Gastar Exploration Inc.
Form 10-K
March 13, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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: 001-35211

GASTAR EXPLORATION INC.

(Exact name of registrant as specified in its charter)

Delaware	38-3531640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1331 Lamar Street, Suite 650	
Houston, Texas	77010
(Address of principal executive offices)	(Zip Code)

(713) 739-1800
(Registrant’s telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock -- $0.001 par value per share	NYSE MKT LLC
8.625% Series A Cumulative Preferred Stock	NYSE MKT LLC
10.75% Series B Cumulative Preferred	NYSE MKT LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter)
is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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	ý
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes ¨ No ý

The aggregate market value of the voting and non-voting common equity of Gastar Exploration Inc. held by non-affiliates of Gastar Exploration Inc. as of June 28, 2013 (the last business day of Gastar Exploration Inc.'s most recently completed second fiscal quarter) was approximately $157.1 million based on the closing price of $2.67 per share on the NYSE MKT LLC.

The total number of outstanding common shares, no par value per share, as of March 11, 2014 was 61,889,655.

DOCUMENTS INCORPORATED BY REFERENCE:
None.

EXPLANATORY NOTE

On November 14, 2013, Gastar Exploration Ltd., an Alberta, Canada corporation, changed its jurisdiction of incorporation to the State of Delaware and changed its name to “Gastar Exploration, Inc.,” which we refer to herein as “Parent.” On January 31, 2014, Parent merged with and into Gastar Exploration USA, Inc., its direct subsidiary, as part of a reorganization to eliminate Parent’s holding company corporate structure. Pursuant to the merger agreement, shares of Parent’s common stock were converted into an equal number of shares of common stock of Gastar Exploration USA, Inc. and Gastar Exploration USA, Inc. changed its name to “Gastar Exploration Inc.” (without the comma). Gastar Exploration Inc., together with its subsidiaries, owns and will continue to conduct Parent’s business in substantially the same manner as was being conducted by Parent and its subsidiaries prior to the merger. Shares of Gastar Exploration Inc.'s common stock are listed on the NYSE MKT LLC under the symbol “GST.” Shares of Gastar Exploration Inc.'s 8.625% Series A Cumulative Preferred Stock (symbol “GST.PRA”) and its 10.75% Series B Cumulative Preferred Stock (symbol “GST.PRB”) are also listed on the NYSE MKT LLC. As a result of the merger, Gastar Exploration, Inc.’s reporting obligations under the Exchange Act were terminated.

This Annual Report on Form 10-K (the “Form 10-K”) is filed by Gastar Exploration Inc. As a result of the merger described above, Gastar Exploration Inc. is the successor issuer to Parent pursuant to Rule 12g-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Pursuant to Rule 12g-3(g) under the Exchange Act, this Form 10-K contains information that would be required if filed by Parent, as the predecessor.

Table of Contents

GASTAR EXPLORATION INC. AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013
TABLE OF CONTENTS

Table of Contents

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K and the documents incorporated herein contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Exchange Act. All statements other than statements of historical fact included or incorporated by reference in this Form 10-K are forward-looking statements, including, without limitation, all statements regarding future plans, business objectives, strategies, expected future financial position or performance, expected future operational position or performance, budgets and projected costs, future competitive position or goals and/or projections of management for future operations. In some cases, you can identify a forward-looking statement by terminology such as “may,” “will,” “could,” “should,” “expect,” “plan,” “project,” “intend,” “anticipate,” “believe,” “estima “potential,” “pursue,” “target” or “continue,” the negative of such terms or variations thereon, or other comparable terminology.

The forward-looking statements contained in this Form 10-K are largely based on our expectations and beliefs concerning future developments and their potential effect on us, which reflect certain estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions, operating trends and other factors. Forward-looking statements may include statements that relate to, among other things, our:

- financial position;
- business strategy and budgets;
- anticipated capital expenditures;
- drilling of wells, including the anticipated scheduling and results of such operations;
- oil, natural gas and natural gas liquids (“NGLs”) reserves;
- timing and amount of future production of oil, condensate, natural gas and NGLs;
- operating costs and other expenses;
- cash flow and anticipated liquidity;
- prospect development; and
- property acquisitions and sales.

Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. As such, management’s assumptions about future events may prove to be inaccurate. For a more detailed description of the known material factors that could cause actual results to differ from those in the forward-looking statements, see “Item 1A. Risk Factors” in Part I of this Form 10-K. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events, changes in circumstances or otherwise. These cautionary statements qualify all forward-looking statements attributable to us, or persons acting on our behalf. Management cautions all readers that the forward-looking statements contained in this Form 10-K are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or that the events and circumstances they describe will occur.

Factors that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements herein include, but are not limited to:

- our ability to successfully integrate acquired assets with ours and realize the anticipated benefits from such acquisitions;
- the supply and demand for oil, condensate, natural gas and NGLs;
- low and/or declining prices for oil, condensate, natural gas and NGLs;
- price volatility of oil, condensate, natural gas and NGLs;
- worldwide political and economic conditions and conditions in the energy market;
- our ability to raise capital to fund capital expenditures or repay or refinance debt upon maturity;
- the ability and willingness of our current or potential counterparties, third-party operators or vendors to enter into transactions with us and/or to fulfill their obligations to us;
- failure of our joint interest partners to fund any or all of their portion of any capital program;
- the ability to find, acquire, market, develop and produce new oil and natural gas properties;
-

uncertainties about the estimated quantities of oil and natural gas reserves and in the projection of future rates of production and timing of development expenditures of proved reserves;

- strength and financial resources of competitors;

4

Table of Contents

- availability and cost of material and equipment, such as drilling rigs and transportation pipelines;
- availability and cost of processing and transportation;
- changes or advances in technology;
- the risks associated with exploration, including cost overruns and the drilling of non-economic wells or dry wells, operating hazards inherent to the natural gas and oil business and down hole drilling and completion risks that are generally not recoverable from third parties or insurance;
- potential mechanical failure or under-performance of significant wells or pipeline mishaps;
- environmental risks;
- possible new legislative initiatives and regulatory changes potentially adversely impacting our business and industry, including, but not limited to, national healthcare, hydraulic fracturing, state and federal corporate income taxes, retroactive royalty or production tax regimes, changes in environmental regulations, environmental risks and liability under federal, state and local environmental laws and regulations;
- effects of the application of applicable laws and regulations, including changes in such regulations or the interpretation thereof;
- potential losses from pending or possible future claims, litigation or enforcement actions;
- potential defects in title to our properties or lease termination due to lack of activity or other disputes with mineral lease and royalty owners, whether regarding calculation and payment of royalties or otherwise;
- the weather, including the occurrence of any adverse weather conditions and/or natural disasters affecting our business;
- our ability to find and retain skilled personnel; and
- any other factors that impact or could impact the exploration of natural gas or oil resources, including, but not limited to, the geology of a resource, the total amount and costs to develop recoverable reserves, legal title, regulatory, natural gas administration, marketing and operational factors relating to the extraction of natural gas and oil.

You should not unduly rely on these forward-looking statements in this Form 10-K, as they speak only as of the date of this Form 10-K. Except as required by law, we undertake no obligation to publicly update, revise or release any revisions to these forward-looking statements after the date on which they are made to reflect new information, events or circumstances occurring after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

Unless otherwise indicated or required by the context, (i) for any date or period prior to January 31, 2014,“Gastar,” the “Company,” “we,” “us,” “our” and similar terms refer collectively to Gastar Exploration, Inc.(formerly known as Gastar Exploration Ltd.) and its subsidiaries, including Gastar Exploration Inc. (formerly known as Gastar Exploration USA, Inc.), and for any date or period after January 31, 2014, such terms refer collectively to Gastar Exploration Inc. and its subsidiaries, (ii) “Gastar USA” refers to Gastar Exploration USA, Inc., which until January 31, 2014 was a first-tier subsidiary of Gastar Exploration, Inc. and primary operating company as of December 31, 2013, (iii) “Parent” refers to Gastar Exploration, Inc., (iv) all dollar amounts appearing in this Form 10-K are stated in United States dollars (“U.S. dollars”) unless otherwise noted and (v) all financial data included in this Form 10-K have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). On January 31, 2014, Gastar Exploration, Inc. merged with and into Gastar USA as part of a reorganization to eliminate the holding company corporate structure of Parent. Pursuant to the merger agreement, shares of Parent’s common stock were converted into an equal number of shares of common stock of Gastar USA and Gastar USA changed its name to “Gastar Exploration Inc.” Gastar Exploration Inc., together with its subsidiaries, owns and will continue to conduct Gastar’s business in substantially the same manner as was being conducted by Parent and its subsidiaries prior to the merger.

