HALCON RESOURCES CORP
Form 10-Q
November 09, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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

Halcón Resources Corporation

(Exact name of registrant as specified in its charter)

Delaware	**1311**	**20-0700684**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1000 Louisiana Street, Suite 6700, Houston, TX 77002
(Address of principal executive offices)

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

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

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 ý No o

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 ý No o

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

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

At November 4, 2016, 92,638,093 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 (Part II, Item 1A), 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:

- 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 develop our undeveloped acreage positions;
- our ability to replace our oil and natural gas reserves and production;
- we have historically had substantial indebtedness and we may incur more debt in the future;
- higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business;
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- 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;
- 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;
- 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 our resource plays;

environmental risks;

drilling and operating risks;

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- 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;
- 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.

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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)

	Successor	Predecessor	
	Period from September 10, 2016 through September 30, 2016	Period from July 1, 2016 through September 9, 2016	Three Months Ended September 30, 2015
Operating revenues:			
Oil, natural gas and natural gas liquids sales:			
Oil	$ 21,260	$ 74,002	$ 121,845
Natural gas	823	2,610	5,058
Natural gas liquids	798	2,488	2,615
Total oil, natural gas and natural gas liquids sales	22,881	79,100	129,518
Other	226	247	421
Total operating revenues	23,107	79,347	129,939
Operating expenses:			
Production:			
Lease operating	3,791	12,473	22,248
Workover and other	1,565	6,801	4,769
Taxes other than income	2,173	7,442	12,102
Gathering and other	2,637	7,376	9,091
Restructuring		95	434
General and administrative	16,681	17,317	21,027
Depletion, depreciation and accretion	9,051	25,618	77,071
Full cost ceiling impairment	420,934		511,882
Total operating expenses	456,832	77,122	658,624
Income (loss) from operations	(433,725)	2,225	(528,685)
Other income (expenses):			
Net gain (loss) on derivative contracts	(7,575)	17,783	204,621
Interest expense and other, net	(5,479)	(16,136)	(57,977)
Reorganization items	(556)	913,722	
Gain (loss) on extinguishment of debt			535,141
Total other income (expenses)	(13,610)	915,369	681,785
Income (loss) before income taxes	(447,335)	917,594	153,100
Income tax benefit (provision)	(3,357)	8,666	(6,025)
Net income (loss)	(450,692)	926,260	147,075
Series A preferred dividends		(2,451)	(4,196)

Preferred dividends and accretion on redeemable noncontrolling interest		(791)		(7,388)		(19,351)
Net income (loss) available to common stockholders	$	(451,483)	$	916,421	$	123,528
Net income (loss) per share of common stock:						
Basic	$	(4.96)	$	7.58	$	1.05
Diluted	$	(4.96)	$	6.06	$	0.88
Weighted average common shares outstanding:						
Basic		91,071		120,905		117,211
Diluted		91,071		151,876		150,958

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (Continued)

(In thousands, except per share amounts)

	Successor	Predecessor	
	Period from September 10, 2016 through September 30, 2016	Period from January 1, 2016 through September 9, 2016	Nine Months Ended September 30, 2015
Operating revenues:			
Oil, natural gas and natural gas liquids sales:			
Oil	$ 21,260	$ 248,064	$ 404,368
Natural gas	823	9,511	17,595
Natural gas liquids	798	7,929	10,572
Total oil, natural gas and natural gas liquids sales	22,881	265,504	432,535
Other	226	1,339	1,622
Total operating revenues	23,107	266,843	434,157
Operating expenses:			
Production:			
Lease operating	3,791	50,032	81,266
Workover and other	1,565	22,507	11,614
Taxes other than income	2,173	24,453	37,246
Gathering and other	2,637	29,279	30,583
Restructuring		5,168	2,664
General and administrative	16,681	83,641	68,098
Depletion, depreciation and accretion	9,051	120,555	297,409
Full cost ceiling impairment	420,934	754,769	2,014,518
Other operating property and equipment impairment		28,056	
Total operating expenses	456,832	1,118,460	2,543,398
Income (loss) from operations	(433,725)	(851,617)	(2,109,241)
Other income (expenses):			
Net gain (loss) on derivative contracts	(7,575)	(17,998)	216,805
Interest expense and other, net	(5,479)	(122,249)	(180,206)
Reorganization items	(556)	913,722	
Gain (loss) on extinguishment of debt		81,434	557,907
Gain (loss) on extinguishment of Convertible Note and modification of February 2012 Warrants			(8,219)
Total other income (expenses)	(13,610)	854,909	586,287
Income (loss) before income taxes	(447,335)	3,292	(1,522,954)
Income tax benefit (provision)	(3,357)	8,666	(6,224)
Net income (loss)	(450,692)	11,958	(1,529,178)
Series A preferred dividends		(8,847)	(13,999)
Preferred dividends and accretion on redeemable noncontrolling interest	(791)	(35,905)	(39,069)

