natural gas and make it difficult to access capital;

social unrest, political instability or armed conflict in major oil and natural gas producing regions outside the United States, such as the Middle East, and armed conflict or acts of terrorism or sabotage;

other economic, competitive, governmental, regulatory, legislative, including federal, state and tribal regulations and laws, geopolitical and technological factors that may negatively impact our business, operations or oil and natural gas prices;

our ability to successfully integrate acquired oil and natural gas businesses and operations;

the possibility that acquisitions and divestitures may involve unexpected costs or delays, and that acquisitions may not achieve intended benefits and may divert management's time and energy;

the insurance coverage maintained by us may not adequately cover all losses that we may sustain;

title to the properties in which we have an interest may be impaired by title defects;

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senior management's ability to execute our plans to meet our goals;

the cost and availability of goods and services, such as drilling rigs, fracture stimulation services and tubulars; and

our dependency on the skill, ability and decisions of third party operators of the oil and natural gas properties in which we have a non-operated working interest.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited)****HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Operating revenues:</b>				
Oil, natural gas and natural gas liquids sales:				
Oil	\$ 99,095	\$ 158,110	\$ 174,062	\$ 282,523
Natural gas	3,159	5,578	6,901	12,537
Natural gas liquids	3,504	3,889	5,441	7,957
Total oil, natural gas and natural gas liquids sales	105,758	167,577	186,404	303,017
Other	389	447	1,092	1,201
Total operating revenues	106,147	168,024	187,496	304,218
<b>Operating expenses:</b>				
Production:				
Lease operating	16,981	25,233	37,559	59,018
Workover and other	7,915	3,731	15,706	6,845
Taxes other than income	9,753	12,903	17,011	25,144
Gathering and other	10,519	7,746	21,903	21,492
Restructuring	189	309	5,073	2,230
General and administrative	24,708	22,662	66,324	47,071
Depletion, depreciation and accretion	39,671	101,194	94,937	220,338
Full cost ceiling impairment	257,869	948,633	754,769	1,502,636
Other operating property and equipment impairment			28,056	
Total operating expenses	367,605	1,122,411	1,041,338	1,884,774
<b>Income (loss) from operations</b>	<b>(261,458)</b>	<b>(954,387)</b>	<b>(853,842)</b>	<b>(1,580,556)</b>
<b>Other income (expenses):</b>				
Net gain (loss) on derivative contracts	(54,523)	(87,564)	(35,781)	12,184
Interest expense and other, net	(58,322)	(60,922)	(106,113)	(122,229)
Gain (loss) on extinguishment of debt		22,766	81,434	22,766
Gain (loss) on extinguishment of Convertible Note and modification of February 2012 Warrants		(8,219)		(8,219)
Total other income (expenses)	(112,845)	(133,939)	(60,460)	(95,498)
Income (loss) before income taxes	(374,303)	(1,088,326)	(914,302)	(1,676,054)
Income tax benefit (provision)		(286)		(199)
<b>Net income (loss)</b>	<b>(374,303)</b>	<b>(1,088,612)</b>	<b>(914,302)</b>	<b>(1,676,253)</b>



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Series A preferred dividends	(3,198)	(4,902)	(6,396)	(9,803)
Preferred dividends and accretion on redeemable noncontrolling interest	(4,852)	(11,067)	(28,517)	(19,718)
<b>Net income (loss) available to common stockholders</b>	<b>\$ (382,353)</b>	<b>\$ (1,104,581)</b>	<b>\$ (949,215)</b>	<b>\$ (1,705,774)</b>

**Net income (loss) per share of common stock:**

Basic	\$ (3.17)	\$ (10.13)	\$ (7.89)	\$ (17.66)
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Diluted	\$ (3.17)	\$ (10.13)	\$ (7.89)	\$ (17.66)
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**Weighted average common shares outstanding:**

Basic	120,708	109,063	120,360	96,569
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Diluted	120,708	109,063	120,360	96,569
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)****(In thousands, except share and per share amounts)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current assets:</b>		
Cash	\$ 7,173	\$ 8,026
Accounts receivable	112,855	173,624
Receivables from derivative contracts	135,455	348,861
Restricted cash	17,164	16,812
Inventory	1,498	4,635
Debt issuance costs, net	5,557	
Prepays and other	8,694	4,635
<b>Total current assets</b>	<b>288,396</b>	<b>556,593</b>
<b>Oil and natural gas properties (full cost method):</b>		
Evaluated	7,679,917	7,060,721
Unevaluated	1,180,148	1,641,356
<b>Gross oil and natural gas properties</b>	<b>8,860,065</b>	<b>8,702,077</b>
Less accumulated depletion	(6,779,116)	(5,933,688)
<b>Net oil and natural gas properties</b>	<b>2,080,949</b>	<b>2,768,389</b>
<b>Other operating property and equipment:</b>		
Gas gathering and other operating assets	100,355	130,090
Less accumulated depreciation	(23,155)	(22,435)
<b>Net other operating property and equipment</b>	<b>77,200</b>	<b>107,655</b>
<b>Other noncurrent assets:</b>		
Receivables from derivative contracts	5,642	16,614
Debt issuance costs, net		7,633
Equity in oil and natural gas partnership	11	209
Funds in escrow and other	1,613	1,599
<b>Total assets</b>	<b>\$ 2,453,811</b>	<b>\$ 3,458,692</b>
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 242,189	\$ 295,085
Asset retirement obligations	412	163
Current portion of long-term debt, net	2,825,807	
<b>Total current liabilities</b>	<b>3,068,408</b>	<b>295,248</b>
<b>Long-term debt, net</b>		<b>2,873,637</b>
<b>Other noncurrent liabilities:</b>		
Liabilities from derivative contracts	194	290
Asset retirement obligations	48,554	46,853
Other	9,283	6,264
<b>Commitments and contingencies (Note 8)</b>		
<b>Mezzanine equity:</b>		

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Redeemable noncontrolling interest	212,503	183,986
<b>Stockholders' equity (deficit):</b>		
Preferred stock: 1,000,000 shares of \$0.0001 par value authorized; 222,454 and 244,724 shares of 5.75% Cumulative Perpetual Convertible Series A, issued and outstanding at June 30, 2016 and December 31, 2015, respectively		
Common stock: 1,340,000,000 shares of \$0.0001 par value authorized; 122,647,511 and 122,523,559 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	12	12
Additional paid-in capital	3,288,371	3,283,097
Accumulated deficit	(4,173,514)	(3,230,695)
Total stockholders' equity (deficit)	(885,131)	52,414
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 2,453,811</b>	<b>\$ 3,458,692</b>

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

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)**

(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
<b>Balance at December 31, 2014</b>	345	\$	85,562	\$ 8	\$ 2,995,436	\$ (1,223,275)	\$ 1,772,169
Net income (loss)						(1,922,621)	(1,922,621)
Dividends on Series A preferred stock			1,354	1	9,801	(17,979)	(8,177)
Conversion of Series A preferred stock	(100)		3,258				
Preferred dividends on redeemable noncontrolling interest						(12,614)	(12,614)
Accretion of redeemable noncontrolling interest						(53,561)	(53,561)
Change in fair value of redeemable noncontrolling interest						(645)	(645)
Common stock issuance			1,888		15,356		15,356
Common stock issuance on conversion of senior notes			28,955	3	231,380		231,383
Modification of February 2012 Warrants					14,129		14,129
Offering costs					(1,871)		(1,871)
Long-term incentive plan grants			2,048				
Long-term incentive plan forfeitures			(388)				
Reduction in shares to cover individuals' tax withholding			(153)		(947)		(947)
Share-based compensation					19,813		19,813
<b>Balances at December 31, 2015</b>	245		122,524	12	3,283,097	(3,230,695)	52,414
Net income (loss)						(914,302)	(914,302)
Conversion of Series A preferred stock	(23)		724				
Preferred dividends on redeemable noncontrolling interest						(6,655)	(6,655)
Accretion of redeemable noncontrolling interest						(21,862)	(21,862)
Reverse stock split rounding			5				
Offering costs					(10)		(10)
Long-term incentive plan forfeitures			(499)				
Reduction in shares to cover individuals' tax withholding			(106)		(50)		(50)
Share-based compensation					5,334		5,334
<b>Balances at June 30, 2016</b>	222	\$	122,648	\$ 12	\$ 3,288,371	\$ (4,173,514)	\$ (885,131)

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

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)****(In thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (914,302)	\$ (1,676,253)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and accretion	94,937	220,338
Full cost ceiling impairment	754,769	1,502,636
Other operating property and equipment impairment	28,056	
Share-based compensation, net	3,652	8,210
Unrealized loss (gain) on derivative contracts	224,281	183,713
Amortization and write-off of deferred loan costs	3,024	4,092
Non-cash interest and amortization of discount and premium	1,269	1,709
Loss (gain) on extinguishment of debt	(81,434)	(22,766)
Loss (gain) on extinguishment of Convertible Note and modification of February 2012 Warrants		8,219
Accrued settlements on derivative contracts	(23,072)	(26,781)
Other income (expense)	3,973	5,008
Change in assets and liabilities:		
Accounts receivable	72,286	45,320
Inventory	(449)	(5)
Prepays and other	(4,086)	1,037
Accounts payable and accrued liabilities	(20,161)	(36,947)
Net cash provided by (used in) operating activities	142,743	217,530
<b>Cash flows from investing activities:</b>		
Oil and natural gas capital expenditures	(170,258)	(407,751)
Other operating property and equipment capital expenditures	(886)	(7,478)
Funds held in escrow and other	(233)	3,012
Net cash provided by (used in) investing activities	(171,377)	(412,217)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	425,000	1,296,000
Repayments of borrowings	(395,648)	(1,129,000)
Debt issuance costs	(1,186)	(18,612)
Common stock issued		15,354
Restricted cash	(325)	(352)
Offering costs and other	(60)	(2,443)
Net cash provided by (used in) financing activities	27,781	160,947
<b>Net increase (decrease) in cash</b>	<b>(853)</b>	<b>(33,740)</b>
Cash at beginning of period	8,026	43,713
Cash at end of period	\$ 7,173	\$ 9,973

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**Disclosure of non-cash investing and financing activities:**

Accrued capitalized interest	\$	(2,387)	\$	(2,614)
Asset retirement obligations		919		1,754
Series A preferred dividends paid in common stock				9,803
Preferred dividends on redeemable noncontrolling interest paid-in-kind		6,655		6,131
Accretion of redeemable noncontrolling interest		21,862		12,942
Change in fair value of redeemable noncontrolling interest				645
Common stock issued on conversion of senior notes				231,383
Accrued debt issuance costs		904		

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 2015 Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (SEC) on February 26, 2016. Please refer to the notes in the 2015 Annual Report on Form 10-K when reviewing interim financial results.