Table of Contents

Glossary of Terms

AMI	Area of Mutual Interest, an agreed designated geographic area where joint venturers or other industry partners have a right of participation in acquisitions and operations
Bbl	Barrel of oil, condensate or NGLs
Bbl/d	Barrels of oil, condensate or NGLs per day
Bcf	One billion cubic feet of natural gas
Bcfe	One billion cubic feet of natural gas equivalent, determined using the ratio of six cubic feet of natural gas to one barrel of oil, condensate or NGLs
Boe	One barrel of oil equivalent determined using the ratio of six cubic feet of natural gas to one barrel of oil, condensate or NGLs
Btu	British thermal unit, typically used in measuring natural gas energy content
CRP	Central receipt point
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States of America
Gross acres	Refers to acres in which we own a working interest
Gross wells	Refers to wells in which we have a working interest
MBbl	One thousand barrels of oil, condensate or NGLs
MBbl/d	One thousand barrels of oil, condensate or NGLs per day
MBoe	One thousand barrels of oil equivalent
MBoe/d	One thousand barrels of oil equivalent per day
Mcf	One thousand cubic feet of natural gas
Mcf/d	One thousand cubic feet of natural gas per day
Mcfe	One thousand cubic feet of natural gas equivalent, determined using the ratio of six cubic feet of natural gas to one barrel of oil, condensate or NGLs
MMBtu/d	One million British thermal units per day
MMcf	One million cubic feet of natural gas
MMcf/d	One million cubic feet of natural gas per day
MMcfe	One million cubic feet of natural gas equivalent, determined using the ratio of six cubic feet of natural gas to one barrel of oil, condensate or NGLs

MMcfe/d	One million cubic feet of natural gas equivalent per day, determined using the ratio of six cubic feet of natural gas to one barrel of oil, condensate or NGLs
Net acres	Refers to our proportionate interest in acreage resulting from our ownership in gross acreage
Net wells	Refers to gross wells multiplied by our working interest in such wells
NGLs	Natural gas liquids
NYMEX	New York Mercantile Exchange
psi	Pounds per square inch
U.S.	United States

Table of Contents

PART I

Item 1. Business
Overview
We are an independent energy company engaged in the exploration, development and production of oil, condensate, natural gas and NGLs in the U.S. Our principal business activities include the identification, acquisition, and subsequent exploration and development of oil and natural gas properties with an emphasis on unconventional reserves, such as shale resource plays. We are currently pursuing development within the primarily oil-bearing reservoirs of the Hunton Limestone horizontal oil play in Oklahoma and the development of liquids-rich natural gas in the Marcellus Shale play in West Virginia. We also hold prospective Utica Shale acreage in West Virginia and prospective Marcellus Shale acreage in Pennsylvania. We completed the sale of substantially all of our East Texas assets on October 2, 2013, with an effective date of January 1, 2013.
On November 14, 2013, Gastar Exploration Ltd., an Alberta, Canada corporation, changed its jurisdiction of incorporation to the State of Delaware and changed its name to “Gastar Exploration, Inc.” On January 31, 2014, Gastar Exploration, Inc. merged with and into Gastar USA as part of a reorganization to eliminate the holding company corporate structure of Parent. Pursuant to the merger agreement, shares of Parent’s common stock were converted into an equal number of shares of common stock of Gastar USA and Gastar USA changed its name to “Gastar Exploration Inc.” Gastar Exploration Inc., together with its subsidiaries, owns and will continue to conduct our business in substantially the same manner as was being conducted by Parent and its subsidiaries prior to the merger. Shares of Gastar Exploration Inc.'s common stock are listed on the NYSE MKT LLC under the symbol “GST.” Shares of Gastar Exploration Inc.'s 8.625% Series A Cumulative Preferred Stock (symbol “GST.PRA”) and its 10.75% Series B Cumulative Preferred Stock (symbol “GST.PRB”) are also listed on the NYSE MKT LLC. Our principal office is located at 1331 Lamar Street, Suite 650, Houston, Texas 77010, and our telephone number is (713) 739-1800. Our website address is http://www.gastar.com. Information on our website or about us on any other website is not incorporated by reference into and does not constitute part of this Form 10-K.
Our Strategy
Our strategy is to increase stockholder value by delivering sustainable reserves growth and improved operating results from our existing assets. We recognize that there may be periods, such as the recent declines in natural gas prices, which make it difficult to fully execute this strategy on a short-term basis. We intend to implement our strategy by focusing on:

- exploitation and development of our Mid-Continent assets in the Hunton Limestone horizontal oil play;
- continued exploitation of existing Marcellus Shale West Virginia assets with a focus on areas that we believe are prospective for natural gas with relatively high condensate and NGLs content;
- initial testing of the Utica Shale in an area believed to be prospective for high deliverable dry gas volumes;
- active management of our domestic drilling programs; and
- effective management and utilization of technological expertise.

Exploitation and Development in the Hunton Limestone Horizontal Oil Play
During 2012, we began acquiring leasehold in an emerging oil play located in Oklahoma. We continued to build our acreage position in this region during 2013 in partnership with our operating partner in the initial AMI prospect area and two additional adjacent prospect areas. We also increased exposure to the play through acquisitions of acreage and producing wells from Chesapeake Exploration, L.L.C. and Jamestown Resources, L.L.C. (the “Chesapeake Parties”) and Lime Rock Resources II-A, L.P. and Lime Rock Resources II-C, L.P. (the “Lime Rock Parties”), respectively. Our Mid-Continent development program is focused on using modern horizontal drilling and multi-stage fracture stimulation technologies to exploit a predominantly crude oil-bearing reservoir, which has been produced historically using vertical wells with conventional completion techniques. We, along with our operating partner in the initial AMI, drilled and completed one gross (0.5 net) horizontal non-operated well during 2012 and drilled and completed six gross (3.0 net) horizontal non-operated wells during 2013 on our Mid-Continent properties. Additionally, during 2013, we drilled and completed our first two gross (1.8 net) operated wells in the lower Hunton Limestone. To continue testing the potential of the formation, we have also participated in three gross (0.9 net) wells outside of our AMI

acreage targeting the Hunton Limestone, the Woodford Shale and the Mississippi Lime. We will focus the majority of our 2014 capital budget on drilling existing leasehold, leasehold renewal and leasehold acquisition in the Hunton Limestone horizontal oil play, with approximately 59% of our 2014 capital budget allocated to developing our Hunton Limestone properties. Our 2014 capital budget includes plans to spud a total of 36 gross (17.1 net) wells, comprised of 27 gross (9.7 net) non-operated wells primarily located within our current AMI and 9 gross (7.4 net) operated wells, including two gross (2.0 net) wells in the West Edmond Hunton Lime Unit ("WEHLU"). We anticipate completing 35 gross wells in the Hunton Limestone during 2014.

Table of Contents

Continue Exploitation of Existing Marcellus Shale Assets and Focus on Areas with Relatively High NGLs and Condensate Content along with Initial Testing of High Rate Dry Gas Potential in the Utica Shale.