Net income (loss) available to common stockholders	$	(451,483)	$	(32,794)	$	(1,582,246)
Net income (loss) per share of common stock:						
Basic	$	(4.96)	$	(0.27)	$	(15.28)
Diluted	$	(4.96)	$	(0.27)	$	(15.28)
Weighted average common shares outstanding:						
Basic		91,071		120,513		103,525
Diluted		91,071		120,513		103,525

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share and per share amounts)

	Successor September 30, 2016	Predecessor December 31, 2015
Current assets:		
Cash	$ 2,011	$ 8,026
Accounts receivable	125,244	173,624
Receivables from derivative contracts	70,835	348,861
Restricted cash	165	16,812
Prepaids and other	7,713	9,270
Total current assets	205,968	556,593
Oil and natural gas properties (full cost method):		
Evaluated	1,202,727	7,060,721
Unevaluated	329,218	1,641,356
Gross oil and natural gas properties	1,531,945	8,702,077
Less accumulated depletion	(429,361)	(5,933,688)
Net oil and natural gas properties	1,102,584	2,768,389
Other operating property and equipment:		
Gas gathering and other operating assets	38,097	130,090
Less accumulated depreciation	(203)	(22,435)
Net other operating property and equipment	37,894	107,655
Other noncurrent assets:		
Receivables from derivative contracts	2,816	16,614
Debt issuance costs, net		7,633
Funds in escrow and other	1,786	1,808
Total assets	$ 1,351,048	$ 3,458,692

Current liabilities:		
Accounts payable and accrued liabilities	$ 170,992	$ 295,085
Liabilities from derivative contracts	1,415	
Other	4,938	163
Total current liabilities	177,345	295,248
Long-term debt, net	1,004,524	2,873,637
Other noncurrent liabilities:		
Liabilities from derivative contracts	1,122	290
Asset retirement obligations	31,082	46,853
Other	4,139	6,264

Commitments and contingencies (Note 10)				
Mezzanine equity:				
Redeemable noncontrolling interest				183,986
Stockholders' equity:				
Predecessor Preferred stock: 1,000,000 shares of $0.0001 par value authorized; 244,724 shares of 5.75% Cumulative Perpetual Convertible Series A, issued and outstanding				
Predecessor Common stock: 1,340,000,000 shares of $0.0001 par value authorized; 122,523,559 shares issued and outstanding				12
Predecessor Additional paid-in capital				3,283,097
Successor Common stock: 1,000,000,000 shares of $0.0001 par value authorized; 92,638,093 shares issued and outstanding		9		
Successor Additional paid-in capital		584,310		
Retained earnings (accumulated deficit)		(451,483)		(3,230,695)
Total stockholders' equity		132,836		52,414
Total liabilities and stockholders' equity	$	1,351,048	$	3,458,692

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity
	Shares	**Amount**	**Shares**	**Amount**			
Balances at December 31, 2014 (Predecessor)	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
Balances at December 31, 2015 (Predecessor)	245		122,524	12	3,283,097	(3,230,695)	52,414
Net income (loss)						11,958	11,958
Conversion of Series A preferred stock	(23)		724				
Preferred dividends on redeemable noncontrolling interest						(9,329)	(9,329)
Accretion of redeemable noncontrolling interest						(26,576)	(26,576)
Fair value of equity issued to Predecessor common stockholders					(22,176)		(22,176)
Cash payment to Preferred Holders					(11,100)		(11,100)
Reverse stock split rounding			5				
Offering costs					(10)		(10)
Long-term incentive plan forfeitures			(517)				
Reduction in shares to cover individuals' tax withholding			(498)		(176)		(176)
Share-based compensation					4,995		4,995
Balances at September 9, 2016 (Predecessor)	222	$	122,238	$ 12	$ 3,254,630	(3,254,642)	$
Cancellation of Predecessor equity	(222)	$	(122,238)	$ (12)	$ (3,254,630)	$ 3,254,642	$
Balances at September 9, 2016 (Predecessor)		$		$	$		$

Issuance of Successor common stock and warrants	$ 90,000	$ 9	$ 571,114	$	$ 571,123
Balances at September 9, 2016 (Successor)	$ 90,000	$ 9	$ 571,114	$	$ 571,123
Net income (loss)				(450,692)	(450,692)
Preferred dividends on redeemable noncontrolling interest				(791)	(791)
Long-term incentive plan grants	2,638				
Share-based compensation			13,196		13,196
Balances at September 30, 2016 (Successor)	$ 92,638	$ 9	$ 584,310	$ (451,483)	$ 132,836

