

SABINE OIL & GAS CORP  
Form 10-Q  
May 11, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2015  
or

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

For the transition period from            to

Commission File Number: 01-13515

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SABINE OIL & GAS CORPORATION

(Exact name of registrant as specified in its charter)

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New York  
(State or other jurisdiction of  
incorporation or organization)

25-0484900  
(I.R.S. Employer  
Identification No.)

1415 Louisiana Street, Suite 1600  
Houston, Texas 77002  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (832) 242-9600

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

Title of class	Name of each exchange on which registered
Common Stock, Par Value \$0.10 Per Share	OTCQB Marketplace

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

214,147,720 shares of our \$0.10 par value common stock were outstanding on May 8, 2015.

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EXPLANATORY NOTE

As discussed in “Item 1. Financial Statements” and “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” below, on December 16, 2014, Sabine Oil & Gas LLC, a Delaware limited liability company (“Sabine O&G”), and Forest Oil Corporation, a New York corporation, completed the combination of their respective businesses through a series of transactions whereby certain indirect equity holders of Sabine O&G contributed the equity interests in Sabine O&G to Forest Oil Corporation. In exchange for this contribution, the equity holders of Sabine O&G received shares of Sabine Oil & Gas Corporation (“Sabine”) common stock and Series A senior non-voting equity-equivalent preferred stock collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine (the “Combination”). On December 19, 2014, Forest Oil Corporation changed its name to “Sabine Oil & Gas Corporation.” Because Sabine O&G was considered the accounting acquirer in the Combination under GAAP, Sabine O&G is also considered the accounting predecessor of Sabine Oil & Gas Corporation. Accordingly, the historical financial and operating data of Sabine Oil & Gas Corporation included in this Quarterly Report on Form 10-Q which cover periods prior to the completion of the Combination, reflect the assets, liabilities and operations of Sabine O&G, the predecessor to Sabine Oil & Gas Corporation, and do not reflect the assets, liabilities and operations of Sabine Oil & Gas Corporation (which was then known as “Forest Oil Corporation”) prior to the Combination. References in this Quarterly Report on Form 10-Q to “Sabine,” “the Company,” “we,” “us” and “our” refer (i) with respect to the period from and after December 16, 2014, to the group of entities within the consolidated group of Sabine Oil & Gas Corporation, and (ii) with respect to the period prior to December 16, 2014, to the group of entities within the consolidated group of Sabine O&G, the predecessor, unless, in each case, otherwise indicated or the context otherwise requires. References in this Quarterly Report on Form 10-Q to “Forest” refer to Sabine Oil & Gas Corporation prior to the Combination, when it was known as “Forest Oil Corporation.” For more information regarding Forest’s historical operating data, please see the Company’s prior Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.

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Certain Terms Used in this Quarterly Report on Form 10-Q

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to the following terms have the meanings set forth below:

- “Combination” refers to the consummation of a series of transactions whereby certain indirect equity holders of Sabine O&G contributed the equity interests in Sabine O&G to Sabine Oil & Gas Corporation (which was then known as “Forest Oil Corporation”). In exchange for this contribution, the equity holders of Sabine O&G received shares of Sabine common stock and Series A senior non-voting equity-equivalent preferred stock (“Sabine Series A preferred stock”) collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. The Combination was completed on December 16, 2014.
- “Forest” refers to Sabine Oil & Gas Corporation, a New York corporation, prior to the Combination, which was then known as “Forest Oil Corporation.” Forest changed its name to “Sabine Oil & Gas Corporation” on December 19, 2014.
- “New Revolving Credit Facility Maturity Date” refers to April 7, 2016. However, in the event the Company receives the consent of the lenders or agent for the lenders under the Term Loan Facility (as defined below) or the Term Loan Facility is paid-off or satisfied in full prior to April 7, 2016, the “New Revolving Credit Facility Maturity Date” will refer to the earlier of (1) December 16, 2019 and (2) the date that is 91 days prior to the maturity date of the Term Loan Facility, if it is in existence at such time.
- “Sabine,” “we,” “us” or the “Company” refers (i) with respect to the period from and after December 16, 2014, the date of the Combination, to the group of entities within the consolidated group of Sabine Oil & Gas Corporation, a New York corporation and the entity which survived the Combination and (ii) with respect to the period prior to December 16, 2014, to the group of entities within the consolidated group of Sabine O&G.
- “Sabine Investor Holdings” refers to Sabine Investor Holdings LLC, a Delaware limited liability company, of which the common equity interests are owned by affiliates of First Reserve, certain members of the Company’s management and board of directors.
- “Sabine O&G” refers to Sabine Oil & Gas LLC, a Delaware limited liability company and the accounting predecessor of Sabine.
- “Sabine O&G Properties” refer to the oil and natural gas properties historically owned by Sabine O&G prior to the Combination.
- “Sabine Oil & Gas Corporation” refers to Sabine Oil & Gas Corporation, a New York corporation.