On December 28, 2015, the Company completed a one-for-five reverse stock split. As a result, all share and per share information included for all periods presented in these unaudited condensed consolidated financial statements reflect the reverse stock split.

**Ability to Continue as a Going Concern**

On July 27, 2016, the Company and certain of its subsidiaries (the Halcón Entities) filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court in the District of Delaware (the Bankruptcy Court) to pursue a pre-packaged plan of reorganization. The Company expects to continue operations in the normal course during the pendency of the chapter 11 proceedings. Prior to filing the bankruptcy petitions, on June 9, 2016, the Halcón Entities entered into a restructuring support agreement (the Restructuring Support Agreement) with certain holders of the Company's 13% senior secured notes due 2022 (the Third Lien Holders), the Company's 8.875% senior unsecured notes due 2021, 9.25% senior unsecured notes due 2022 and 9.75% senior unsecured notes due 2020 (collectively, the Unsecured Noteholders), the holder of the Company's 8% senior unsecured convertible note due 2020 (the Convertible Noteholder), and certain holders of the Company's 5.75% Series A Convertible Perpetual Preferred Stock (the Preferred Holders and together with the Third Lien Holders, Unsecured Noteholders and Convertible Noteholder, referred to collectively herein as, the Stakeholders). See Note 2, "*Restructuring Support Agreement*," for more information. On June 20, 2016, the Halcón Entities commenced a solicitation for acceptance of the plan of reorganization (the Plan) contemplated in the Restructuring Support Agreement from the holders of impaired claims and interests entitled to vote under the Plan. At the conclusion of the Company's thirty day solicitation period, the Plan received sufficient votes to satisfy the voting conditions set forth in Section 1126(c) of the Bankruptcy Code. The Restructuring Support Agreement contains certain covenants on the part of the Halcón Entities and the Stakeholders, including that the Stakeholders vote in favor of the Plan contemplated in the Restructuring Support Agreement and otherwise facilitate and support the restructuring transaction, subject to the achievement of certain milestones and various conditions.



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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. FINANCIAL STATEMENT PRESENTATION (Continued)**

The Company's debt agreements provide that the commencement of a voluntary proceeding in bankruptcy is an event of default leading to the automatic acceleration of the associated obligations. Accordingly, the filing of the voluntary petitions for relief under chapter 11 of the Bankruptcy Code accelerated the Company's obligations under all of its outstanding debt instruments, although any efforts to enforce payment obligations thereunder have been automatically stayed by, and the creditors' rights of enforcement are subject to, the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Accordingly, the Company classified all of its outstanding debt as a current liability on its unaudited condensed consolidated balance sheet as of June 30, 2016.

The significant risks and uncertainties related to the Halcón Entities' chapter 11 proceeding raise substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty. If the Company cannot continue as a going concern, adjustments to the carrying values and classification of its assets and liabilities and the reported amounts of income and expenses could be required and could be material.

**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 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

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. FINANCIAL STATEMENT PRESENTATION (Continued)**

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 material allowances for doubtful accounts as of June 30, 2016 or December 31, 2015.

**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 or 10-year estimated useful life applicable to gas gathering systems and a compressed natural gas facility, respectively. 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 \$57.8 million and \$87.2 million as of June 30, 2016 and December 31, 2015, respectively, related to the construction of its gas gathering systems, after any amounts impaired.

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 or the lesser of the lease term; trailers, seven years; heavy equipment, ten years; 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 an asset's undiscounted cash flows, then the Company recognizes an impairment loss for the difference between the carrying amount and the current fair value. The Company also 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. For the three months ended March 31, 2016, the Company recorded a non-cash impairment charge of \$28.1 million in "*Other operating property and equipment impairment*" in the Company's unaudited condensed consolidated statements of operations and in "*Gas gathering and other operating assets*" in the Company's unaudited condensed consolidated balance sheets. The impairment primarily relates to the Company's gross investments of \$32.8 million in gas gathering infrastructure that will not likely be economically recoverable due to its shift in exploration, drilling and developmental plans to its most economic areas as a result of the low commodity price environment.

In accordance with ASC 820, *Fair Value Measurements and Disclosures* (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 estimate of the fair value of the Company's gas gathering systems

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. FINANCIAL STATEMENT PRESENTATION (Continued)**

was based on an income approach that estimated future cash flows associated with those assets, which resulted in negative net cash flows due to insufficient throughput of natural gas volumes and certain fixed costs necessary to operate and maintain the assets. This estimation includes the use of unobservable inputs, such as estimated future production, and gathering and compression revenues and operating expenses. The use of these unobservable inputs results in the fair value estimate of the Company's gas gathering systems being classified as Level 3.

**Recently Issued Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, *Compensation - Stock Compensation* (ASU 2016-09). For public business entities, ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and early adoption is permitted. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. As there are multiple amendments in this ASU, the FASB has issued guidance on how an entity should apply each amendment, either prospectively or retrospectively. The Company is in the process of assessing the effects of the application of the new guidance.

In March 2016, the FASB issued ASU No. 2016-06, *Contingent Put and Call Options in Debt Instruments* (ASU 2016-06). For public business entities, ASU 2016-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and early adoption is permitted. ASU 2016-06 provides new guidance that simplifies the analysis of whether a contingent put or call option in a debt instrument qualifies as a separate derivative. An entity should apply the amendments in this ASU on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. The Company is in the process of assessing the effects of the application of the new guidance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). For public business entities, ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and early adoption is permitted. The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. An entity should apply the amendments in this ASU on a modified retrospective basis. The transition will require application of the new guidance at the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of assessing the effects of the application of the new guidance.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17) to simplify the presentation of deferred income taxes. Under ASU 2015-17, all deferred tax assets and liabilities, along with any related valuation allowance, are required to be classified as noncurrent on the balance sheet. Effective December 31, 2015, the Company early adopted ASU 2015-17, on a prospective basis, which resulted in the reclassification of its current deferred tax assets and liabilities as a non-current deferred tax asset and liability, net of the valuation allowance, in the accompanying unaudited condensed consolidated balance sheets. No prior periods were retrospectively adjusted.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. FINANCIAL STATEMENT PRESENTATION (Continued)**

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16). For public business entities, ASU 2015-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and early adoption is permitted. The amendments in this ASU require that an acquirer, in a business combination, recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this ASU eliminate the requirement to retrospectively account for those adjustments, and instead present separately on the face of the income statement or disclose in the footnotes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods. The adoption of ASU 2015-16 did not have an impact to the Company's financial statements or disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11). ASU 2015-11 states that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. For public entities, ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively and early application is permitted. The Company does not expect the adoption of ASU 2015-11 to have a material impact to its financial statements or disclosures.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software* (ASU 2015-05). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. An entity can elect to adopt the guidance either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. Early adoption is permitted. The Company adopted prospectively and it did not have a material impact to the Company's financial statements or disclosures.

In February 2015, the FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02). The amendments in ASU 2015-02 eliminate the previous presumption that a general partner controls a limited partner. ASU 2015-02 may impact the Company's accounting for its general partner interest in SBE Partners LP (SBE Partners), which is currently accounted for as an equity method investment. ASU 2015-02 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. Entities may apply the guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the first fiscal year adopted or it may apply the amendment retrospectively. The adoption of ASU 2015-02 did not have an impact on the Company's accounting for its general partner interest in SBE Partners, LP.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern* (ASU 2014-15). ASU 2014-15 is effective for annual reporting periods (including interim

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. FINANCIAL STATEMENT PRESENTATION (Continued)**

periods within those periods) ending after December 15, 2016. Early application is permitted with companies applying the guidance prospectively. The amendments in ASU 2014-15 create a new ASC Sub-topic 205-40, *Presentation of Financial Statements - Going Concern* and require management to assess for each annual and interim reporting period if conditions exist that raise substantial doubt about an entity's ability to continue as a going concern. The rule requires various disclosures depending on the facts and circumstances surrounding an entity's ability to continue as a going concern. Effective June 30, 2016, the Company early adopted ASU 2014-15, on a prospective basis, which resulted in additional disclosures as discussed above.

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 amounts that reflect 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. In March 2016, ASU 2014-09 was updated with ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08), which provides further clarification on the principal versus agent evaluation. ASU 2014-09 is required to be adopted using either the full retrospective approach, with all prior periods presented adjusted, or the modified retrospective approach, with a cumulative adjustment to retained earnings on the opening balance sheet and is effective for annual reporting periods, and interim periods within that reporting period, beginning after December 15, 2016, or after December 2017, if companies choose to elect the deferred adoption date approved by the FASB. Early adoption is not permitted. The Company is in the process of assessing the effects of the application of the new guidance.