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

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HALCÓN RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Successor	Predecessor	
	Period from September 10, 2016 through September 30, 2016	Period from January 1, 2016 through September 9, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:			
Net income (loss)	$ (450,692)	$ 11,958	$ (1,529,178)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depletion, depreciation and accretion	9,051	120,555	297,409
Full cost ceiling impairment	420,934	754,769	2,014,518
Other operating property and equipment impairment		28,056	
Share-based compensation, net	13,196	4,876	11,245
Unrealized loss (gain) on derivative contracts	30,338	263,732	93,972
Amortization and write-off of deferred loan costs		6,371	6,002
Non-cash interest and amortization of discount and premium	377	1,515	2,029
Reorganization items	560	(929,084)	
Loss (gain) on extinguishment of debt		(81,434)	(557,907)
Loss (gain) on extinguishment of Convertible Note and modification of February 2012 Warrants			8,219
Accrued settlements on derivative contracts	(22,695)		(37,803)
Other income (expense)	(94)	(4,233)	5,805
Change in assets and liabilities:			
Accounts receivable	12,541	47,920	75,331
Prepaids and other	(81)	(4,329)	2,216
Accounts payable and accrued liabilities	(1,113)	(45,324)	(59,664)
Net cash provided by (used in) operating activities	12,322	175,348	332,194
Cash flows from investing activities:			
Oil and natural gas capital expenditures	(10,289)	(226,617)	(531,741)
Other operating property and equipment capital expenditures	(231)	(950)	(9,913)
Funds held in escrow and other	(1,721)	(207)	2,988
Net cash provided by (used in) investing activities	(12,241)	(227,774)	(538,666)
Cash flows from financing activities:			
Proceeds from borrowings	30,000	886,000	1,579,000
Repayments of borrowings	(32,000)	(727,648)	(1,392,000)
Cash payments to Noteholders and Preferred Holders	(10,013)	(97,521)	
Debt issuance costs		(1,977)	(25,703)
Series A preferred dividends			(4,656)
Common stock issued			15,354
Offering costs and other		(511)	(2,982)
Net cash provided by (used in) financing activities	(12,013)	58,343	169,013
Net increase (decrease) in cash	(11,932)	5,917	(37,459)
Cash at beginning of period	13,943	8,026	43,713
Cash at end of period	$ 2,011	$ 13,943	$ 6,254

Supplemental cash flow information:			
Cash paid (received) for reorganization items	$ (4)	$ 15,362	$
Disclosure of non-cash investing and financing activities:			
Accrued capitalized interest	$	$ (23,966)	$ (442)
Asset retirement obligations	8	939	2,405
Series A preferred dividends paid in common stock			9,803
Preferred dividends on redeemable noncontrolling interest paid-in-kind	791	9,329	9,340
Accretion of redeemable noncontrolling interest		26,576	29,084
Change in fair value of redeemable noncontrolling interest			645
Accrued debt issuance costs		1,176	
Common stock issued on conversion of senior notes			231,383
Third Lien Notes issued on conversion of senior notes			1,017,994

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

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 oil and natural gas assets in the United States. The unaudited condensed consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries. The Company operates in one segment focused 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 property 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 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, though, as described below, such prior financial statements may not be comparable to the interim financial statements due to the adoption of fresh-start accounting on September 9, 2016.

Emergence from Voluntary Reorganization under Chapter 11

On July 27, 2016 (the Petition Date), 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 joint prepackaged plan of reorganization (the Plan). On September 8, 2016, the Bankruptcy Court entered an order confirming the Plan and on September 9, 2016, the Plan became effective (the Effective Date) and the Halcón Entities emerged from chapter 11 bankruptcy. The Company's subsidiary, HK TMS, LLC which was divested on September 30, 2016, was not part of the chapter 11 bankruptcy filings. See Note 2, *"Reorganization,"* for further details on the Company's chapter 11 bankruptcy and the Plan and Note 4, *"Divestiture"* for further details on the divestiture of HK TMS, LLC.

Upon emergence from chapter 11 bankruptcy, the Company adopted fresh-start accounting in accordance with provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) No. 852, *"Reorganizations"* (ASC 852) which resulted in the Company becoming a new entity for financial reporting purposes on the Effective Date. Upon the adoption of fresh-start accounting, the Company's assets and liabilities were recorded at their fair values as of the fresh-start reporting date, September 9, 2016. As a result of the adoption of fresh-start accounting, the Company's unaudited condensed consolidated financial statements subsequent to September 9, 2016 may not be comparable to its unaudited condensed consolidated financial statements prior to September 9, 2016. See Note 3, *"Fresh-start Accounting,"* for further details on the impact of fresh-start accounting on the Company's unaudited condensed consolidated financial statements.

References to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized Company subsequent to September 9, 2016. References to "Predecessor" or "Predecessor Company" relate to the financial position and results of operations of the Company prior to, and including, September 9, 2016.