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## Condensed Consolidated Financial Statements

## Sabine Oil &amp; Gas Corporation

## Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except per share amounts)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 305,616	\$ 3,252
Accounts receivable	76,544	108,110
Prepaid expenses and other current assets	14,870	13,092
Derivative instruments	138,998	160,217
Total current assets	536,028	284,671
Property, plant and equipment:		
Oil and natural gas properties (full cost method)		
Proved	4,332,951	4,214,260
Unproved	303,519	319,256
Gas gathering and processing equipment	14,772	14,315
Office furniture and fixtures	14,774	14,030
	4,666,016	4,561,861
Accumulated depletion, depreciation and amortization	(2,786,341)	(2,495,793)
Total property, plant and equipment, net	1,879,675	2,066,068
Other assets:		
Derivative instruments	8,194	—
Deferred financing costs, net	29,350	34,862
Deferred income taxes	122,864	117,662
Other long-term assets	6,740	6,665
Total other assets	167,148	159,189
Total assets	\$ 2,582,851	\$ 2,509,928
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable – trade	\$ 78,375	\$ 83,282
Royalties payable	27,999	41,368
Accrued exploration and development	47,590	112,580
Accrued operating expenses and other	64,156	71,244
Accrued interest payable	29,315	30,946
Derivative instruments	3,500	4,645
Deferred income taxes	122,864	117,662

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Current maturities of long-term debt, net of discount	2,436,528	1,988,883
Other short-term liabilities	12,292	14,304
Total current liabilities	2,822,619	2,464,914
Long-term liabilities:		
Asset retirement obligation	39,977	39,382
Derivative instruments	248	2,269
Other long-term liabilities	67,587	67,155
Total long-term liabilities	107,812	108,806
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 authorized shares, 2,508,945 shares issued and outstanding at March 31, 2015 and December 31, 2014	25	25
Common stock, \$0.10 par value, 650,000,000 authorized shares; 200,104,279 and 200,975,778 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	20,009	20,096
Additional paid in capital	1,565,135	1,564,805
Accumulated deficit	(1,932,749)	(1,648,718)
Total shareholders' deficit	(347,580)	(63,792)
Total liabilities and shareholders' equity	\$ 2,582,851	\$ 2,509,928

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

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Condensed Consolidated Financial Statements

Sabine Oil &amp; Gas Corporation

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2015	2014
Revenues		
Oil, natural gas liquids and natural gas	\$ 97,628	\$ 112,306
Other	397	411
Total revenues	98,025	112,717
Operating expenses		
Lease operating	24,355	11,371
Marketing, gathering, transportation and other	9,357	4,386
Production and ad valorem taxes	2,768	5,592
General and administrative	15,038	6,390
Depletion, depreciation and amortization	54,063	39,925
Accretion	474	217
Impairments	236,485	—
Other operating expenses (income)	5,393	(1,429)
Total operating expenses	347,933	66,452
Other income (expenses)		
Interest expense, net of capitalized interest	(70,247)	(25,825)
Gain (loss) on derivative instruments	36,124	(22,126)
Total other expenses	(34,123)	(47,951)
Net loss before income taxes	(284,031)	(1,686)
Income tax expense	—	—
Net loss	\$ (284,031)	\$ (1,686)
Net loss per share:		
Basic	\$ (1.42)	\$ (0.01)
Diluted	\$ (1.42)	\$ (0.01)
Weighted average shares outstanding – basic	200,298	118,863
Weighted average shares outstanding – diluted	200,298	118,863

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





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## Condensed Consolidated Financial Statements

## Sabine Oil &amp; Gas Corporation

## Condensed Consolidated Statement of Shareholders' Equity (Deficit) (Unaudited)

(in thousands)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Value	Shares	Value	Paid In Capital	Deficit	Shareholders' Equity (Deficit)
Balance as of December 31, 2013	—	\$ —	118,863	\$ 11,885	\$ 1,511,123	\$ (1,321,998)	\$ 201,010
Consideration transferred	—	—	79,242	7,924	32,489	—	40,413
Issuance of preferred stock	2,509	25	—	—	(25)	—	—
Restricted stock	—	—	2,871	287	(287)	—	—
Amortization of stock based compensation	—	—	—	—	1,041	—	1,041
Tax effect of transactions with entities under common control	—	—	—	—	20,464	—	20,464
Net loss	—	—	—	—	—	(326,720)	(326,720)
Balance as of December 31, 2014	2,509	\$ 25	200,976	\$ 20,096	\$ 1,564,805	\$ (1,648,718)	\$ (63,792)
Shares repurchased	—	—	(871)	(87)	(87)	—	(174)
Amortization of stock based compensation	—	—	—	—	417	—	417
Net loss	—	—	—	—	—	(284,031)	(284,031)
Balance as of March 31, 2015	2,509	\$ 25	200,105	\$ 20,009	\$ 1,565,135	\$ (1,932,749)	\$ (347,580)

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



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## Condensed Consolidated Financial Statements

## Sabine Oil &amp; Gas Corporation

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (284,031)	\$ (1,686)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	54,063	39,925
Impairments	236,485	—
Accretion expense	474	217
Non-cash interest expense	20,249	(7,898)
Amortization of deferred financing costs	6,044	2,209
Loss on derivative instruments	11,004	20,941
Amortization of option premiums	(1,145)	(6,156)
Amortization of prepaid expenses	1,503	889
Non-cash stock based compensation	417	—
Other, net	557	(27)
Working capital and other changes:		
(Increase) decrease in accounts receivable	36,964	(6,663)
Increase in other assets	(2,840)	(1,188)
Increase (decrease) in accounts payable, royalties payable and accrued liabilities	(37,573)	11,089
Net cash provided by operating activities	42,171	51,652
Cash flows from investing activities:		
Oil and natural gas property additions	(164,211)	(155,097)
Oil and natural gas property acquisitions	—	(20,000)
Gas processing equipment additions	(457)	(1,985)
Other asset additions	(742)	(1,219)
Cash received from sale of assets	660	11,930
Net cash used in investing activities	(164,750)	(166,371)
Cash flows from financing activities:		
Borrowings under senior secured revolving credit facility	425,987	130,000
Debt repayments for the senior secured revolving credit facility	—	(25,000)
Debt issuance costs	(870)	(1,211)
Shares repurchased	(174)	—
Net cash provided by financing activities	424,943	103,789
Net increase (decrease) in cash and cash equivalents	302,364	(10,930)