**2. RESTRUCTURING SUPPORT AGREEMENT**

On June 9, 2016, the Halcón Entities entered into a Restructuring Support Agreement with the Stakeholders. On July 27, 2016, the Halcón Entities filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court in the District of Delaware to effect an accelerated pre-packaged bankruptcy restructuring as contemplated in the Restructuring Support Agreement.

Pursuant to the terms of the Plan contemplated by the Restructuring Support Agreement, Stakeholders and other claim and interest holders will receive the following treatment in full and final satisfaction of their claims and interests:

the Halcón Entities' Second Lien Notes (consisting of \$700.0 million in aggregate principal amount outstanding of 8.625% senior secured notes due 2020 and \$112.8 million in aggregate principal amount outstanding of 12% senior secured notes due 2022) shall be unimpaired and reinstated;

the Third Lien Holders will receive their pro rata share of 76.5% of the common stock of reorganized Halcón, together with a cash payment of \$33.8 million, and accrued and unpaid interest on their notes through May 15, 2016;

the Unsecured Noteholders will receive their pro rata share of 15.5% of the common stock of reorganized Halcón, together with a cash payment of \$37.6 million and warrants to purchase 4% of the common stock of reorganized Halcón with a four year term and an exercise price based

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. RESTRUCTURING SUPPORT AGREEMENT (Continued)**

on an equity value of \$1.33 billion, and accrued and unpaid interest on their notes through May 15, 2016;

the Convertible Noteholder will receive 4% of the common stock of reorganized Halcón, together with a cash payment of \$15.0 million and warrants to purchase 1% of the common stock of reorganized Halcón with a four year term and an exercise price based on an equity value of \$1.33 billion;

the general unsecured claims are unimpaired;

the Preferred Holders will receive their pro rata share of \$11.1 million in cash; and

the existing common stockholders will receive their pro rata share of 4% of the common stock of reorganized Halcón.

Each of the foregoing percentages of equity in the reorganized company is subject to dilution from the exercise of the new warrants described above and a management incentive plan.

The Restructuring Support Agreement contains certain covenants on the part of the Halcón Entities and the Stakeholders, including that the Stakeholders vote in favor of the Plan contemplated in the Restructuring Support Agreement and otherwise facilitate and support the restructuring transaction. The Restructuring Support Agreement also provides for termination by each party upon the occurrence of certain events, including without limitation, the failure of the Halcón Entities to achieve certain milestones, including having the Plan confirmed and effective by certain dates, and requires the satisfaction of certain conditions, such as that the Halcón Entities obtain a credit facility pursuant to an amendment or an amendment and restatement of its existing Senior Credit Agreement, defined below, (or any replacement financing) in an aggregate principal amount of not less than \$600.0 million (the Amended Revolving Credit Agreement), which Amended Revolving Credit Agreement shall be (a) in form and substance reasonably satisfactory to the Requisite Unsecured Noteholders (as defined in the Restructuring Support Agreement), and (b) in form and substance satisfactory to the Requisite Third Lien Noteholders (as defined in the Restructuring Support Agreement).

On June 20, 2016, the Halcón Entities commenced a solicitation for acceptance of the Plan. As a result of the solicitation, 99.997% in aggregate principal amount of the Third Lien Notes (defined below), that voted, 99.860% in aggregate principal amount of the Unsecured Notes (consisting of the Company's 8.875% senior unsecured notes due 2021, 9.25% senior unsecured notes due 2022 and 9.75% senior unsecured notes due 2020) that voted, 100.000% of the aggregate principal amount of the Convertible Note (defined below), and 99.300% in aggregate amount of the shares of the Series A Preferred Stock (defined below) that voted, voted to support the Plan, which exceeded the voting condition under the Restructuring Support Agreement. In addition, the Company entered into an agreement dated as of July 22, 2016 with holders of more than 51% in aggregate principal amount of its 8.625% and 12.0% Second Lien Notes due 2020 and 2022 regarding certain amendments to the indentures governing such notes in exchange for the commitment of such holders to support the Plan (the Second Lien Support Agreement). Under the terms of the Second Lien Support Agreement, each holder of the Second Lien Notes that agrees to the proposed amendments and is either party to the Second Lien Support Agreement or otherwise does not object to the Plan will, subject to the occurrence of the effective date of the Plan (and, in the case of the Second Lien Notes, the effectiveness of the proposed amendment) receive a consent fee equal to 1.25% of the aggregate principal amount of such holder's outstanding second lien notes. To effect the treatment of claims and

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. RESTRUCTURING SUPPORT AGREEMENT (Continued)**

interests set forth above in accordance with the Plan, the Company withheld the regularly scheduled July 15, 2016 interest payment on its 2020 Notes, defined below. The Company also withheld the regularly scheduled June 30, 2016 interest payment on its Convertible Note, defined below, which was waived by the holder of the Convertible Note in the Restructuring Support Agreement. The Company made the payments of accrued and unpaid interest through May 15, 2016 on the Third Lien Notes and Unsecured Notes prior to its chapter 11 filing. Also, to provide financial flexibility until such time as an Amended Revolving Credit Agreement is finalized and approved, prior to its chapter 11 filing, the Company drew approximately \$338.0 million on July 25, 2016 under its Senior Credit Agreement, bringing its outstanding borrowings up to approximately \$444.0 million.

See Note 4, "Debt," and Note 10, "Stockholders' Equity," for information regarding the Company's debt and equity instruments.

**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 pool. For the six months ended June 30, 2016 and 2015, the Company capitalized interest costs of \$52.9 million and \$51.2 million, respectively.

At June 30, 2016, 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, 2016 of the West Texas

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## HALCÓN RESOURCES CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**3. OIL AND NATURAL GAS PROPERTIES (Continued)**

Intermediate (WTI) crude oil spot price of \$43.12 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, 2016 of the Henry Hub natural gas price of \$2.24 per million British thermal units (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, 2016 exceeded the ceiling amount by \$257.9 million (\$163.1 million after taxes, before valuation allowance) which resulted in a ceiling test impairment of that amount for the quarter. The impairment at June 30, 2016 primarily reflects a 7% decrease in the first-day-of-the-month average price for crude oil used in the ceiling test calculation, which was \$46.26 per barrel at March 31, 2016. At March 31, 2016, the Company recorded a full cost ceiling impairment before income taxes of \$496.9 million (\$315.1 million after taxes, before valuation allowance). The impairment at March 31, 2016 reflects additional transfers of the remaining unevaluated Utica / Point Pleasant (Utica) and Tuscaloosa Marine Shale (TMS) properties of approximately \$330.4 million and \$74.8 million, respectively, to the full cost pool and, to a lesser extent, an 8% decrease in the first-day-of-the-month average price for crude oil used in the ceiling test calculation, which was \$50.28 per barrel at December 31, 2015. As discussed above, the Company considers the facts and circumstances around its unevaluated properties that may indicate impairment on a quarterly basis. Management concluded that it is no longer probable that capital will be available or approved to continue exploratory drilling activities in the Company's Utica or TMS acreage positions in advance of the related lease expirations due to the Company's evaluation of strategic alternatives to reduce its debt while preserving liquidity in light of continued low commodity prices, together with a reduction of the Company's exploration department and the Company's intent to expend capital only on its most economical and proven areas.

At June 30, 2015, 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, 2015 of the WTI spot price of \$71.68 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, 2015 of the Henry Hub price of \$3.39 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, 2015 exceeded the ceiling amount by \$948.6 million (\$597.3 million after taxes, before valuation allowance) which resulted in a ceiling test impairment of that amount for the quarter. At March 31, 2015, the Company recorded a full cost ceiling impairment before income taxes of \$554.0 million (\$348.8 million after taxes, before valuation allowance). The ceiling test impairments were driven by decreases in the first-day-of-the-month average prices for crude oil used in the ceiling test calculations since December 31, 2014, when the first-day-of-the-month average price for crude oil was \$94.99 per barrel and \$82.71 per barrel at March 31, 2015.

The Company recorded the full cost ceiling test impairments 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 commodity prices, production rates, levels of reserves, future development costs, transfers of unevaluated properties, capital spending, and other factors will determine the Company's ceiling test calculations and impairment analyses in future periods.



Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. DEBT**

As of June 30, 2016 and December 31, 2015, the Company's current and long-term debt, respectively, consisted of the following:

	June 30, 2016 <sup>(1)</sup>	December 31, 2015
(In thousands)		
Senior revolving credit facility	\$ 101,000	\$ 62,000
8.625% senior secured second lien notes due 2020 <sup>(2)</sup>	689,064	687,797
12.0% senior secured second lien notes due 2022 <sup>(3)</sup>	111,408	111,598
13.0% senior secured third lien notes due 2022 <sup>(4)</sup>	1,010,048	1,009,585
9.25% senior notes due 2022 <sup>(5)</sup>	36,660	51,887
8.875% senior notes due 2021 <sup>(6)</sup>	296,184	347,671
9.75% senior notes due 2020 <sup>(7)</sup>	312,522	336,470
8.0% convertible note due 2020 <sup>(8)</sup>	268,921	266,629
	<b>\$ 2,825,807</b>	<b>\$ 2,873,637</b>

- 
- (1) *The Company's debt balance as of June 30, 2016 was classified as current. See "Senior Revolving Credit Facility" below for more details.*
- (2) *Amounts are net of \$10.9 million and \$12.2 million unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively.*
- (3) *Amounts are net of \$1.4 million and \$1.2 million unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively.*
- (4) *Amounts are net of \$7.9 million and \$8.4 million unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively.*
- (5) *Amounts are net of \$0.5 million and \$0.8 million unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively.*
- (6) *Amounts are net of a \$0.8 million and a \$1.0 million unamortized discount at June 30, 2016 and December 31, 2015, respectively, related to the issuance of the original 2021 Notes. The unamortized premium related to the additional 2021 Notes was approximately \$4.3 million and \$5.5 million at June 30, 2016 and December 31, 2015, respectively. Amounts are net of \$4.5 million and \$5.8 million unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively. See "8.875% Senior Notes" below for more details.*
- (7) *Amounts are net of a \$1.6 million and a \$1.9 million unamortized discount at June 30, 2016 and December 31, 2015, respectively, related to the issuance of the original 2020 Notes. The unamortized premium related to the additional 2020 Notes was approximately \$2.2 million and \$2.6 million at June 30, 2016 and December 31, 2015, respectively. Amounts are net of \$3.6 million and \$4.3 million*