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

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, including estimates of Reorganization Value, Enterprise Value and the fair value of assets and liabilities recorded as a result of the adoption of fresh-start accounting, and income taxes. The Company bases its estimates and judgments on historical experience and on various other assumptions and information believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects are uncertain 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 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 September 30, 2016 (Successor) or December 31, 2015 (Predecessor).

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. With the adoption of fresh-start accounting, the Company recorded its gas gathering systems and equipment at fair value totaling approximately $16.3 million as of the fresh-start reporting date. Refer to Note 3, *"Fresh-start Accounting,"* for a discussion of the valuation approach used.

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

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. With the adoption of fresh-start accounting, the Company recorded its other operating assets at fair value totaling approximately $21.8 million as of the fresh-start reporting date. Refer to Note 3, *"Fresh-start Accounting,"* for a discussion of the valuation approach used.

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 (Predecessor), 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 related to $32.8 million gross investments in gas gathering infrastructure that were deemed non-economical due to a shift in exploration, drilling and developmental plans in a 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 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 August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230)* (ASU 2016-15). For public business entities, ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted. The areas for simplification in this ASU involve addressing eight specific classification issues in the statement of cash flows. An entity should apply the amendments in this ASU using a retrospective transition method. The Company is in the process of assessing the effects of the application of the new guidance.

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

In March 2016, the 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 adopted ASU 2016-09 on September 9, 2016. See Note 12, *"Stockholders' Equity"* for further details.

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.

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

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

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 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 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.

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

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. FINANCIAL STATEMENT PRESENTATION (Continued)

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. REORGANIZATION

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 third lien notes due 2022 (the Third Lien Noteholders), 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. 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 prepackaged bankruptcy restructuring as contemplated in the Restructuring Support Agreement. On September 8, 2016, the Bankruptcy Court entered an order confirming the Company's plan of reorganization (the Plan) and on September 9, 2016, the Halcón Entities emerged from chapter 11 bankruptcy.

Upon emergence, pursuant to the terms of the Plan, the following significant transactions occurred:

- the Predecessor Company's financing facility under the Predecessor Credit Agreement was refinanced and replaced with the DIP Facility, which was subsequently converted into the Senior Credit Agreement (refer to Note 6, *"Debt"* for credit agreement definitions and further details regarding the credit agreements);

- the Predecessor Company's 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) were unimpaired and reinstated;

- the Predecessor Company's Third Lien Notes were cancelled and the Third Lien Noteholders received 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, which interest was paid prior to the chapter 11 bankruptcy filing, in full and final satisfaction of their claims;

- the Predecessor Company's Unsecured Notes were cancelled and the Unsecured Noteholders received 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 of $14.04 per share), and accrued and unpaid interest on their notes through May 15, 2016, which interest was paid prior to the chapter 11 bankruptcy filing, in full and final satisfaction of their claims;

- the Predecessor Company's Convertible Note was cancelled and the Convertible Noteholder received 4% of the common stock of reorganized Halcón, together with a cash payment of

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. REORGANIZATION (Continued)

$15.0 million and warrants to purchase 1% of the common stock of reorganized Halcón (with a four year term and an exercise price of $14.04 per share), in full and final satisfaction of their claims;

the general unsecured claims were unimpaired and paid in full in the ordinary course;

all outstanding shares of the Predecessor Company's Series A Preferred Stock were cancelled and the Preferred Holders received their pro rata share of $11.1 million in cash, in full and final satisfaction of their interests; and

all of the Predecessor Company's outstanding shares of common stock were cancelled and the common stockholders received their pro rata share of 4% of the common stock of reorganized Halcón, in full and final satisfaction of their interests.

Each of the foregoing percentages of equity in the reorganized Company were as of September 9, 2016 and are subject to dilution from the exercise of the new warrants described above, a management incentive plan discussed further in Note 12*, "Stockholders' Equity,"* and other future issuances of equity interests.

See Note 6, "*Debt*," and Note 12, "*Stockholders' Equity*," for further information regarding the Company's Successor and Predecessor debt and equity instruments.

3. FRESH-START ACCOUNTING

Upon the Company's emergence from chapter 11 bankruptcy, the Company qualified for and adopted fresh-start accounting in accordance with the provisions set forth in ASC 852 as (i) the Reorganization Value of the Company's assets immediately prior to the date of confirmation was less than the post-petition liabilities and allowed claims, and (ii) the holders of the existing voting shares of the Predecessor entity received less than 50% of the voting shares of the emerging entity. Refer to Note 2*, "Reorganization"* for the terms of the Plan. Fresh-start accounting requires the Company to present its assets, liabilities, and equity as if it were a new entity upon emergence from bankruptcy. The new entity is referred to as "Successor" or "Successor Company." However, the Company will continue to present financial information for any periods before adoption of fresh-start accounting for the Predecessor Company. The Predecessor and Successor companies may lack comparability, as required in ASC Topic 205, *Presentation of Financial Statements* (ASC 205). ASC 205 states financial statements are required to be presented comparably from year to year, with any exceptions to comparability clearly disclosed. Therefore, "black-line" financial statements are presented to distinguish between the Predecessor and Successor companies.