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Cash and cash equivalents, beginning of period	3,252	11,821
Cash and cash equivalents, end of period	\$ 305,616	\$ 891

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

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## Sabine Oil &amp; Gas Corporation

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## 1. Organization

Sabine Oil & Gas Corporation (“Sabine” or the “Company”) is an independent oil and natural gas company engaged in the acquisition, development, exploitation and exploration of oil and natural gas properties in North America. Sabine was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969.

On December 16, 2014, pursuant to a series of transaction agreements (the “Combination”), certain indirect equity holders (such indirect equity holders are referred to as the “Legacy Sabine Investors”) of Sabine Oil & Gas LLC (“Sabine O&G”) contributed the equity interests in Sabine O&G to Sabine (which was then known as “Forest Oil Corporation”). In exchange for this contribution, the Legacy Sabine Investors received shares of Sabine common stock and Sabine Series A preferred stock collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. Holders of Sabine common stock immediately prior to the closing of the Combination continued to hold their Sabine common stock following the closing, which immediately following the closing represented approximately a 26.5% economic interest in Sabine and 60% of the total voting power in Sabine.

On December 19, 2014, the Company filed a certificate of amendment with the New York Secretary of State to change its name from “Forest Oil Corporation” to “Sabine Oil & Gas Corporation.”

## 2. Immaterial Misstatement

Subsequent to the issuance of the Consolidated Financial Statements for the year ended December 31, 2014, management identified a misstatement in the presentation of deferred taxes associated with its 7¼% senior notes due 2019 (the “2019 Notes”) originally issued by Forest on June 6, 2007 and the 7½% senior notes due 2020 (the “2020 Notes”) originally issued by Forest on September 17, 2012 and the effects of adjusting the allocation of the stepped up basis in certain assets relating to the effects of the Combination. Such amounts should have been presented as current deferred tax liabilities as of December 31, 2014. The Company also corrected the classification of certain assets related to post-retirement benefit obligations that had previously been presented as Other short-term assets. Such amounts should have been presented as other long term-assets. Management concluded that these misstatements are immaterial, individually and in the aggregate. The effects of these misstatements on previously reported balances are presented below:

	Consolidated Balance Sheet as of December 31, 2014		
	As		
	Previously	Adjustments	As Adjusted
	Reported		
	(in thousands)		
Assets			
Current assets:			
Other short-term assets	\$ 8,120	\$ (6,565)	\$ 1,555
Other assets:			
Deferred income taxes	46,084	71,578	117,662

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Other long-term assets	100	6,565	6,665
Total assets	\$ 2,438,350	\$ 71,578	\$ 2,509,928

Liabilities and shareholders' equity

Current liabilities:

Deferred income taxes	\$ 46,084	\$ 71,578	\$ 117,662
Total liabilities and shareholders' equity	\$ 2,438,350	\$ 71,578	\$ 2,509,928

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### 3.Liquidity and Ability to Continue as a Going Concern

On February 25, 2015, the Company borrowed approximately \$356 million under its New Revolving Credit Facility which represented the remaining undrawn amount under the New Revolving Credit Facility. As of March 31, 2015, the Company did not have credit extensions available under the New Revolving Credit Facility due to the going concern default described below. As of March 31, 2015, the total outstanding principal amount of the Company's debt obligations was \$2.821 billion, consisting of approximately \$971 million of borrowings under the New Revolving Credit Facility, \$350 million of the 2017 Notes, \$800 million of the Legacy Forest Notes, and a \$700 million Term Loan Facility. In addition, as of March 31, 2015, the Company had approximately \$29 million of outstanding letters of credit under the New Revolving Credit Facility. Additionally, the Company's cash balance at March 31, 2015 was approximately \$305.6 million. The Company has substantial interest payment obligations related to this debt over the next twelve months. For additional detail on each of the debt obligations, including definitions of the terms "New Revolving Credit Facility," "2017 Notes," "Legacy Forest Notes" and "Term Loan Facility," please see Note 8 herein.

The Company also has significant pending maturities on its debt obligations. If the Company is unable to refinance its 2017 Notes to mature at least 91 days after December 31, 2018, its Term Loan Facility in an outstanding amount of \$700 million will mature on November 16, 2016. The Company's New Revolving Credit Facility, which currently has approximately \$971 million of debt outstanding, will mature on the New Revolving Credit Facility Maturity Date. The Company's ability to repay the principal amount of its debt upon the pending maturities has been negatively impacted by significant decreases in the market price for oil, natural gas, and NGLs during the fourth quarter of 2014 with continued weakness into the first and second quarters of 2015. Additionally, the Company's borrowing base under its New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. The decrease in the Company's borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million. The uncertainty associated with the Company's ability to repay its outstanding debt obligations as they become due raises substantial doubt about its ability to continue as a going concern.