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*unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively. See "9.75% Senior Notes" below for more details.*

(8)

*Amounts are net of a \$20.7 million and a \$23.0 million unamortized discount at June 30, 2016 and December 31, 2015, respectively. See "8.0% Convertible Note" below for more details.*

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

**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 borrowing base of \$700.0 million. However, pursuant to the Waiver Agreement, defined below, the Company agreed not to request borrowings in excess of \$450.0 million for a specified period of time. On July 25, 2016, the Company borrowed approximately \$338.0 million, resulting in the Company having an aggregate \$444.0 million of indebtedness outstanding under the Senior Credit Agreement. The borrowing base is 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 estimated value of 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. Amounts outstanding under the Senior Credit Agreement bear interest at specified margins over the base rate of 1.50% to 2.50% for ABR-based loans or at specified margins over LIBOR of 2.50% to 3.50% for Eurodollar-based loans. These margins fluctuate based on the Company's utilization of the facility. At June 30, 2016, the weighted average interest rate on the Company's variable rate debt was 3.2% per year. 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 a ratio of total secured debt (excluding the Third Lien Notes) to EBITDA of no greater than 2.75 to 1.0.

On May 26, 2016, the Company entered into a waiver to its Senior Credit Agreement (the Waiver Agreement), which, among other things, temporarily limited the borrowings under its senior credit facility in connection with the Company's chapter 11 reorganization plans. The Company agreed that for a specified period of time it would not request, nor will it be permitted to request, a borrowing which would result in the aggregate exposure on the Senior Credit Agreement to exceed \$450.0 million. Refer to Note 2, "*Restructuring Support Agreement*," for further details regarding the Company's chapter 11 reorganization plans.

On March 17, 2016, the Company entered into the Thirteenth Amendment to its Senior Credit Agreement (the Thirteenth Amendment), which, among other things, reduced the borrowing base to \$700.0 million and scheduled the Company's next borrowing base redetermination for September 1, 2016. Additionally, the Thirteenth Amendment changed the Company's interest margins under the facility to those described above.

At June 30, 2016, the Company had \$101.0 million of indebtedness outstanding, \$5.2 million letters of credit outstanding and was in compliance with the financial covenants under the Senior Credit Agreement.

The filing of the voluntary petitions for relief under chapter 11 of the Bankruptcy Code described in Note 1, "*Financial Statement Presentation*," constituted an event of default under the Senior Credit Agreement that accelerated the Company's obligations and terminated the lenders' commitments under the Senior Credit Agreement.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

In connection with the chapter 11 proceedings, the Company entered into a commitment letter pursuant to which the lenders party thereto committed to provide, subject to certain conditions, a \$600.0 million debtor-in-possession senior secured, super-priority revolving credit facility (the DIP Facility) and a \$600.0 million exit senior secured reserve-based revolving credit facility. Proceeds from the DIP Facility will, among other things, be used to refinance borrowings under the Company's current Senior Credit Agreement. Availability under the DIP Facility will be \$500.0 million upon interim approval by the Bankruptcy Court, rising to \$600.0 million upon entry of a final order. The DIP Facility will be converted into or otherwise refinanced by the exit credit facility following confirmation of the Plan. The DIP Facility will mature in three (3) months, subject to three-month extensions at the request of the borrower, but not beyond twelve (12) months from the commencement of the bankruptcy proceedings or the effective date of a plan of reorganization confirmed by the Bankruptcy Court. Loans under the DIP Facility will bear interest at a rate per annum equal to, as selected by the Company, an alternative base rate plus an applicable margin of 1.75% to 2.75% or adjusted LIBOR plus an applicable margin of 2.75% to 3.75%, in each case based on utilization. The DIP Facility will contain certain customary affirmative and negative covenants, including limitations on indebtedness; liens; dividends and distributions; investments; sale or discount of receivables; mergers; sale of properties; termination of swap agreements and transactions with affiliates, as well as compliance with an approved bi-weekly budget, subject to minor variances. The DIP Facility will also contain specified events of default, including non-payment; non-compliance with covenants or other agreements; default in other material indebtedness; certain adverse judgments; change of control; dismissal (or conversion to chapter 7) of the chapter 11 proceedings; and failure to satisfy certain bankruptcy milestones.

**8.625% Senior Secured Second Lien Notes**

On May 1, 2015, the Company issued \$700.0 million aggregate principal amount of its 8.625% senior secured second lien notes due 2020 (the 2020 Second Lien Notes) in a private placement. The 2020 Second Lien Notes were issued at par. The net proceeds from the sale of the 2020 Second Lien Notes were approximately \$686.2 million (after deducting offering fees and expenses). The Company used the net proceeds from the offering to repay the majority of the then outstanding borrowings under its Senior Credit Agreement.

The 2020 Second Lien Notes bear interest at a rate of 8.625% per annum, payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2015. The 2020 Second Lien Notes will mature on February 1, 2020. The 2020 Second Lien Notes are secured by second-priority liens on substantially all of the Company's and its guarantors' assets to the extent such assets secure the Company's Senior Credit Agreement, its 2022 Second Lien Notes (defined below) and its Third Lien Notes (defined below) (the Collateral). Pursuant to the terms of an Intercreditor Agreement, dated May 1, 2015, as amended by those certain Priority Confirmation Joinders, dated September 10, 2015 and December 21, 2015, in connection with the issuance of the Third Lien Notes and the 2022 Second Lien Notes, respectively (the Intercreditor Agreement), the security interest in those assets that secure the 2020 Second Lien Notes and the guarantees are contractually subordinated to liens that secure the Company's Senior Credit Agreement and certain other permitted indebtedness. Consequently, the 2020 Second Lien Notes and the guarantees are effectively subordinated to the Senior Credit Agreement and such other indebtedness to the extent of the value of such assets. The Collateral does not include any of the assets of HK TMS, LLC, a wholly owned subsidiary of the Company, or any of the Company's future unrestricted subsidiaries.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

**12.0% Senior Secured Second Lien Notes**

On December 21, 2015, the Company completed the issuance in a private placement of approximately \$112.8 million aggregate principal amount of new 12.0% senior secured second lien notes due 2022 (the 2022 Second Lien Notes) in exchange for approximately \$289.6 million principal amount of its senior unsecured notes, consisting of \$116.6 million principal amount of 9.75% senior notes due 2020, \$137.7 million principal amount of 8.875% senior notes due 2021 and \$35.3 million principal amount of 9.25% senior notes due 2022. At closing, the Company paid all accrued and unpaid interest since the respective interest payment dates of the unsecured notes surrendered in the exchange. The Company recorded the issuance of the 2022 Second Lien Notes at par.

Interest on the 2022 Second Lien Notes accrues at a rate of 12.0% per annum, payable semi-annually on February 15 and August 15 of each year, beginning on February 15, 2016. The 2022 Second Lien Notes will mature on February 15, 2022. The 2022 Second Lien Notes are secured by second-priority liens on the Collateral. Pursuant to the terms of the Intercreditor Agreement, dated December 21, 2015, the security interest in the Collateral securing the 2022 Second Lien Notes and the guarantees are contractually equal with the liens that secure the 2020 Second Lien Notes and contractually subordinated to liens that secure the Company's Senior Credit Agreement and certain other permitted indebtedness. Consequently, the 2022 Second Lien Notes and the guarantees are effectively subordinated to the Senior Credit Agreement and such other indebtedness and effectively equal to the 2020 Second Lien Notes, in each case to the extent of the value of the Collateral.

**13.0% Senior Secured Third Lien Notes**

On September 10, 2015, the Company issued approximately \$1.02 billion aggregate principal amount of new 13.0% senior secured third lien notes due 2022 (the Third Lien Notes) in a private placement in exchange for approximately \$497.2 million principal amount of its 9.75% senior notes due 2020, \$774.7 million principal amount of its 8.875% senior notes due 2021 and \$294.4 million principal amount of its 9.25% senior notes due 2022 in privately negotiated transactions with certain holders of its outstanding senior unsecured notes. At closing, the Company paid all accrued and unpaid interest since the respective interest payment dates of the notes surrendered in the exchange. The Company recorded the issuance of the Third Lien Notes at par.

The Third Lien Notes bear interest at a rate of 13.0% per annum, payable semi-annually on February 15 and August 15, commencing on February 15, 2016. The Third Lien Notes mature on February 15, 2022. The Third Lien Notes are secured by third-priority liens on the Collateral. The Third Lien Notes are governed by an Indenture dated September 10, 2015, which contains affirmative and negative covenants substantially similar to those governing the Company's outstanding 2020 Second Lien Notes and the 2022 Second Lien Notes. Pursuant to the terms of the Intercreditor Agreement, the security interest in those assets that secure the Third Lien Notes and the guarantees are contractually subordinated to liens that secure the Company's Senior Credit Agreement, the 2020 Second Lien Notes, the 2022 Second Lien Notes and certain other permitted indebtedness. Consequently, the Third Lien Notes and the guarantees are effectively subordinated to the Senior Credit Agreement, the 2020 Second Lien Notes, the 2022 Second Lien Notes and such other indebtedness to the extent of the value of the Collateral.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

**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 offering fees and 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 and are effectively subordinate to its secured debt, including secured debt under the Senior Credit Agreement, the 2020 Second Lien Notes, the 2022 Second Lien Notes and the Third Lien Notes and rank equally with all of its current and future senior indebtedness. The 2022 Notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by the Company's existing 100% owned subsidiaries, except for the 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.