We are continuing to focus our drilling activity in the liquids-rich area of the Marcellus Shale and have allocated approximately 35% of our 2014 capital budget to the Marcellus Shale. In April 2014, we will commence exploration in the Utica Shale in West Virginia. Our 2014 capital budget includes plans to spud a total of 11 gross (5.5 net) operated wells in these areas, including 10 gross Marcellus Shale wells and one gross Utica Shale well. We anticipate completing 14 gross (7.0 net) wells in the Marcellus Shale and Utica Shale in 2014, which includes three gross (1.5 net) Marcellus Shale wells that were drilled but not completed in 2013. Our Utica Shale well test is planned to spud in April 2014 and should be completed by third quarter 2014. We believe that the continued expansion of our acreage position and our drilling activity in the Marcellus Shale during 2013 has provided us with a multi-year inventory of drilling opportunities. Our focus continues to be within the liquids-rich area of the Marcellus Shale with subsequent focus on drilling acreage in order to hold the acreage “by production” prior to lease term expirations. We anticipate that our Utica Shale production will be dry gas, but has the potential to yield high natural gas delivery rates at levels that may generate attractive internal rates of return despite the absence of liquids.

Actively Manage Our Domestic Drilling Program

We believe that operating approximately 76% of our drilling projects for 2014 enables us to control the timing and cost of our drilling budget as well as control operating costs and the marketing of our production. We believe that we have assembled an experienced team of operating professionals with the specialized skills needed to plan and execute the drilling and completion of horizontal Marcellus Shale, Utica Shale and Hunton Limestone wells.

Manage and Utilize Technological Expertise

We believe that micro-seismic data acquisition and interpretation, enhanced natural gas recovery processes, horizontal drilling and other advanced drilling, formation evaluation and production techniques are valuable tools that improve drilling results and ultimately enhance production and returns. We believe that utilizing these technologies and production techniques in exploring for, developing and exploiting natural gas and oil properties has helped us reduce drilling risks, lower finding costs and provide for more efficient production of natural gas and oil from our properties.

Oil and Natural Gas Activities

The following provides an overview of our major oil and natural gas projects during 2013. While actively pursuing specific exploration and development activities in each of the following areas, we continue to review other opportunities. There is no assurance that new drilling opportunities will be identified or that any new drilling opportunities will be successful if drilled. For additional information regarding our historical research and development expenditures, please see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

Mid-Continent Horizontal Oil Play

The Hunton Limestone is a limestone formation stretching for over 2.7 million acres mainly in Oklahoma, but also in the neighboring states of Texas, New Mexico and Arkansas. Hunton Limestone economics are attractive due to the high quality oil production and the associated production of high BTU content natural gas in the area. As of December 31, 2013, we held leases covering approximately 209,100 gross (126,000 net) acres in Major, Garfield, Canadian, Kingfisher, Logan, Blaine and Oklahoma Counties, Oklahoma within the Hunton Limestone horizontal oil play. Our leasing activities in the initial AMI prospect area, primarily located in northwest Kingfisher County, Oklahoma, began in 2012 and have been expanded to include two additional adjacent prospect areas. For the first 12,500 gross acres acquired in the initial AMI prospect, we paid 62.5% of lease acquisition costs for a 50% leasehold interest and 50% of lease acquisition costs on additional acres in excess of 12,500 gross acres acquired for a 50% working interest. We will pay 54.25% of the lease acquisition costs in the two new prospect areas for a 50% working interest. In the initial prospect area, we pay 62.5% of the first four wells' gross drilling and completion costs and 56.25% of the next four wells' gross drilling and completion costs to earn a 50% working interest. For all additional wells beyond the first eight in the initial prospect area, we are responsible for paying only the drilling and completion costs associated with our 50% working interest (our approximate net revenue interest is 39.0%). In all subsequent prospect areas, we pay 54.25% of gross drilling and completion costs to earn a 50% working interest. Our AMI partner handles all drilling, completion and production activities, and we handle all leasing and permitting activities in the initial AMI. We expect to continue to build our acreage position in this region during 2014, both inside and outside of the AMI.

On November 15, 2013, we acquired a 98.3% working interest (80.5% net revenue interest) in 24,000 net acres of oil and natural gas leasehold interests in the West Edmond Hunton Lime Unit located in Kingfisher, Logan and Oklahoma Counties, Oklahoma, including production from interests in 56 gross (55.0 net) producing wells, for an adjusted cash purchase price of approximately $177.8 million (reflecting adjustment for an acquisition effective date of August 1, 2013.