The Company's New Revolving Credit Facility and Term Loan Facility require that the Company's annual financial statements include a report from its independent registered public accounting firm with an unqualified opinion without an explanatory paragraph as to going concern. In consideration of the uncertainty mentioned above, the report of the Company's independent registered public accounting firm that accompanied its audited consolidated financial statements for the year ended December 31, 2014 contained an explanatory paragraph regarding the substantial doubt about its ability to continue as a going concern. As a result, the Company is in default under its New Revolving Credit Facility and Term Loan Facility. On May 4, 2015, the Company entered into a Forbearance Agreement and First Amendment to the New Revolving Credit Facility (the "Forbearance Agreement") with respect to certain anticipated events of default, including the default under the New Revolving Credit Facility as a result of the "going concern" qualification in the Company's 2014 audited financial statements. Pursuant to the Forbearance Agreement, the administrative agent under the New Revolving Credit Facility has agreed to forbear from exercising remedies until the earlier of (i) certain events of default under the Forbearance Agreement or New Revolving Credit Facility, (ii) the acceleration or exercise of remedies by any other lender or creditor, and (iii) June 30, 2015 (the "Forbearance Period"), with respect to the following anticipated events of default: (i) the "going concern" qualification in the Company's 2014 audited financial statements, (ii) the failure of the Company to make the April 2015 interest payment due under the Term Loan Facility, as discussed below, and (iii) any failure of the Company to make the May 27, 2015 and June 27, 2015 borrowing base deficiency payments under the New Revolving Credit Facility. In exchange for the administrative agent under the New Revolving Credit Facility agreeing to forbear from exercising remedies as described above, the Company has agreed during the Forbearance Period to, among other things, tighten certain



non-financial covenants under the New Revolving Credit Facility and provide mortgages on certain currently unencumbered properties.

Similarly, if the Company does not obtain a waiver or forbearance under the Term Loan Facility with respect to the “going concern” qualification in the Company’s 2014 audited financial statements within 180 days of notice, there will exist an event of default under the Term Loan Facility that will allow the lenders under the Term Loan Facility to be able to accelerate the debt. Any acceleration of the debt obligations under the New Revolving Credit Facility or Term Loan Facility would result in a cross-default and potential acceleration of the maturity of the Company’s other outstanding

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debt obligations. Therefore, all of the Company's outstanding debt obligations in the amount of approximately \$2,437 million (net of discount) and approximately \$1,989 million (net of discount) are presented in current liabilities as of March 31, 2015 and December 31, 2014, respectively. Additionally, the lenders under the Term Loan Facility are subject to a 180-day standstill before they are able to exercise remedies as a result of the uncured event of default. Following the expiration of the 180-day standstill, the lenders are permitted to foreclose on the collateral securing the Term Loan Facility. These defaults create additional uncertainty associated with the Company's ability to repay its outstanding debt obligations as they become due and raise substantial doubt about its ability to continue as a going concern.

Additionally, the Company has elected to exercise its right to a grace period with respect to a \$15.3 million interest payment under its Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits the Company 30 days to make such interest payment before an event of default occurs. The Company believes it is in the best interests of its stakeholders to actively address the Company's debt and capital structure and intends to continue discussions with its creditors and their respective professionals during the 30-day grace period. If the Company fails to pay the interest payment during the 30-day grace period and does not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day standstill. If the Company continues to fail to pay the interest payment, such failure could constitute a cross default under certain of the Company's other indebtedness. If the indebtedness under the Term Loan Facility or any of the Company's other indebtedness is accelerated, the Company may have to file for bankruptcy.

The Company is currently engaged in discussions with the lenders under its Term Loan Facility regarding a waiver or forbearance with respect to the event of default that may occur upon the expiration of the 30-day grace period with respect to the April 21, 2015 interest payment.

In order to increase the Company's liquidity to levels sufficient to meet the Company's commitments, the Company is currently pursuing or considering a number of actions including: (i) actively managing the Company's debt capital structure through a number of alternatives, including debt repurchases, debt-for-debt exchanges, debt-for-equity exchanges and secured financing, (ii) in- and out-of-court restructuring, (iii) minimizing the Company's capital expenditures, (iv) obtaining waivers or amendments from the Company's lenders, (v) effectively managing the Company's working capital and (vi) improving the Company's cash flows from operations. There can be no assurance that sufficient liquidity can be raised from one or more of these transactions or that these transactions can be consummated within the period needed to meet certain obligations.

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of the uncertainties as discussed above.

## 4. Significant Accounting Policies

### Basis of Presentation

The Company presents its condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The accompanying condensed consolidated financial statements include Sabine and its wholly owned subsidiaries. All intercompany transactions have been eliminated. In the opinion of management, all adjustments, which are of a normal recurring nature, have been made that are necessary for a fair presentation of the financial position of the Company at March 31, 2015, and the results of its operations and its cash flows for the periods presented. Interim results are not necessarily indicative of expected future results because of various factors

including the impact of fluctuations in the prices of oil, natural gas, and NGLs and the impact the prices have on the Company's revenues and the fair values of its derivative instruments.

Certain amounts in the prior year financial statements have been reclassified to conform to the 2015 financial statement presentation.