During the first quarter of 2016, the Company repurchased \$15.5 million principal amount of 2022 Notes for cash at prevailing market prices at the time of the transactions and recognized an \$11.1 million net gain on the extinguishment of debt. At closing, the Company paid all accrued and unpaid interest since the prior interest payment date of the 2022 Notes. As of June 30, 2016, \$37.2 million principal amount of the Company's 2022 Notes remained outstanding.

**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 offering fees and expenses) and were used to fund a portion of the cash consideration paid in the Williston Basin Acquisition.

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 offering fees and 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 2021 Notes will mature on May 15, 2021. The 2021 Notes are senior unsecured obligations of the Company and are effectively subordinate to its secured debt, including secured debt under the Senior Credit Agreement, the 2020 Second Lien Notes, the 2022 Second Lien Notes and the Third Lien Notes 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 subsidiaries, except for

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

the 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.

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 \$0.8 million at June 30, 2016. 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 \$4.3 million at June 30, 2016.

During the first quarter of 2016, the Company repurchased \$51.8 million principal amount of the 2021 Notes for cash at prevailing market prices at the time of the transactions and recognized a \$47.5 million net gain on the extinguishment of debt. At closing, the Company paid all accrued and unpaid interest since the prior interest payment date of the 2021 Notes. As of June 30, 2016, \$297.2 million principal amount of the Company's 2021 Notes remained outstanding.

**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 offering fees and expenses) and were used to fund a portion of the cash consideration paid in the merger with GeoResources, Inc., 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 \$406.3 million (after deducting offering fees and 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 are effectively subordinate to its secured debt, including secured debt under the Senior Credit Agreement, the 2020 Second Lien Notes, the 2022 Second Lien Notes and the Third Lien Notes and rank equally with all of its 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 the 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.

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 \$1.6 million at June 30, 2016. 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

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. DEBT (Continued)**

the effective interest method. The remaining unamortized premium was approximately \$2.2 million at June 30, 2016.

During the first quarter of 2016, the Company repurchased \$24.5 million principal amount of the 2020 Notes for cash at prevailing market prices at the time of the transactions and recognized a \$22.8 million net gain on the extinguishment of debt. At closing, the Company paid all accrued and unpaid interest since the prior interest payment date of the 2020 Notes. As of June 30, 2016, \$315.5 million principal amount of the Company's 2020 Notes remained outstanding.

**8.0% Convertible Note**

On February 8, 2012, the Company issued to HALRES, LLC (HALRES), a note in the principal amount of \$275.0 million due 2017 (the Convertible Note) together with five year warrants (February 2012 Warrants) for an aggregate purchase price of \$275.0 million. The Convertible 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. 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 Convertible Note, all or any portion of the interest due on the Convertible 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, respectively, to the Convertible Note, increasing the principal amount to \$289.7 million. The Company did not elect to pay-in-kind interest for the subsequent quarterly payments. The Convertible Note is a senior unsecured obligation of the Company.

On March 9, 2015, the Company entered into an amendment (the HALRES Note Amendment) to its Convertible Note. The HALRES Note Amendment extended the maturity date of the Convertible Note by three years, from February 8, 2017 to February 8, 2020. The Convertible Note originally provided for prepayment without premium or penalty at any time after February 8, 2014, at which time it also became convertible into shares of the Company's common stock at a conversion price of \$22.50 per share. These dates have been extended pursuant to the HALRES Note Amendment and the conversion price has been adjusted, such that at any time after March 9, 2017, the Company may prepay the Convertible Note without premium or penalty, and HALRES may elect to convert all or any portion of unpaid principal and interest outstanding under the Convertible Note to shares of the Company's common stock at a conversion price of \$12.20 per share, subject to adjustments for stock splits and other customary anti-dilution provisions as set forth in the Convertible Note. At the same time, the Company also entered into an amendment to the February 2012 Warrants (the Warrant Amendment) which extended the term of the February 2012 Warrants from February 8, 2017 to February 8, 2020 and adjusted the exercise price of the February 2012 Warrants from \$22.50 to \$12.20 per share. The HALRES Note Amendment and the Warrant Amendment were approved by the Company's stockholders on May 6, 2015, in accordance with the rules of the New York Stock Exchange. In conjunction with the HALRES Note Amendment, the Company recorded a discount of \$25.9 million to be amortized over the remaining life of the Convertible Note using the effective interest method. As of June 30, 2016, the remaining unamortized discount was \$20.7 million.

**Debt Issuance Costs**

The Company capitalizes certain direct costs associated with the issuance of debt and amortizes such costs over the lives of the respective debt. For the six months ended June 30, 2016, the Company



Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. DEBT (Continued)**

expensed \$2.5 million of debt issuance costs in conjunction with the debt repurchases and a decrease in the borrowing base under the Senior Credit Agreement. At June 30, 2016 and December 31, 2015, the Company had approximately \$34.5 million and \$40.3 million, respectively, of unamortized debt issuance costs. The debt issuance costs for the Company's Senior Credit Agreement are presented in "*Debt issuance costs, net*" within total assets on the unaudited condensed consolidated balance sheets, and the debt issuance costs for the Company's senior secured and unsecured debt are presented in "*Current portion of long-term debt, net*" and "*Long-term debt, net*" within total liabilities on the unaudited condensed consolidated balance sheets.

**5. FAIR VALUE MEASUREMENTS**

Pursuant to ASC 820, *Fair Value Measurements* (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.

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, 2016 and December 31, 2015. 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, 2016 or the year ended December 31, 2015.

	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Assets</b>				
Receivables from derivative contracts	\$	\$	141,097	\$ 141,097
<b>Liabilities</b>				
Liabilities from derivative contracts	\$	\$	42	\$ 194

Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. FAIR VALUE MEASUREMENTS (Continued)**

	December 31, 2015				Total
	Level 1	Level 2	Level 3		
	(In thousands)				
<b>Assets</b>					
Receivables from derivative contracts	\$	\$ 365,475	\$	\$	\$ 365,475
<b>Liabilities</b>					
Liabilities from derivative contracts	\$	\$ 105	\$ 185	\$	\$ 290

Derivative contracts listed above as Level 2 include collars, swaps and swaptions 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 market 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 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:

	Significant Unobservable Inputs (Level 3)	
	June 30, 2016	December 31, 2015
	(In thousands)	
Beginning Balance	\$ (185)	\$ (1,319)
Net gain (loss) on derivative contracts	33	1,134
Ending Balance	\$ (152)	\$ (185)
Change in unrealized gains (losses) included in earnings related to derivatives still held at June 30, 2016 and December 31, 2015	\$ 33	\$ (185)

The Company's derivative contracts are with major financial institutions with investment grade credit ratings which are believed to have 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.

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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 receivables and accounts payables approximate 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

Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. FAIR VALUE MEASUREMENTS (Continued)**

values of the Company's fixed interest rate debt instruments as of June 30, 2016 and December 31, 2015 (excluding discounts, premiums and debt issuance costs):

Debt	June 30, 2016		December 31, 2015	
	Principal Amount	Estimated Fair Value	Principal Amount	Estimated Fair Value
	(In thousands)			
8.625% senior secured second lien notes	\$ 700,000	\$ 659,120	\$ 700,000	\$ 479,500
12.0% senior secured second lien notes	112,826	106,237	112,826	77,286
13.0% senior secured third lien notes	1,017,970	539,524	1,017,970	333,385
9.25% senior notes	37,194	8,276	52,694	14,422
8.875% senior notes	297,193	66,125	348,944	95,506
9.75% senior notes	315,535	70,207	340,035	93,068
8.0% convertible note	289,669	69,926	289,669	87,393
	\$ 2,770,387	\$ 1,519,415	\$ 2,862,138	\$ 1,180,560

The fair value of the Company's fixed interest rate debt instruments was calculated using Level 2 criteria. 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.

During the three months ended March 31, 2016, the Company recorded a non-cash impairment charge of \$28.1 million related to its gas gathering systems. See Note 1, "*Financial Statement Presentation*," for a discussion of the valuation approach used and the classification of the estimate within the fair value hierarchy.

As discussed in Note 4, "*Debt*" and in Note 10, "*Stockholders' Equity*," on May 6, 2015, the HALRES Note Amendment and the Warrant Amendment became effective. The fair value estimates for the Convertible Note and the February 2012 Warrants include the use of observable inputs such as the Company's stock price, expected volatility, and credit spread and the risk-free rate. The use of these observable inputs results in the fair value estimates being classified as Level 2.

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; consequently, 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. When derivative contracts are available at terms (or prices) acceptable to the Company, it generally hedges a substantial, but varying,

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)**

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. The Company's hedge policies and objectives may change significantly as its operational profile changes and/or commodities prices change. The Company does not enter into derivative contracts for speculative trading purposes.

It is the Company's policy to enter into derivative contracts only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market makers. The Company did not post collateral under any of its derivative contracts as they are secured under the Company's Senior Credit Agreement or are uncollateralized trades.

At June 30, 2016 and December 31, 2015, the Company's crude oil and natural gas derivative positions consisted of swaps, swaptions, costless put/call "collars," and extendable costless collars. 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. Swaptions are swap contracts that may be extended annually at the option of the counterparty on a designated date. 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. 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 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, 2016, the Company had 34 open commodity derivative contracts summarized in the following tables: one natural gas collar arrangement, 14 crude oil collar arrangements, 13 crude oil swaps, five crude oil swaptions and one crude oil extendable collar.