Table of Contents

As of December 31, 2013 and currently as of the date of this report, we had production and drilling operations at various stages on the following wells in our original AMI in the Hunton Limestone formation:

Well Name	Current Working Interest	Approximate Lateral Length (in feet)	Initial Production Rate (Boe/d)	Cumulative Production[1](MBoe)	EUR[2] (MBoe)	Oil EUR %	Date of First Production or Status	Approximate Gross Costs to Drill & Complete ($ millions)
Mid-Con 1H[3]	50.0%	4,200	112	23.6	48.8	71%	October 5,2012	$5.0
Mid-Con 2H	50.0%	4,100	1,383	248.6	852.1	59%	February 15, 2013	$5.3
Mid-Con 3H[4]	70.9%	4,300	111	16.3	54.8	95%	April 4, 2013	$5.1
Mid-Con 4H	50.0%	4,200	176	17.5	100.5	59%	April 24, 2013	$4.8
Mid-Con 5H	50.0%	4,600	390	38.0	425.8	69%	August 23, 2013	$6.4
Mid-Con 6H [5]	50.0%	4,100	1,442	138.1	1,035.2	64%	October 6, 2013	$5.7
Mid-Con 7H [6]	47.5%	4,100	906	46.3	387.3	63%	November 15, 2013	$5.2
Mid-Con 8H	54.9%	3,900	N/A	N/A	N/A	N/A	Flowback commenced on February 1, 2014	$5.3
Mid-Con 9H	47.4%	4,400	N/A	N/A	N/A	N/A	Completion operations in progress	N/A
Mid-Con 10H	48.4%	4,200	N/A	N/A	N/A	N/A	Completion operations in progress	N/A
Mid-Con 11H	30.2%	4,300	N/A	N/A	N/A	N/A	Awaiting completion	N/A
Mid-Con 12H	49.3%	4,400	N/A	N/A	N/A	N/A	Drilling	N/A
Mid-Con 13H	23.6%	4,400	N/A	N/A	N/A	N/A	Drilling	N/A

(1) Cumulative production through February 28, 2014.
(2) Estimated ultimate recovery of proved reserves (prior production plus estimated remaining proved reserves) based on Wright & Company, Inc.'s December 31, 2013 SEC report.
(3) Upper Hunton well completion.
(4) After payout working interest is 56.7%.
(5) Well estimated to be producing from 8 of 20 frac stages at this time due to down-hole mechanical issues.
(6) Well flowing cumulative production 45.6 MBoe. Well placed on gas lift on February 22, 2014.

We continue to target our horizontal laterals in the lower Hunton Limestone formation and increase the number of fracs in the horizontal lateral as warranted by log analysis. We are continuing to monitor well flow back results on recently drilled and completed wells and remain encouraged by the high volumes of completion fluids being flowed back and higher oil production percentage.

On June 7, 2013, we acquired approximately 157,000 net acres of oil and natural gas leasehold interests in Canadian and Kingfisher Counties, Oklahoma from the Chesapeake Parties, including production interests in 206 producing wells for an adjusted cash purchase price of approximately $69.4 million (reflecting adjustment for an acquisition effective date of October 1, 2012). The asset purchase agreement contains customary representations, warranties and covenants, including provisions for indemnification, subject to certain limitations described therein. Effective July 1, 2013, our working interest partner in its original AMI in Oklahoma exercised its rights to acquire approximately 12,800 net acres and certain proved properties that we acquired from the Chesapeake Parties for a total payment of $11.6 million (reflecting adjustment for an acquisition effective

Table of Contents

date of October 1, 2012). In addition, on August 6, 2013, we sold approximately 76,000 net acres in Kingfisher and Canadian Counties, Oklahoma to Newfield Exploration Mid-Continent Inc. (“Newfield”) for an adjusted purchase price of approximately $57.0 million cash net of our purchase of approximately 1,850 net acres of Oklahoma oil and gas leasehold interests from Newfield for $1.5 million.