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Sabine O&G is considered the accounting predecessor of Sabine Oil & Gas Corporation. Accordingly, the historical financial information of Sabine Oil & Gas Corporation included in this Quarterly Report on Form 10-Q which cover periods prior to the completion of the Combination, reflect the assets, liabilities and operations of Sabine O&G, the accounting predecessor to Sabine Oil & Gas Corporation, and do not reflect the assets, liabilities and operations of Sabine Oil & Gas Corporation. The assets acquired and liabilities assumed in the Combination were recognized in the condensed consolidated balance sheet at their preliminary fair value as of December 16, 2014 and the operating results of the acquired properties are included in the condensed consolidated financial statements for the period beginning thereafter. See Note 7 for details of the Combination.

For a more complete understanding of the Company's operations, financial position, and accounting policies, reference is made to the consolidated financial statements of the Company, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, previously filed with the Securities and Exchange Commission ("SEC") on March 31, 2015.

### Oil and Natural Gas Properties and Equipment

For the three months ended March 31, 2015, the Company recognized an impairment of \$236.5 million for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation. For the three months ended March 31, 2014, the Company did not recognize an impairment for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation. The average of the historical unweighted first day of the month prices for the prior twelve month periods ended March 31, 2015 and 2014 were \$3.88 and \$3.99, respectively, for natural gas. The average of the historical unweighted first day of the month prices for the prior twelve month periods ended March 31, 2015 and 2014 were \$82.72 and \$98.30, respectively, for oil.

The Company's depletion expense on oil and natural gas properties is calculated each quarter utilizing period end proved reserve quantities. The Company recorded \$53.2 million and \$39.3 million of depletion on oil and natural gas properties for the three months ended March 31, 2015 and 2014, respectively. As a rate of production, depletion was \$1.94 per Mcfe and \$2.37 per Mcfe for the three months ended March 31, 2015 and 2014, respectively.

### Financial Instruments

The Company's financial instruments including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value due to the short-term maturity of these instruments. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the amounts the Company could realize upon the purchase or refinancing of such instruments. The Company's derivative instruments are reported at fair value based on Level 2 fair value methodologies. The New Revolving Credit Facility, Term Loan Facility, 2017 Notes, 2019 Notes and 2020 Notes are carried at nominal value, net of unamortized discount. See Note 13 for fair value measurements related to these instruments.

### Use of Estimates

The preparation of the condensed consolidated financial statements for the Company in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company's condensed consolidated financial statements are based on a number of significant estimates, including acquisition purchase price allocations, fair value of derivative instruments, oil, natural gas liquids and natural gas reserve quantities that are the basis for the calculation of DD&A and impairment of oil, natural gas liquids and natural gas properties, and timing and costs associated with its asset retirement obligations.

### Earnings (Loss) per Share

No potential common shares are included in the computation of any diluted per share amount when a net loss exists because they would be deemed antidilutive, as was the case for the three months ended March 31, 2015.

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### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under existing generally accepted accounting principles. This new standard is based upon the principal that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Entities have the option of using either a retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption. On April 1, 2015, the FASB approved proposing a one year deferral for implementation and giving companies the option to early adopt based on the original effective dates.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and sets rules for how this information should be disclosed in the financial statements. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. The Company plans to adopt ASU 2014-15 prospectively for the annual period ending December 31, 2016. Pursuant to ASU 2014-15, the Company is required to consider whether there are adverse conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued and the probability that management’s plans will mitigate the adverse conditions or events (if any). Adverse conditions or events would include, but not be limited to, negative financial trends (such as recurring operating losses, working capital deficiencies, or insufficient liquidity), a need to restructure outstanding debt to avoid default, and industry developments (for example commodity price declines and regulatory changes).

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 is effective retrospectively for annual and interim periods beginning after December 15, 2015. The Company intends to adopt ASU 2015-03 in the annual period ended December 31, 2015.

### 5. Significant Customers

During the three months ended March 31, 2015, purchases by three companies exceeded 10% of the total oil, natural gas liquids and natural gas sales of the Company. Purchases by Enbridge Pipeline (East Texas) LP, NGL Crude Logistics LLC and Laclede Energy accounted for approximately 22%, 15% and 12% of oil, natural gas liquids and natural gas sales, respectively. During the three months ended March 31, 2014, purchases by three companies exceeded 10% of the total oil, natural gas liquids and natural gas sales of the Company. Purchases by Enbridge Pipeline (East Texas) LP, Eastex Crude Company and Laclede Energy accounted for approximately 15%, 14% and 10% of oil, natural gas liquids and natural gas sales, respectively.

### 6. Income Taxes

#### Effective Tax Rate

For the three months ended March 31, 2015, we recorded no income tax expense, resulting in an effective tax rate of 0%. The significant difference between our effective tax rate and federal statutory income tax rate of 35% is due to a full valuation allowance recorded on net deferred tax asset in excess of deferred tax liabilities. For year ended December 31, 2014, the effective tax rate of (11.99)% differs from the federal statutory rate of 35% due to earnings prior to the corporate merger that are not subject to corporate income tax, recording the initial book and tax basis

differences associated with the change in tax status, state income taxes and impairment of non-deductible goodwill.