At December 31, 2015, the Company had 36 open commodity derivative contracts summarized in the following tables: one natural gas collar arrangement, 16 crude oil collar arrangements, 13 crude oil swaps, five crude oil swaptions and one crude oil extendable collar.

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.

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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, 2016 and December 31, 2015:

Derivatives not designated as hedging contracts under ASC 815	Balance sheet location	Asset derivative contracts		Balance sheet location	Liability derivative contracts		
		June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015	
		(In thousands)				(In thousands)	
Commodity contracts	Current assets receivables from derivative contracts	\$ 135,455	\$ 348,861	Current liabilities from derivative contracts	\$	\$	
Commodity contracts	Other noncurrent assets receivables from derivative contracts	5,642	16,614	Other noncurrent liabilities from derivative contracts	(194)	(290)	
<b>Total derivatives not designated as hedging contracts under ASC 815</b>		<b>\$ 141,097</b>	<b>\$ 365,475</b>		<b>\$ (194)</b>	<b>\$ (290)</b>	

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,		Amount of gain or (loss) recognized in income on derivative contracts for the Six Months Ended June 30,	
		2016	2015	2016	2015
		(In thousands)		(In thousands)	
<b>Commodity contracts:</b>					
Unrealized gain (loss) on commodity contracts	Other income (expenses) net gain (loss) on derivative contracts	\$ (135,303)	\$ (175,712)	\$ (224,281)	\$ (183,713)
Realized gain (loss) on commodity contracts	Other income (expenses) net gain (loss) on derivative contracts	80,780	88,148	188,500	195,897
<b>Total net gain (loss) on derivative contracts</b>		<b>\$ (54,523)</b>	<b>\$ (87,564)</b>	<b>\$ (35,781)</b>	<b>\$ 12,184</b>

Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)**

At June 30, 2016 and December 31, 2015, the Company had the following open crude oil and natural gas derivative contracts:

Period	Instrument	Commodity	Volume in Mmbtu's/ Bbl's	June 30, 2016		December 31, 2015	
				Floors		Ceilings	
				Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price
July 2016 - December 2016	Collars	Natural Gas	368,000	\$4.00	\$ 4.00	\$4.22	\$ 4.22
July 2016 - December 2016 <sup>(1)(3)</sup>	Collars	Crude Oil	2,024,000	60.00 - 90.00	73.00	64.00 - 95.10	78.87
July 2016 - December 2016 <sup>(2)(3)</sup>	Swaps	Crude Oil	2,392,000	62.00 - 91.73	85.43		
January 2017 - December 2017	Collars	Crude Oil	1,368,750	50.00 - 60.00	57.33	70.00 - 76.84	74.16
January 2016 - June 2016	Collars	Crude Oil	182,000	\$90.00	\$ 90.00	\$96.85	\$ 96.85
January 2016 - December 2016	Collars	Natural Gas	732,000	4.00	4.00	4.22	4.22
January 2016 - December 2016 <sup>(1)</sup>	Collars	Crude Oil	4,392,000	60.00 - 90.00	71.91	64.00 - 95.10	77.71
January 2016 - December 2016 <sup>(2)</sup>	Swaps	Crude Oil	4,758,000	62.00 - 91.73	85.43		
January 2017 - December 2017	Collars	Crude Oil	1,368,750	50.00 - 60.00	57.33	70.00 - 76.84	74.16

(1) Includes an outstanding crude oil collar which may be extended by the counterparty at a floor of \$60.00 per Bbl and a ceiling of \$75.00 per Bbl for a total of 365,000 Bbls for the year ended December 31, 2017.

(2) Includes an outstanding crude oil swap which may be extended by the counterparty 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 by the counterparty 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 by the counterparty at a price of \$88.87 per Bbl totaling 547,500 Bbls for the year ended December 31, 2017.

(3) Subsequent to June 30, 2016, crude oil collars totaling 184,000 Bbls and crude oil swaps totaling 184,000 Bbls for the remainder of 2016 were terminated resulting in proceeds of \$9.6 million to the Company.

The Company presents the fair value of its derivative contracts at the gross amounts in the unaudited condensed consolidated balance sheets. The following table shows the potential effects of master netting arrangements on the fair value of the Company's derivative contracts at June 30, 2016 and December 31, 2015:

Offsetting of Derivative Assets and Liabilities	Derivative Assets		Derivative Liabilities	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015

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	(In thousands)			
Gross Amounts Presented in the Consolidated Balance Sheet	\$ 141,097	\$ 365,475	\$ (194)	\$ (290)
Amounts Not Offset in the Consolidated Balance Sheet	(21)	(53)	20	52
Net Amount	\$ 141,076	\$ 365,422	\$ (174)	\$ (238)

The Company enters into an International Swap Dealers Association Master Agreement (ISDA) with each counterparty prior to a derivative contract with such counterparty. The ISDA is a standard contract that governs all derivative contracts entered into between the Company and the respective



Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. DERIVATIVE AND HEDGING ACTIVITIES (Continued)**

counterparty. The ISDA allows for offsetting of amounts payable or receivable between the Company and the counterparty, at the election of both parties, for transactions that occur on the same date and in the same currency.

The filing of the voluntary petitions for relief under chapter 11 of the Bankruptcy Code described in Note 1, "*Financial Statement Presentation*," constituted an event of default under the Company's derivatives contracts that gives the counterparties the option to terminate such contracts. If terminated, the contracts would be net settled in cash. The Company obtained a waiver from its hedge counterparties indicating that they will not exercise their option to terminate their contracts so long as the Restructuring Support Agreement is not terminated, the DIP Facility commitment letter is not terminated and the Company meet its various obligations thereunder, among other things.

**7. ASSET RETIREMENT OBLIGATIONS**

The Company records an asset retirement obligation (ARO) on oil and natural gas properties when it can reasonably estimate the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon costs. For gas gathering systems and equipment, the Company records an ARO when the system is placed in service and it can reasonably estimate the fair value of an obligation to perform site reclamation and other necessary work when it is required. The Company records the ARO liability on the unaudited condensed consolidated balance sheets and capitalizes a portion of the cost in "*Oil and natural gas properties*" or "*Other operating property and equipment*" during the period in which the obligation is incurred. The Company records the accretion of its ARO liabilities in "*Depletion, depreciation and accretion*" expense in the unaudited condensed consolidated statements of operations. The additional capitalized costs are depreciated on a unit-of-production basis or straight-line basis.

The Company recorded the following activity related to its ARO liability for the six months ended June 30, 2016 (in thousands, inclusive of the current portion):

Liability for asset retirement obligations as of December 31, 2015	\$ 47,016
Liabilities settled and divested	(180)
Additions	1,024
Acquisitions	75
Accretion expense	1,031
Liability for asset retirement obligations as of June 30, 2016	\$ 48,966

**8. COMMITMENTS AND CONTINGENCIES****Commitments**

The Company leases corporate office space in Houston, Texas; and Denver, Colorado as well as a number of other field office locations. Rent expense was approximately \$4.3 million for the six months ended June 30, 2016 and 2015. As of June 30, 2016, the amount of commitments under office and equipment lease agreements is consistent with the levels at December 31, 2015, as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, approximating \$46.8 million in the aggregate, and containing various expiration dates through 2024.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. COMMITMENTS AND CONTINGENCIES (Continued)**

In addition, the Company has commitments for certain equipment under long-term operating lease agreements, namely drilling rigs as well as pipeline and well equipment, with various expiration dates through 2018. In the first quarter of 2016, the Company entered into an amendment to one of its drilling rig contracts with an original term ending date of August 31, 2016, whereby, as of April 5, 2016, the Company early terminated the rig contract, incurred a termination fee of approximately \$1.2 million and reduced its 2016 drilling commitments by extending part of the contract term on another of its drilling rig contracts out further in 2018. In January 2015, the Company made the decision to early terminate a drilling rig contract in response to the decline in crude oil prices, and the Company incurred an early termination fee of \$6.0 million, paid over the first half of 2015. If certain requirements are not met by two separate trigger dates, the first being January 1, 2017 and the second being January 12, 2020, the Company may incur up to an additional \$3.0 million in connection with this drilling rig contract. Rig termination fees are expensed as incurred within "*Gathering and other*" on the unaudited condensed consolidated statements of operations.

In addition, the Company has two drilling rig commitments, for which the Company is incurring a stacking fee of \$16,000 and \$17,000 per day. The contract terms for these drilling rig commitments extends through the second quarter of 2017 and 2018, respectively. Rig stacking fees are expensed as incurred within "*Gathering and other*" on the unaudited condensed consolidated statements of operations. Early termination of the Company's additional drilling rig commitments would result in termination penalties approximating \$14.8 million, which would be in lieu of the remaining \$20.8 million of drilling rig commitments as of June 30, 2016.

The Company has entered into various long-term gathering, transportation and sales contracts with respect to production from the Bakken/Three Forks formations in North Dakota. As of June 30, 2016, the Company had in place nine long-term crude oil contracts and five long-term natural gas contracts in this area. Under the terms of these contracts, the Company has committed a substantial portion of its Bakken/Three Forks production for periods ranging from one to ten years from the date of first production. The sales prices under these contracts are based on posted market rates. Historically, the Company has been able to meet its delivery commitments.

On June 16, 2014, the Company entered into a transaction to develop its TMS assets with funds and accounts managed by affiliates of Apollo Global Management, LLC and on June 1, 2015 amended this agreement. See Note 9, "*Mezzanine Equity*," for a discussion of the drilling obligation associated with the transaction.

**Contingencies**

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. While the outcome and impact of currently pending legal proceedings cannot be determined, the Company's management and legal counsel believe that the resolution of these proceedings through settlement or adverse judgment will not have a material effect on the Company's unaudited condensed consolidated operating results, financial position or cash flows.