Adopting fresh-start accounting results in a new financial reporting entity with no beginning retained earnings or deficit as of the fresh-start reporting date. Upon the application of fresh-start accounting, the Company allocated the Reorganization Value (the fair value of the Successor Company's total assets) to its individual assets based on their estimated fair values. The Reorganization Value is intended to represent the approximate amount a willing buyer would value the Company's assets immediately after the reorganization.

Reorganization Value is derived from an estimate of Enterprise Value, or the fair value of the Company's long-term debt, stockholders' equity and working capital. The estimated Enterprise Value at the Effective Date is below the midpoint of the Court approved range of $1.6 billion to $1.8 billion,

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

primarily reflecting the decline in forward commodity prices during the period between the Company's analysis performed in advance of the July 2016 chapter 11 bankruptcy filing and the Effective Date. The Enterprise Value was derived from an independent valuation using an asset based methodology of proved reserves, undeveloped acreage, and other financial information, considerations and projections, applying a combination of the income, cost and market approaches as of the fresh-start reporting date of September 9, 2016.

The Company's principal assets are its oil and natural gas properties. For purposes of estimating the fair value of the Company's proved, probable and possible reserves, an income approach was used which estimated fair value based on the anticipated cash flows associated with the Company's reserves, risked by reserve category and discounted using a weighted average cost of capital rate of 10.5% for proved reserves and 12.5% for probable and possible reserves. The proved reserve locations were limited to wells expected to be drilled in the Company's five year development plan. Weighted average commodity prices utilized in the determination of the fair value of oil and natural gas properties were $72.30 per barrel of oil, $3.50 per million British thermal units (MMBtu) of natural gas and $12.00 per barrel of oil equivalent of natural gas liquids, after adjustment for transportation fees and regional price differentials. Base pricing was derived from an average of forward strip prices and analysts' estimated prices.

In estimating the fair value of the Company's unproved acreage that was not included in the valuation of probable and possible reserves, a market approach was used in which a review of recent transactions involving properties in the same geographical location indicated the fair value of the Company's unproved acreage from a market participant perspective.

See further discussion below in the *"Fresh-start accounting adjustments"* for the specific assumptions used in the valuation of the Company's various other assets.

Although the Company believes the assumptions and estimates used to develop Enterprise Value and Reorganization Value are reasonable and appropriate, different assumptions and estimates could materially impact the analysis and resulting conclusions. The assumptions used in estimating these values are inherently uncertain and require judgment.

The following table reconciles the Company's Enterprise Value to the estimated fair value of the Successor's common stock as of September 9, 2016 (in thousands):

		September 9, 2016
Enterprise Value	$	1,618,888
Plus: Cash		13,943
Less: Fair value of debt		(1,016,160)
Less: Fair value of redeemable noncontrolling interest		(41,070)
Less: Fair value of other long-term liabilities		(4,478)
Less: Fair value of warrants		(16,691)
Fair Value of Successor common stock	$	554,432

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

The following table reconciles the Company's Enterprise Value to its Reorganization Value as of September 9, 2016 (in thousands):

	September 9, 2016
Enterprise Value	$ 1,618,888
Plus: Cash	13,943
Plus: Current liabilities	178,639
Plus: Noncurrent asset retirement obligation	32,156
Reorganization Value of Successor assets	$ 1,843,626

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

Condensed Consolidated Balance Sheet

The following illustrates the effects on the Company's unaudited condensed consolidated balance sheet due to the reorganization and fresh-start accounting adjustments. The explanatory notes following the table below provide further details on the adjustments, including the Company's assumptions and methods used to determine fair value for its assets and liabilities. Amounts included in the table below are rounded to thousands.