As of December 31, 2013 and currently as of the date of this report, we had production and drilling operations at various stages on the following operated wells on our acquired acreage in the Hunton Limestone formation:

				Initial Production Rates (1)				
Well Name	Current Working Interest	Current Approximate Net Revenue Interest	Approximate Lateral Length (in feet)	Oil (Bbl/d)	Natural Gas (Mcf/d)	BOE/d	Date of First Production or Status	Approximate Gross Costs to Drill & Complete ($ millions)
Burton 16-1H	79.0%	81.0%	4,100	72	235	111	December 7, 2013	$7.4
Townsend 6-1H	100.0%	80.0%	3,700	144	440	217	January 10, 2014	$6.7
Taborek 22-1H	87.4%	68.6%	3,000	N/A	N/A	N/A	Completion operations in progress	$7.9

(1) Represents highest daily gross oil peak rate to date and associated gas rate.

We have also participated in 3.0 gross (0.9 net) wells outside of our AMI acreage targeting the Hunton Limestone, the Woodford Shale and the Mississippi Lime formations.

At December 31, 2013, proved reserves attributable to the Mid-Continent were approximately 106.4 Bcfe (17.7 MMBoe), a 100% increase from year-end 2012 reserves. As of December 31, 2013, Mid-Continent proved reserves represented approximately 32% of our total proved reserves. Total Mid-Continent proved reserves at year-end 2013 were comprised of approximately 68% of oil and condensate and NGLs reserves. Approximately 51% of the Mid-Continent year-end 2013 reserves are proved developed.

Table of Contents

The following table provides production and operational information about the Mid-Continent for the periods indicated:

	For the Years Ended December 31,		
Mid-Continent	2013	2012	2011
Production:			
Natural gas (MMcf)	1,095	1	—
Oil and condensate (MBbl)	189	2	—
NGLs (MBbl)	23	—	—
Total production (MMcfe)	2,371	11	—
Total Production (MBoe)	395	2	—
Natural gas (MMcf/d)	3.0	—	—
Oil and condensate (MBbl/d)	0.5	—	—
NGLs (MBbl/d)	0.1	—	—
Total daily production (MMcfe/d)	6.5	0.03	—
Total daily production (MBoe/d)	1.1	0.01	—
Average sales price per unit (1):			
Natural gas (per Mcf)	$4.75	$3.47	$—
Oil and condensate (per Bbl)	$94.80	$85.22	$—
NGLs (per Bbl)	$33.06	$36.15	$—
Average sales price per Mcfe (1)	$10.09	$12.60	$—
Average sales price per Boe (1)	$60.53	$75.58	$—
Selected operating expenses (in thousands):			
Production taxes	$820	$2	$—
Lease operating expenses	$4,019	$33	$—
Transportation, treating and gathering	$3	$—	$—
Selected operating expenses per Mcfe:			
Production taxes	$0.35	$0.20	$—
Lease operating expenses	$1.69	$3.13	$—
Transportation, treating and gathering	$—	$—	$—
Production costs (2)	$1.70	$3.13	$—
Selected operating expenses per Boe:			
Production taxes	$2.08	$1.22	$—
Lease operating expenses	$10.17	$18.79	$—
Transportation, treating and gathering	$0.01	$—	$—
Production costs (2)	$10.17	$18.79	$—

(1) Excludes the impact of hedging activities.

(2) Production costs include lease operating expense, insurance, gathering and workover expense and excludes ad valorem and severance taxes.

For the three months ended December 31, 2013, net production from the Mid-Continent averaged 14.1 MMcfe/d (2.3 MBoe/d) compared to 7.0 MMcfe/d (1.2 MBoe/d) for the three months ended September 30, 2013 and 0.1 MMcfe/d (0.02 MBoe/d) for the three months ended December 31, 2012.

For the fiscal year 2014, in the Mid-Continent, we currently anticipate that we will spud a total of 36 gross (17.1 net) wells comprised of 27 gross (9.7 net) non-operated wells primarily located within our original AMI and 9 gross (7.4 net) operated wells, including two gross (2.0 net) within our WEHLU acreage. We anticipate completing 35 gross (16.9 net) Oklahoma wells during 2014.