**9. MEZZANINE EQUITY**

On June 16, 2014, funds and accounts managed by affiliates of Apollo Global Management, LLC (Apollo) contributed \$150 million in cash to HK TMS, LLC, a Delaware limited liability company

Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. MEZZANINE EQUITY (Continued)**

(HK TMS), wholly owned by the Company that, as of June 16, 2014 held all of the Company's undeveloped acreage in the TMS formation, located in Mississippi and Louisiana, in exchange for the issuance by HK TMS of 150,000 preferred shares. At the closing, the Company also contributed \$50 million in cash to HK TMS. Holders of the HK TMS preferred shares will receive quarterly cash dividends of 8% cumulative perpetual per annum, subject to HK TMS' option to pay such dividends "in-kind" through the issuance of additional preferred shares. The preferred shares will be automatically redeemed and cancelled when the holders receive cash dividends and distributions on the preferred shares equating to the greater of a 12% annual rate of return plus principal and 1.25 times their investment plus applicable fees (the Redemption Price), subject to adjustment under certain circumstances. The preferred shares have a liquidation preference in the event of dissolution in an amount equal to the Redemption Price plus any unpaid dividends not otherwise included in the calculation of the Redemption Price through the date of liquidation payment. HK TMS may also redeem the preferred shares at any time after December 31, 2016 by paying the Redemption Price, or may be required to redeem the preferred shares for the Redemption Price plus certain fees under certain circumstances.

On June 1, 2015, HK TMS and Apollo entered into an amendment to the original agreement (the HK TMS Amendment) which, among other things, i) commits HK TMS to drill a minimum of 6.5 net wells in each of the five consecutive twelve month periods beginning December 31, 2015 and ii) allows for the redemption of preferred shares at the Redemption Price between March 1, 2016 and June 30, 2016 at the election of Apollo to the extent there is available cash above the minimum cash balance, which is discussed further below. For any commitment period in which HK TMS does not meet its drilling obligation, HK TMS must use available cash, above the minimum cash balance, to redeem preferred shares at the Redemption Price.

The preferred shares have been classified as "*Redeemable noncontrolling interest*" and included in "*Mezzanine equity*" between total liabilities and stockholders' equity on the unaudited condensed consolidated balance sheets pursuant to ASC 480-10-S99-3A. The preferred shares are considered probable of becoming redeemable and therefore were accreted up to the estimated required redemption value through June 30, 2016. The accretion is presented as a deemed dividend and recorded in "*Redeemable noncontrolling interest*" on the unaudited condensed consolidated balance sheets and within "*Preferred dividends and accretion on redeemable noncontrolling interest*" on the unaudited condensed consolidated statements of operations. In accordance with ASC 480-10-S99-3A, an adjustment to the carrying amount presented in "*Mezzanine equity*" will be recognized as charges against retained earnings and will reduce income available to common shareholders in the calculation of earnings per share. Adjustments to the carrying amount may not be necessary if the application of ASC No. 810, *Consolidation* (ASC 810) results in a noncontrolling interest balance in excess of what is required pursuant to ASC 480-10-S99-3A.

In March 2015, Apollo delivered a withdrawal notice to HK TMS indicating their election not to acquire additional preferred shares in HK TMS (the Withdrawal Notice). Upon issuance of the Withdrawal Notice, HK TMS incurs a fee escalating from \$2.50 per share to \$20.00 per share for the next eight full fiscal quarters for any preferred shares then outstanding, which began in the quarter ended June 30, 2015 (the Withdrawal Exit Fee). The Withdrawal Exit Fee is payable upon redemption of the preferred shares. As of June 30, 2016, HK TMS incurred Withdrawal Exit Fees of \$6.2 million. The Withdrawal Exit Fees were recorded at fair value within "*Other noncurrent liabilities*" on the unaudited condensed consolidated balance sheets.

Table of Contents**HALCÓN RESOURCES CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. MEZZANINE EQUITY (Continued)**

As part of the transaction, there are certain restrictions on the transfer of assets, including cash, to the Company from HK TMS. HK TMS is required to maintain a minimum cash balance equal to two quarterly dividend payments, of approximately \$3.5 million each, plus \$10.0 million, which is presented on the unaudited condensed consolidated balance sheets in "*Restricted cash*." Additionally, the quarterly 8% dividends paid to holders of the HK TMS preferred shares have priority over other cash distributions. No dividends are permitted to be paid to the Company from HK TMS prior to December 31, 2016. HK TMS is restricted from transferring more than 20% of its maximum net acres and from transferring any assets exceeding 20% of HK TMS's proved reserves at any one time without approval from the Company and Apollo. Finally, proceeds from any such transfers of acres or other assets must be used for HK TMS's capital or operating expenditures, or to redeem preferred shares.

The following table sets forth a reconciliation of the changes in fair value of the embedded derivative associated with the amended transaction, which is classified as Level 3 in the fair value hierarchy (in thousands):

	<b>Embedded derivative</b>
Balance at December 31, 2015	\$ 6,100
Change in fair value	3,020
Balance at June 30, 2016	\$ 9,120

The Company recorded the following activity related to the preferred shares recorded in "*Mezzanine equity*" on the unaudited condensed consolidated balance sheets for the period presented (in thousands, except share amounts):

	<b>Redeemable noncontrolling interest</b>	
	<b>Shares</b>	<b>Amount</b>
Balances at December 31, 2015	165,639	\$ 183,986
Dividends paid in-kind	6,655	6,655
Accretion of redeemable noncontrolling interest		21,862
Balances at June 30, 2016	172,294	\$ 212,503

For the six months ended June 30, 2016 and 2015, HK TMS issued 6,655 and 6,131 additional preferred shares to Apollo for dividends paid-in-kind, respectively. These dividends are presented within "*Preferred dividends and accretion on redeemable noncontrolling interest*" on the unaudited condensed consolidated statements of operations. Upon the election of in-kind dividends, HK TMS must pay a fee of \$5.00 per preferred share then outstanding (PIK Exit Fee). Such fees will be due upon redemption of the preferred shares. As of June 30, 2016, HK TMS incurred PIK Exit Fees totaling \$5.6 million, which were recorded at fair value within "*Other noncurrent liabilities*" on the unaudited condensed consolidated balance sheets.

HK TMS was not included in the chapter 11 filings or the Restructuring Support Agreement discussed in Note 1, "*Financial Statement Presentation*" and Note 2, "*Restructuring Support Agreement*," respectively.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. STOCKHOLDERS' EQUITY**

**5.75% Series A Convertible Perpetual Preferred Stock**

On June 18, 2013, the Company completed its offering of 345,000 shares of its 5.75% Series A Convertible Perpetual Preferred Stock (the Series A Preferred Stock) at a public offering price of \$1,000 per share (the Liquidation Preference). The net proceeds to the Company were approximately \$335.2 million, after deducting the underwriting discount and offering expenses. The Company used the net proceeds to repay a portion of the then outstanding borrowings under its Senior Credit Agreement.

Holder of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Company's Board of Directors, cumulative dividends at the rate of 5.75% per annum (the Dividend Rate) on the Liquidation Preference per share of the Series A Preferred Stock, payable quarterly in arrears on each dividend payment date. Dividends may be paid in cash or, where freely transferable by any non-affiliate recipient thereof, in common stock of the Company, or a combination thereof, and are payable on March 1, June 1, September 1 and December 1 of each year. In January 2016, the Company announced that future quarterly dividends on the Series A Preferred Stock will be suspended due to the weakened market conditions as a result of low commodity prices. As of June 30, 2016, cumulative, undeclared dividends on the Series A Preferred Stock amounted to approximately \$7.5 million.

The Series A Preferred Stock has no maturity date, is not redeemable by the Company at any time, and will remain outstanding unless converted by the holders or mandatorily converted by the Company. Each share of Series A Preferred Stock is convertible, at the holder's option at any time, into approximately 32.49 shares of common stock of the Company (which is equivalent to a conversion price of approximately \$30.80 per share), subject to certain adjustments. Based on the initial conversion rate and Series A Preferred Stock outstanding, approximately 11.2 million shares of common stock of the Company are issuable upon conversion of all the shares of Series A Preferred Stock. On or after June 6, 2018, the Company may, at its option, give notice of its election to cause all outstanding shares of the Series A Preferred Stock to be automatically converted into shares of common stock of the Company at the conversion rate (as defined in the Series A Designation), if the closing sale price of the Company's common stock equals or exceeds 150% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days. As of June 30, 2016, 122,546 shares of Series A Preferred Stock have been converted into approximately 4.0 million shares of common stock and 222,454 shares of Series A Preferred Stock remained outstanding.

If the Company undergoes certain fundamental changes, including failure of the Company's common stock to be listed on the NYSE, NASDAQ Global Select or NASDAQ Global Market, and a holder converts its shares of the Series A Preferred Stock at any time beginning at the opening of business on the trading day immediately following the effective date of such fundamental change and ending at the close of business on the 30th trading day immediately following such effective date, the holder will receive, for each share of the Series A Preferred Stock surrendered for conversion, a number of shares of common stock of the Company equal to the greater of: (1) the sum of (i) the conversion rate and (ii) the make-whole premium, if any, as described in the Series A Designation; and (2) the conversion rate which will be increased to equal (i) the sum of the \$1,000 liquidation preference plus all accumulated and unpaid dividends to, but excluding, the settlement date for such conversion, divided by (ii) the average of the closing sale prices of the Company's common stock for the five consecutive trading days ending on the third business day prior to such settlement date; provided that the prevailing conversion rate as adjusted pursuant to this will not exceed 58.48 shares of common

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. STOCKHOLDERS' EQUITY (Continued)**

stock of the Company per share of the Series A Preferred Stock (subject to adjustment in the same manner as the conversion rate).