	As of September 9, 2016				
	Predecessor Company	Reorganization Adjustments		Fresh-Start Adjustments		Successor Company
Current assets:						
Cash	$ 111,464	$ (97,521)	*(1)*	$		$ 13,943
Accounts receivable	116,859					116,859
Receivables from derivative contracts	97,648					97,648
Restricted cash	17,164					17,164
Prepaids and other	8,961			(1,332)	*(7)*	7,629
Total current assets	352,096	(97,521)		(1,332)		253,243
Oil and natural gas properties (full cost method):						
Evaluated	7,712,003			(6,497,874)	*(8)*	1,214,129
Unevaluated	1,193,259			(861,144)	*(8)*	332,115
Gross oil and natural gas properties	8,905,262			(7,359,018)		1,546,244
Less accumulated depletion	(6,803,231)			6,803,231	*(8)*	
Net oil and natural gas properties	2,102,031			(555,787)		1,546,244
Other operating property and equipment:						
Gas gathering and other operating assets	100,079			(62,008)	*(9)*	38,071
Less accumulated depreciation	(24,154)			24,154	*(9)*	
Net other operating property and equipment	75,925			(37,854)		38,071
Other noncurrent assets:						
Receivables from derivative contracts	4,431					4,431
Funds in escrow and other	1,610			27	*(10)*	1,637
Total assets	$ 2,536,093	$ (97,521)		$ (594,946)		$ 1,843,626
Current liabilities:						
Accounts payable and accrued liabilities	$ 160,000	$ 13,688	*(2)*	$		$ 173,688
Liabilities from derivative contracts	102					102
Other	414			4,435	*(11)(12)*	4,849
Total current liabilities	160,516	13,688		4,435		178,639
Long-term debt, net	1,031,114			(14,954)	*(13)*	1,016,160
Liabilities subject to compromise	2,007,703	(2,007,703)	*(3)*			

Other noncurrent liabilities:						
Liabilities from derivative contracts	525					525
Asset retirement obligations	48,955			(16,799)	*(12)*	32,156
Other	528			3,425	*(11)(14)*	3,953
Commitments and contingencies						
Mezzanine equity:						
Redeemable noncontrolling interest	219,891			(178,821)	*(14)*	41,070
Stockholders' equity:						
Preferred stock (Predecessor)			*(4)*			
Common Stock (Predecessor)	12	(12)	*(4)*			
Common Stock (Successor)		9	*(5)*			9
Additional paid-in capital (Predecessor)	3,287,906	(3,287,906)	*(4)*			
Additional paid-in capital (Successor)		571,114	*(5)*			571,114
Retained earnings (accumulated deficit)	(4,221,057)	4,613,289	*(6)*	(392,232)	*(15)*	
Total stockholders' equity	(933,139)	1,896,494		(392,232)		571,123
Total liabilities and stockholders' equity	$ 2,536,093	$ (97,521)		$ (594,946)		$ 1,843,626

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

Reorganization adjustments

1) The table below details cash payments as of September 9, 2016, pursuant to the terms of the Plan described in Note 2 "*Reorganization*" (in thousands):

Payment to Third Lien Noteholders	$	33,826
Payment to Unsecured Noteholders		37,595
Payment to Convertible Noteholder		15,000
Payment to Preferred Holders		11,100
Total Uses	$	97,521

2) In connection with the chapter 11 bankruptcy, the Company modified and rejected certain office lease arrangements and paid approximately $3.4 million for these modifications and rejections subsequent to the emergence from chapter 11 bankruptcy. This amount also reflects $10.3 million paid to the Company's restructuring advisors subsequent to the emergence from chapter 11 bankruptcy.

3) Liabilities subject to compromise were as follows (in thousands):

13.0% senior secured third lien notes due 2022	$	1,017,970
9.25% senior notes due 2022		37,194
8.875% senior notes due 2021		297,193
9.75% senior notes due 2020		315,535
8.0% convertible note due 2020		289,669
Accrued interest		46,715
Office lease modification and rejection fees		3,427
Liabilities subject to compromise		2,007,703
Fair value of equity and warrants issued to Third Lien Noteholders, Unsecured Noteholders and Convertible Noteholder		(548,947)
Cash payments to Third Lien Noteholders, Unsecured Noteholders and Convertible Noteholder		(86,421)
Office lease modification and rejection fees		(3,427)
Gain on settlement of Liabilities subject to compromise	$	1,368,908

4) Reflects the cancellation of Predecessor equity, as follows (in thousands):

Predecessor Company stock	$	3,287,918
Fair value of equity issued to Predecessor common stockholers		(22,176)

Cash payment to Preferred Holders		(11,100)
Cancellation of Predecessor Company equity	$	3,254,642

5) Reflects the issuance of Successor equity. In accordance with the Plan, the Successor Company issued 3.6 million shares of common stock to the Predecessor Company's existing common stockholders, 68.8 million shares of common stock to the Third Lien Noteholders, 14.0 million shares of common stock to the Unsecured Noteholders, and 3.6 million shares of common stock to

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

the Convertible Noteholder. This amount is subject to dilution by warrants issued to the Unsecured Noteholders and the Convertible Noteholder totaling 4.7 million shares with an exercise price of $14.04 per share and a term of four years. The fair value of the warrants was estimated at $3.52 per share using a Black-Scholes-Merton valuation model.