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## Immaterial Misstatement of Deferred Tax Assets and Liabilities

As discussed in Note 2, the Company has adjusted the Consolidated Balance Sheet as of December 31, 2014 to adjust for an error in the classification of the current deferred tax liabilities and non-current deferred tax assets resulting from the deferred tax liabilities associated with the 2019 Notes and 2020 Notes which were presented as current as of December 31, 2014, and the effects of adjusting the allocation of the stepped-up basis in certain assets relating to the effects of the Combination. The deferred taxes related to the net operating loss carry forwards and valuation allowance was also adjusted to \$180 million and \$345 million, respectively. The effects of this misstatement on previously issued disclosures are corrected below. There is no effect to the income statement as a result of this misstatement.

## Net Deferred Tax Assets and Liabilities

The components of net deferred tax assets and liabilities at December 31, 2014 are as follows:

	Year Ended December 31, 2014 (In Thousands)
Deferred tax assets:	
Property and equipment	\$ 279,955
Goodwill	9,302
Net operating loss carryforwards	180,134
Other	48,372
Total gross deferred tax assets	\$ 517,763
Less valuation allowance	(344,740)
Net deferred tax assets	\$ 173,023
Deferred tax liabilities:	
Unrealized gains on derivative instruments, net	\$ (27,766)
Long-term liabilities	(143,259)
Other	(1,998)
Total gross deferred tax liabilities	\$ (173,023)
Net deferred tax assets	\$ —
Current deferred tax assets (liabilities)	\$ (117,662)
Non-current deferred tax assets (liabilities)	117,662
Net deferred tax assets (liabilities)	\$ —

## Net Operating Loss

U.S. federal net operating loss carryforwards (“NOLs”) at December 31, 2014 were adjusted to be approximately \$515 million, of which \$483 million is subject to limitation under Section 382 of the Internal Revenue Code. The Company increased the NOL by \$402 million because there is more likelihood the NOL can be utilized. The NOL balance excludes those NOLs that the Company believes the likelihood of utilization to be remote as a result of limitations imposed under Section 382 of the Internal Revenue Code. The NOLs are scheduled to expire in 2019 and 2020 and the remaining will expire after 2034. Additional analysis of the IRC 382 limitations will be done upon filing of the corporate income tax return and could result in a change to the value of the NOLs.



Valuation Allowance

A valuation allowance is established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company believes it is more likely than not that the overall deferred tax asset will not be realized. At December 31, 2014, the Company recorded a valuation allowance of \$345

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million, which is the amount of deferred tax assets that exceed deferred tax liabilities, and are more likely than not that will not be realized.

7. Property Acquisitions and Divestitures

The results of the Combination and the acquisitions described below are included in the accompanying Condensed Consolidated Statements of Operations since each acquisition's respective close date.

On December 16, 2014, the Legacy Sabine Investors contributed the equity interests in Sabine O&G to Sabine Oil & Gas Corporation, which was then known as "Forest Oil Corporation." In exchange for this contribution, the Legacy Sabine Investors received shares of Sabine common stock and Sabine Series A preferred stock, collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. Immediately following the contribution, Sabine O&G and related holding companies merged into Forest Oil Corporation ("Forest"), with Forest Oil Corporation surviving the mergers. Holders of Forest common stock immediately prior to the closing of the Combination continued to hold their common stock following the closing, which immediately following the closing represented approximately a 26.5% economic interest in Sabine and 60% of the total voting power in Sabine. On December 19, 2014, Forest Oil Corporation changed its name to "Sabine Oil & Gas Corporation." Sabine O&G was the accounting acquirer in the Combination. The business purpose for the Combination was to combine Forest and Sabine O&G's complementary asset portfolios to create a larger company that would benefit from drilling optimization and economies of scale.

All assets and liabilities including oil and gas properties were recorded at their fair value. In determining the fair value of the oil and gas properties, the Company prepared estimates of oil and natural gas reserves. The Company used estimated future prices to apply to the estimated reserve quantities acquired and the estimated future operating and development costs to arrive at the estimates of future net revenues. The valuations to derive the purchase price included the use of both proved and unproved categories of reserves, expectation for timing and amount of future development and operating costs, projections of future rates of production, expected recovery rates, and risk adjusted discount rates. Other significant estimates were used by management to calculate fair value of assets acquired and liabilities assumed. The Company may record purchase price adjustments as a result of changes in such estimates. No material adjustments have been recorded as of March 31, 2015.

Total pro forma impact of the Combination was an increase to "Total revenues" on the Condensed Consolidated Statement of Operations of \$55.9 million for the three months ended March 31, 2014, and an increase to "Net loss" on the Condensed Consolidated Statement of Operations of \$6.7 million for the three months ended March 31, 2014.

8. Debt

Senior Notes  
2017 Notes

The Company and the Company's subsidiary Sabine Oil & Gas Finance Corporation, formerly NFR Energy Finance Corporation, have \$350 million in 9.75% senior unsecured notes due 2017 (the "2017 Notes") currently outstanding. The 2017 Notes are unsecured obligations that bear interest at a rate of 9.75% per annum, payable semi-annually on

February 15 and August 15 each year. In conjunction with the issuance of the 2017 Notes, the Company recorded a discount to be amortized over the remaining life of the 2017 Notes utilizing the simple interest method. The remaining unamortized discount was \$1.2 million and \$1.4 million at March 31, 2015 and December 31, 2014, respectively. The 2017 Notes were issued under and are governed by an indenture dated February 12, 2010 by and among Sabine Oil & Gas Corporation, Sabine Oil & Gas Finance Corporation, the Bank of New York Mellon Trust Company, N.A. as trustee, and guarantors party thereto. Due to the amortization of the discount, the effective interest rate on the 2017 Notes as of March 31, 2015 was 10.33%.