Table of Contents

Marcellus Shale

The Marcellus Shale is Devonian aged shale that underlies much of the Appalachian region of Pennsylvania, New York, Ohio, West Virginia and adjacent states. The depth of the Marcellus Shale and its low permeability make the Marcellus Shale an unconventional exploration target in the Appalachian Basin. Advancements in horizontal drilling and hydraulic fracture stimulation have produced promising results in the Marcellus Shale. These developments have resulted in increased leasing and drilling activity in the area. As of December 31, 2013, our acreage position in the play was approximately 81,900 gross (59,900 net) acres. We refer to the approximately 31,200 gross (13,100 net) acres reflecting our interest in our Marcellus Shale assets in West Virginia and Pennsylvania subject to our joint venture (the “Atinum Joint Venture”) with an affiliate of Atinum Partners Co. Ltd. (“Atinum”) as our “Marcellus West acreage.” We refer to the approximately 50,800 gross (46,800 net) acres in Preston, Tucker, Pocahontas, Randolph and Pendleton Counties, West Virginia as our “Marcellus East acreage.” The entirety of our acreage is believed to be in the core, over-pressured area of the Marcellus Shale play. We continue to opportunistically swap acreage with adjacent operators in order to optimize our acreage and maximize horizontal lateral lengths.

On September 21, 2010, we entered into the Atinum Joint Venture pursuant to which we assigned to Atinum, for $70.0 million in total consideration, an initial 21.43% interest in all of our existing Marcellus Shale assets in West Virginia and Pennsylvania at that date, consisting of certain undeveloped acreage and a 50% working interest in 16 producing shallow conventional wells and one non-producing vertical Marcellus Shale well (the “Atinum Joint Venture Assets”). In early 2012, we made additional assignments to Atinum as a result of which Atinum now owns a 50% interest in the Atinum Joint Venture Assets. Effective June 30, 2011, Atinum has the right to participate in any future leasehold acquisitions made by us within Ohio, New York, Pennsylvania and West Virginia, excluding the counties of Pendleton, Pocahontas, Preston, Randolph and Tucker, West Virginia, on terms identical to those governing the existing Atinum Joint Venture. We are the operator and are obligated to offer any future lease acquisitions to Atinum on a 50/50 basis. Atinum will pay us on an annual basis an amount equal to 10% of lease bonuses and third party leasing costs, up to $20.0 million, and 5% of such costs on activities above $20.0 million.

The Atinum Joint Venture's initial three-year development program called for the partners to drill a minimum of 12 horizontal wells in 2011 and 24 horizontal wells in each of 2012 and 2013 for a total of 60 wells to be drilled. Due to natural gas price declines, we and Atinum agreed during the first quarter of 2012 to reduce the 2012 minimum wells to be drilled requirement from 24 wells to 20 wells. We and Atinum subsequently agreed to extend the rig contract in the Marcellus Shale to May 2013, resulting in 29 gross operated wells drilled and completed during 2012 and 38 gross wells on production at December 31, 2012. Additionally, we and Atinum agreed to reduce the 2013 minimum wells to 19 gross wells, resulting in 57 gross (27.0 net) wells on production at December 31, 2013, compared to the 60 gross wells originally agreed upon. All of our Marcellus Shale well operations to date were under the Atinum Joint Venture.

As of December 31, 2013, and currently as of the date of this report, we had drilling operations at various stages on the following Marcellus Shale wells in Marshall County, West Virginia:

Pad	Gross Well Count	Net Well Count	Working Interest	Estimated Net Revenue Interest	Average Lateral Length (in feet) (1)	Status	Estimated Production Date
Goudy[(2)]	3.0	1.5	50.0%	40.5%	6,100	Waiting on completion	Second Quarter 2014
Armstrong	9.0	4.5	50.0%	40.5%	5,000	Top holes completed	Third Quarter 2014
Hansen	5.0	2.5	50.0%	40.5%			