6) The table below reflects the cumulative effect of the reorganization adjustments discussed above (in thousands):

Gain on settlement of Liabilities subject to compromise	$	1,368,908
Accrued reorganization items		(10,261)
Cancellation of Predecessor Company equity		3,254,642
Net impact to retained earnings (accumulated deficit)	$	4,613,289

Fresh-start accounting adjustments

7) Reflects the reclassification of tubulars and well equipment to "*Oil and natural gas properties*."

8) In estimating the fair value of its oil and natural gas properties, the Company used a combination of the income and market approaches. For purposes of estimating the fair value of the Company's proved, probable and possible reserves, an income approach was used which estimated fair value based on the anticipated cash flows associated with the Company's reserves, risked by reserve category and discounted using a weighted average cost of capital rate of 10.5% for proved reserves and 12.5% for probable and possible reserves. The proved reserve locations were limited to wells expected to be drilled in the Company's five year development plan. Weighted average commodity prices utilized in the determination of the fair value of oil and natural gas properties were $72.30 per barrel of oil, $3.50 per MMBtu of natural gas and $12.00 per barrel of natural gas liquids, after adjustment for transportation fees and regional price differentials. Base pricing was derived from an average of forward strip prices and analysts' estimated prices.

In estimating the fair value of the Company's unproved acreage that was not included in the valuation of probable and possible reserves, a market approach was used in which a review of recent transactions involving properties in the same geographical location indicated the fair value of the Company's unproved acreage from a market participant perspective.

9) In estimating the fair value of its gas gathering and other operating assets, the Company used a combination of the income, cost, and market approaches.

For purposes of estimating the fair value of its gas gathering assets, an income approach was used that estimated future cash flows associated with the assets over the remaining useful lives. The valuation included such inputs as estimated future production, gathering and compression revenues, and operating expenses that were discounted at a weighted average cost of capital rate of 9.5%.

For purposes of estimating the fair value of its other operating assets, the Company used a combination of the market and cost approaches. A market approach was relied upon to value land and computer equipment, and in this valuation approach, recent transactions of similar assets were utilized to determine the value from a market participant perspective. For the remaining other operating assets, a cost approach was used. The estimation of fair value under the cost approach

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

was based on current replacement costs of the assets, less depreciation based on the estimated economic useful lives of the assets and age of the assets.

10) Reflects the adjustment of the Company's equity method investment in SBE Partners, L.P. to fair value based on an income approach, which calculated the discounted cash flows of the Company's share of the partnership's interest in oil and gas proved reserves. The anticipated cash flows of the reserve were risked by reserve category and discounted at 10.5%. Weighted average commodity prices utilized in the determination of the fair value of oil and natural gas properties were $72.30 per barrel of oil, $3.50 per MMBtu of natural gas and $12.00 per barrel of oil equivalent of natural gas liquids, after adjustment for transportation fees and regional price differentials. Base pricing was derived from an average of forward strip prices and analysts' estimated prices.

11) Records an intangible liability of approximately $8.3 million, $4.5 million of which was recorded as current, to adjust the Company's active rig contract to fair value at September 9, 2016. The intangible liability will be amortized over the remaining life of the contract through July 2018.

12) Reflects the adjustment of asset retirement obligations to fair value using estimated plugging and abandonment costs as of September 9, 2016, adjusted for inflation and then discounted at the appropriate credit-adjusted risk free rate ranging from 5.5% to 6.6% depending on the life of the well. The fair value of asset retirement obligations was estimated at $32.5 million, approximately $0.3 million of which was recorded as current. Refer to Note 9, *"Asset Retirement Obligations"* for further details of the Company's asset retirement obligations.

13) Reflects the adjustment of the 2020 Second Lien Notes and the 2022 Second Lien Notes to fair value. The fair value estimate was based on quoted market prices from trades of such debt on September 9, 2016. Refer to Note 6, *"Debt"* for definitions of and further information regarding the 2020 Second Lien Notes and 2022 Second Lien Notes.

14) Reflects the adjustment of the Company's redeemable noncontrolling interest and related embedded derivative of HK TMS, LLC to fair value. The fair value of the redeemable noncontrolling interest was estimated at $41.1 million and the embedded derivative was estimated at zero. For purposes of estimating the fair values, an income approach was used that estimated fair value based on the anticipated cash flows associated with HK TMS, LLC's proved reserves, risked by reserve category and discounted using a weighted average cost of capital rate of 12.5%. The value of the redeemable noncontrolling interest was further reduced by a probability factor of the potential assignment of the common shares of HK TMS, LLC to Apollo Global Management, which occurred subsequent to the fresh-start date. Refer to Note 4, *"Divestiture,"* for further information regarding the divestiture of HK TMS, LLC on September 30, 2016.

15) Reflects the cumulative effect of the fresh-start accounting adjustments discussed above.