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2019 Notes

In connection with the consummation of the Combination, on December 16, 2014, the Company assumed \$577.9 million in 7¼% senior notes due 2019. Interest on the 2019 Notes is payable semiannually on June 15 and December 15. In conjunction with the consummation of the Combination, the Company recorded a discount of \$287.5 million to be amortized over the remaining life of the 2019 Notes utilizing the simple interest method. The remaining unamortized discount was \$268.9 million and \$284.9 million at March 31, 2015 and December 31, 2014, respectively. Due to the amortization of the discount, the effective interest rate on the 2019 Notes for the three months ended March 31, 2015 was 18.31%.

On February 25, 2015, the Company received notice that Wilmington Savings Fund Society, FSB has been appointed as successor trustee under the indenture governing the 2019 Notes.

2020 Notes

In connection with the consummation of the Combination, on December 16, 2014, the Company assumed \$222.1 million in 7½% senior notes due 2020. Interest on the 2020 Notes is payable semiannually on March 15 and September 15. In conjunction with the consummation of the Combination, the Company recorded a discount of \$117.7 million to be amortized over the remaining life of the 2020 Notes utilizing the simple interest method. The remaining unamortized discount was \$111.7 million and \$116.9 million at March 31, 2015 and December 31, 2014, respectively. Due to the amortization of the discount, the effective interest rate on the 2020 Notes for the three months ended March 31, 2015 was 16.72%.

On April 30, 2015, the Company received notice that Wilmington Savings Fund Society, FSB has been appointed as successor trustee under the indenture governing the 2020 Notes.

The New Revolving Credit Facility

On December 16, 2014, in connection with the consummation of the Combination, the Company amended and restated the Amended and Restated Credit Agreement, dated as of April 28, 2009, maturing on April 7, 2016, by and among Sabine O&G, Wells Fargo Bank, National Association, as administrative agent, and the lenders and other parties party thereto (the “Former Revolving Credit Facility”) with the Second Amended and Restated Credit Agreement (the “New Revolving Credit Facility”). The New Revolving Credit Facility provides for a \$2 billion revolving credit facility, with an initial borrowing base of \$1 billion. The New Revolving Credit Facility includes a sub-limit permitting up to \$100 million of letters of credit.

The New Revolving Credit Facility matures on the New Revolving Credit Facility Maturity Date.

The borrowing base is subject to redeterminations by the lenders semi-annually, each April 1 and October 1, beginning April 1, 2015 or such later time as the Company may agree upon request of the administrative agent, or as the majority lenders may agree upon the request of the Company. The Company and the lenders comprising two-thirds of the lenders as measured by exposure may each request two unscheduled borrowing base redeterminations during any 12-month period. The borrowing base under the New Revolving Credit Facility could increase or decrease in connection with a redetermination with increases being subject to the approval of all lenders and decreases (and redeterminations maintaining the borrowing base) being subject to the approval of two-thirds of the lenders as measured by exposure. The borrowing base is also subject to reduction as a result of certain issuances of additional debt, certain asset sales, cancellation of certain hedging positions or lack of sufficient title information. In the event of a reduction of the borrowing base, the Company would be required to repay outstanding exposure under the New Revolving Credit Facility in excess of the new borrowing base in one payment or six equal monthly installments and/or provide additional mortgages over oil and gas properties to support a larger borrowing base, at the

Company's option.

On December 16, 2014, the Company borrowed \$750.8 million under the New Revolving Credit Facility, which included the refinancing of Sabine's former revolving credit facility of \$619 million and Forest's revolving credit agreement of \$105 million. During the three months ended March 31, 2015, the Company borrowed approximately \$426 million under the New Revolving Credit Facility.

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The Company's borrowing base under its New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. The decrease in the Company's borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million, commencing May 27, 2015.

Loans under the New Revolving Credit Facility bear interest at the Company's option at either:

- the sum of (1) the Alternate Base Rate, which is defined as the highest of (a) Wells Fargo Bank, National Association's prime rate; (b) the federal funds effective rate plus 0.50%; or (c) the Eurodollar Rate (as defined in the New Revolving Credit Facility) for a one-month interest period plus 1% and (2) a margin varying from 0.50% to 1.50% depending on the Company's most recent borrowing base utilization percentage (the "Revolving Base Rate"); or
- the Eurodollar Rate plus a margin varying from 1.50% to 2.50% depending on the Company's most recent borrowing base utilization percentage. Beginning May 29, 2015 and thereafter during the occurrence of an event of default under the New Revolving Credit Facility, the loans under the New Revolving Credit Facility will bear interest at the Revolving Base Rate.

As of March 31, 2015 and December 31, 2014, borrowings outstanding under the New Revolving Credit Facility totaled approximately \$971 million and \$545 million, respectively. Additionally, borrowings outstanding under the New Revolving Credit Facility and the Former Revolving Credit Facility had a weighted average interest rate of 2.6% and 2.3% for the three months ended March 31, 2015 and 2014, respectively.

The unused portion of the New Revolving Credit Facility is subject to a commitment fee ranging from 0.375% to 0.50% per annum depending on the Company's most recent borrowing base utilization percentage.