Except as required by Delaware law, holders of the Series A Preferred Stock will have no voting rights unless dividends are in arrears and unpaid for six or more quarterly periods. Until such arrearage is paid in full, the holders (voting as a single class with the holders of any other preferred shares having similar voting rights) will be entitled to elect two additional directors and the number of directors on the Company's board of directors will increase by that same number.

**Common Stock**

On December 28, 2015, the Company completed a one-for-five reverse stock split. Retroactive application of the reverse stock split is required and all share and per share information included for all periods presented in these unaudited condensed consolidating financial statements reflects the reverse stock split.

On March 18, 2015, the Company entered into an Equity Distribution Agreement (the Equity Distribution Agreement) with BMO Capital Markets Corp., Jefferies LLC and MLV & Co. LLC (collectively, the Managers), pursuant to which, during 2015, the Company publicly sold approximately 1.9 million shares for net proceeds of approximately \$15.0 million, after deducting offering expenses. The shares sold were registered under the Securities Act pursuant to a Registration Statement on Form S-3 (No. 333-188640), which was filed with the SEC and became effective March 13, 2015. The Company used the net proceeds from the offering to repay a portion of outstanding borrowings under its Senior Credit Agreement and for general corporate purposes.

On May 22, 2014, with stockholder approval, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation with the Delaware Secretary of State to increase its authorized common stock by approximately 670.0 million shares for a total of 1.34 billion authorized shares of common stock.

**Warrants**

In February 2012, in conjunction with the issuance of the Convertible Note, the Company issued warrants to purchase 7.3 million shares of the Company's common stock at an exercise price of \$22.50 per share of common stock, which the Company refers to as the February 2012 Warrants. The Company allocated \$43.6 million to the February 2012 Warrants which is reflected in additional paid-in capital in stockholders' equity, net of \$0.6 million in issuance costs. The February 2012 Warrants entitled the holders to exercise the warrants in whole or in part at any time prior to the expiration date of February 8, 2017.

On March 9, 2015, in conjunction with the HALRES Note Amendment, the Company entered into an amendment to the February 2012 Warrants, the Warrant Amendment, which extended the term of the February 2012 Warrants from February 8, 2017 to February 8, 2020 and adjusted the exercise price from \$22.50 to \$12.20 per share. The HALRES Note Amendment and the Warrant Amendment (the Amendments) were approved by the Company's stockholders on May 6, 2015, in accordance with the rules of the New York Stock Exchange. See Note 4, "Debt," for further discussion of the Amendments.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. STOCKHOLDERS' EQUITY (Continued)**

**Incentive Plan**

On May 8, 2006, the Company's stockholders first approved the 2006 Long-Term Incentive Plan (the Plan). On May 6, 2015, the Company's stockholders last approved an increase in authorized shares under the Plan from 8.3 million to 16.3 million. As of June 30, 2016 and December 31, 2015, a maximum of 7.4 million and 6.3 million shares of common stock, respectively, remained reserved for issuance under the Plan.

The Company accounts for share-based payment accruals under authoritative guidance on stock compensation, as set forth in ASC 718. The guidance requires all share-based payments to employees and directors, including grants of performance units, stock options, and restricted stock, to be recognized in the financial statements based on their fair values.

For the three and six months ended June 30, 2016, the Company recognized \$1.5 million and \$3.7 million, respectively, of share-based compensation expense. For the three and six months ended June 30, 2015, the Company recognized \$3.4 million and \$8.2 million, respectively, of share-based compensation expense. These were recorded as a component of "*General and administrative*" on the unaudited condensed consolidated statements of operations.

**Performance Share Units**

As of June 30, 2016 and 2015, the Company had outstanding performance share units (PSU) under the Plan covering 0.3 million shares of common stock, respectively, granted to senior management of the Company in 2014. The PSU provides that the number of shares of common stock received upon vesting will vary if the market price of the Company's common stock exceeds certain pre-established target thresholds as measured by the average of the adjusted closing price of a share of the Company's common stock during the sixty trading days preceding the third anniversary of issuance, or the measurement date. The PSU utilizes \$20.00 as the floor price, below which the PSU will not vest and will expire. If the average market price at the measurement date is equal to \$20.00, the PSU will vest and represent the right to receive 50% of the number of shares of common stock underlying the PSU. At \$35.00, the PSU will vest and represent the right to receive the full number of shares of common stock underlying the PSU; and at \$50.00, the PSU will vest and represent the right to receive 200% of the number of shares of common stock underlying the PSU. All stock price targets are subject to customary adjustments based upon changes in the Company's capital structure. In the event the average market price falls between targeted price thresholds, the PSU will represent the right to receive a proportionate number of shares. The Company has reserved for issuance under the Plan the maximum number of shares that participants might have the right to receive upon vesting of the PSU, or 0.6 million shares of common stock.

At June 30, 2016, the Company had \$1.1 million of unrecognized compensation expense related to non-vested PSU to be recognized over a weighted-average period of 0.7 years. At June 30, 2015, the Company had \$2.7 million of unrecognized compensation expense related to non-vested PSU to be recognized over a weighted-average period of 1.7 years.

**Stock Options**

At June 30, 2016, the Company had \$2.8 million of unrecognized compensation expense related to non-vested stock options to be recognized over a weighted-average period of 1.2 years.

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**HALCÓN RESOURCES CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. STOCKHOLDERS' EQUITY (Continued)**

During the six months ended June 30, 2015, the Company granted stock options under the Plan covering 0.7 million shares of common stock to employees of the Company. These stock options have exercise prices ranging from \$7.85 to \$9.85 with a weighted average exercise price of \$9.60. These awards typically vest over a three year period at a rate of one-third on the annual anniversary date of the grant and expire ten years from the grant date. At June 30, 2015, the Company had \$9.0 million of unrecognized compensation expense related to non-vested stock options to be recognized over a weighted-average period of 1.3 years.

**Restricted Stock**

At June 30, 2016, the Company had \$5.2 million of unrecognized compensation expense related to non-vested restricted stock awards to be recognized over a weighted-average period of 1.3 years.

During the six months ended June 30, 2015, the Company granted 0.5 million shares of restricted stock under the Plan to non-employee directors and employees of the Company. These restricted shares were granted at prices ranging from \$6.10 to \$9.85 with a weighted average price of \$8.70. Employee shares vest over a three year period at a rate of one-third on the annual anniversary date of the grant, and the non-employee directors' shares vest six-months from the date of grant. At June 30, 2015, the Company had \$13.4 million of unrecognized compensation expense related to non-vested restricted stock awards to be recognized over a weighted-average period of 1.3 years.



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## HALCÓN RESOURCES CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11. EARNINGS PER COMMON SHARE

The following represents the calculation of earnings (loss) per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Basic:</b>				
Net income (loss) available to common stockholders	\$ (382,353)	\$ (1,104,581)	\$ (949,215)	\$ (1,705,774)
Weighted average basic number of common shares outstanding	120,708	109,063	120,360	96,569
Basic net income (loss) per share of common stock	\$ (3.17)	\$ (10.13)	\$ (7.89)	\$ (17.66)
<b>Diluted:</b>				
Net income (loss) available to common stockholders	\$ (382,353)	\$ (1,104,581)	\$ (949,215)	\$ (1,705,774)
Weighted average basic number of common shares outstanding	120,708	109,063	120,360	96,569
Common stock equivalent shares representing shares issuable upon:				
Exercise of stock options	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Exercise of February 2012 Warrants	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Vesting of restricted shares	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Vesting of performance units				
Conversion of Convertible Note	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Conversion of Series A Preferred Stock	Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Weighted average diluted number of common shares outstanding	120,708	109,063	120,360	96,569
Diluted net income (loss) per share of common stock	\$ (3.17)	\$ (10.13)	\$ (7.89)	\$ (17.66)

Common stock equivalents, including stock options, warrants, restricted shares, convertible debt and preferred stock totaling 44.6 million and 45.2 million shares for the three and six months ended June 30, 2016 were not included in the computation of diluted earnings per share of common stock because the effect would have been anti-dilutive due to the net losses. Common stock equivalents, including stock options, warrants, restricted shares, convertible debt, and preferred stock totaling 48.3 million and 48.2 million shares for the three and six months ended June 30, 2015 were not included in the computation of diluted earnings per share of common stock because the effect would have been anti-dilutive due to the net losses.

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Certain balance sheet amounts are comprised of the following:

	June 30, 2016	December 31, 2015
(In thousands)		
<b>Accounts receivable:</b>		
Oil, natural gas and natural gas liquids revenues	\$ 55,250	\$ 55,129
Joint interest accounts	32,685	67,626
Accrued settlements on derivative contracts	23,072	47,011
Affiliated partnership	123	176
Other	1,725	3,682
	\$ 112,855	\$ 173,624

**Prepays and other:**

Prepays	\$ 8,643	\$ 4,585
Other	51	50
	\$ 8,694	\$ 4,635

**Accounts payable and accrued liabilities:**

Trade payables	\$ 23,357	\$ 47,261
Accrued oil and natural gas capital costs	25,356	54,651
Revenues and royalties payable	56,296	64,002
Accrued interest expense	105,782	88,499
Accrued employee compensation	4,954	2,829
Accrued lease operating expenses	16,435	20,036
Drilling advances from partners	223	7,964
Income taxes payable	9,172	9,172
Affiliated partnership	241	365
Other	373	306
	\$ 242,189	\$ 295,085

**13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The Company's obligations under its Senior Credit Agreement, 2020 Second Lien Notes, 2022 Second Lien Notes, Third Lien Notes and senior unsecured notes are fully and unconditionally guaranteed, jointly and severally, by all of the Company's existing 100% owned subsidiaries, other than HK TMS. See Note 4, "Debt," for information regarding the Company's Senior Credit Agr