Reorganization Items

Reorganization items represent (i) expenses or income incurred subsequent to the Petition Date as a direct result of the Plan, (ii) gains or losses from liabilities settled, and (iii) fresh-start accounting adjustments and are recorded in "*Reorganization items*" in the Company's unaudited condensed

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FRESH-START ACCOUNTING (Continued)

consolidated statements of operations. The following table summarizes the net reorganization items (in thousands):

	Successor Period from September 10, 2016 through September 30, 2016	Predecessor Period from January 1, 2016 through September 9, 2016
Gain on settlement of Liabilities subject to compromise	$	$ 1,368,908
Fresh-start accounting adjustments		(392,232)
Reorganization professional fees and other	(556)	(30,287)
Write-off debt discounts/premiums and debt issuance costs		(32,667)
Gain (loss) on reorganization items	$ (556)	$ 913,722

4. DIVESTITURE

On September 30, 2016, certain wholly-owned subsidiaries of the Successor Company executed an Assignment and Assumption Agreement with an affiliate of Apollo Global Management (Apollo) pursuant to which Apollo acquired one hundred percent (100%) of the common shares (the Membership Interests) of HK TMS, LLC (HK TMS), which transaction is referred to as the HK TMS Divestiture. HK TMS was previously a wholly-owned subsidiary and held all of the Successor Company's oil and natural gas properties in the Tuscaloosa Marine Shale (TMS). In exchange for the assignment of the Membership Interests, Apollo assumed all obligations relating to the Membership Interests, which were classified as *"Mezzanine Equity"* on the unaudited condensed consolidated balance sheets of HK TMS, from and after such date. Refer to Note 11, *"Mezzanine Equity"* for further details of the accounting considerations for HK TMS.

Effective with the HK TMS Divestiture, all of the Successor Company's existing 100% owned subsidiaries are joint and several, full and unconditional guarantors of its long-term debt obligations and the Successor Company has no independent assets or operations. As a consequence, the Successor Company has discontinued the presentation of condensed consolidating financial statements which separately presented HK TMS's non-guarantor financial position, statements of operations and statements of cash flows.

5. 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.

With the adoption of fresh-start accounting, the Company recorded its oil and natural properties at fair value as of September 9, 2016. The Company's evaluated and unevaluated properties were assigned

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. OIL AND NATURAL GAS PROPERTIES (Continued)

values of $1.2 billion and $332.1 million, respectively. Refer to Note 3, *"Fresh-start Accounting,"* for a discussion of the valuation approach used.

Additionally, the Company assesses all properties classified as unevaluated 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 Predecessor Company determined capitalized interest by multiplying the Predecessor Company's weighted-average borrowing cost on debt by the average amount of qualifying costs incurred that were excluded from the full cost pool. The capitalized interest amounts were recorded as additions to unevaluated oil and natural gas properties on the unaudited condensed consolidated balance sheets. For the period from January 1, 2016 through September 9, 2016 (Predecessor) and the nine months ended September 30, 2015 (Predecessor), the Company capitalized interest costs of $68.2 million and $80.0 million, respectively. Upon the adoption of fresh-start accounting, the Successor Company revised its accounting policy on the capitalization of interest and expects future capitalized interest amounts to be minimal.

At September 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 September 30, 2016 of the West Texas Intermediate (WTI) crude oil spot price of $41.68 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 September 30, 2016 of the Henry Hub natural gas price of $2.28 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 September 30, 2016 (Successor) exceeded the ceiling amount by $420.9 million ($268.1 million after taxes, before valuation allowance) which resulted in a ceiling test impairment of that amount for the period of September 10, 2016 through September 30, 2016 (Successor). The impairment at September 30, 2016 reflects the differences between the first day of the month average prices for the preceding twelve months required by Regulation S-X, Rule 4-10 and ASC 932 in calculating the ceiling test and the forward-looking prices required by ASC 852 to estimate the fair value of the Company's oil and natural gas properties on the fresh-start reporting date of September 9, 2016.

At June 30, 2016 (Predecessor) and March 31, 2016 (Predecessor), the Company recorded a full cost ceiling impairment before income taxes of $257.9 million ($163.1 million after taxes, before valuation allowance) and $496.9 million ($315.1 million after taxes, before valuation allowance), respectively. The ceiling test impairments at March 31, 2016 and June 30, 2016, were driven by decreases in the first-day-of-the-month 12-month average prices for crude oil used in the ceiling test calculations since December 31, 2015, when the first-day-of-month 12-month average price for crude oil was $50.28 per barrel. The impairment at March 31, 2016 also reflects the transfer of the remaining

HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. OIL AND NATURAL GAS PROPERTIES (Continued)

unevaluated Utica / Point Pleasant (Utica) and TMS properties of approximately $330.4 million and $74.8 million, respectively, to the full cost pool. As discussed above, the Company considers the facts and circumstances aro