The New Revolving Credit Facility also provides for certain representations and warranties, events of default, affirmative covenants and negative covenants customary for transactions of this type, including a financial maintenance covenant in the form of a first lien secured leverage ratio not to exceed 3.0 to 1.0, of which the covenant is effective March 31, 2015. The Company was in compliance with such covenant as of March 31, 2015. The New Revolving Credit Facility also contains certain other covenants, including restrictions on additional indebtedness and dividends. See footnote 3 above for a description of current defaults and anticipated events of default under the New Revolving Credit Facility and the Forbearance Agreement recently entered into with respect to the New Revolving Credit Facility.

The New Revolving Credit Facility provides that all such obligations and the guarantees will be secured by a lien on at least 80% of the PV-9 of the borrowing base properties evaluated in the most recent reserve report delivered to the administrative agent and a pledge of all of the capital stock of the Company's restricted subsidiaries, subject to certain customary grace periods and exceptions.

As of March 31, 2015, the total outstanding principal amount of the Company's long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, and as of March 31, 2015, no extensions of credit are available under the New Revolving Credit Facility, reflecting that approximately \$29 million of outstanding letters of credit had been made under the New Revolving Credit Facility.

### Term Loan Facility

The Company has a \$700 million second lien term loan agreement ("Term Loan Facility") with a maturity date of December 31, 2018 (provided that if the 2017 Senior Notes are not refinanced to mature at least 91 days thereafter, the maturity date shall be 91 days prior to the February 15, 2017 maturity date of the 2017 Senior Notes).

Loans under the Term Loan Facility bear interest at the Adjusted Eurodollar Rate (as defined in the Term Loan Facility) plus 7.50%, with an interest rate floor of 1.25%, and, in the case of alternate base rate borrowings, they bear interest at the Alternate Base Rate (as defined in the Term Loan Facility) plus 6.50%, with an interest rate floor of 2.25% (the "Term Base Rate"). Any time an interest period for loans expires during an event of default under the Term Loan

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Facility, such loans will bear interest at the Term Base Rate. The weighted average interest rate incurred on this indebtedness for the three months ended March 31, 2015 and 2014 was 8.8%.

All of the Company's restricted subsidiaries that guarantee its New Revolving Credit Facility have guaranteed the Term Loan Facility. The obligations under the Term Loan Facility are secured by the same collateral that secures the New Revolving Credit Facility, but the liens securing such obligations are second priority liens to the liens securing the New Revolving Credit Facility.

The Term Loan Facility provides for certain representations and warranties, events of default, affirmative covenants and negative covenants customary for transactions of this type, including restrictions on additional indebtedness and dividends. The Term Loan Facility provides that all obligations thereunder, subject to certain terms and exceptions, be jointly and severally guaranteed by the guarantors described therein. See footnote 3 above for a description of current defaults and anticipated events of default under the Term Loan Facility.

9.Shareholders' (Deficit) Equity

Common Stock

Prior to the Combination, Sabine O&G was authorized to issue one class of units to be designated as "Common Units". The units were not represented by certificates. All Common Units were issued at a price equal to \$1,000 per unit.

On December 16, 2014, in connection with the Combination, certain indirect equity holders of Sabine O&G contributed the equity interests in Sabine O&G to Sabine. In exchange for this contribution, the equity holders of Sabine O&G received approximately 79.2 million shares of Sabine common stock (the "Common Shares") and approximately 2.5 million Series A senior non-voting preferred stock ("Series A Preferred Shares"; see "—Preferred Stock" below) collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine.

Holdings of Forest common stock immediately prior to the closing of the Combination continued to hold their common stock following the closing of the Combination representing approximately a 26.5% economic interest in Sabine and 60% of the total voting power in Sabine. Common Shares of Sabine held by the holders of Forest common stock is 118.9 million shares.

Additionally, approximately 16.9 million shares and approximately 0.7 million shares of service-based restricted stock were awarded subsequent to the consummation of the Combination in 2014 and in the three months ended March 31, 2015, respectively. Refer to Note 10.

At March 31, 2015, the Company had 650.0 million Common Shares, par value \$0.10 per share, authorized and 201.0 million shares issued and outstanding.

Earnings per share and share information presented in the condensed consolidated financial statements for periods prior to December 16, 2014 are based on the Company's common shares calculated by multiplying the number of Sabine O&G's units outstanding at the end of each period using an exchange ratio as derived from the agreement governing the Combination. The Company retroactively adjusted its Statement of Shareholders' (Deficit) Equity at the end of each period using an exchange ratio as derived from the agreement governing the Combination to reflect the legal capital of the accounting acquiree. Beginning on December 16, 2014 common shares are presented for the combined company.

Preferred Stock

On December 16, 2014, in connection with the Combination, certain indirect equity holders of Sabine O&G received 2.5 million Series A Preferred Shares.



The Series A Preferred Shares are convertible into Sabine Common Shares at the option of Legacy Sabine Investors if (1) the Legacy Sabine Investors are able to convert a portion of the Series A Preferred Shares into Common Shares and, as a result of such conversion, would not, together with affiliates, hold more than 50% of the Company's voting power and (2) Sabine's board of directors (the "Board") approves such conversion (such approval not to be unreasonably

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withheld). In addition, Series A Preferred Shares will convert automatically if the Legacy Sabine Investors transfer such shares to a third party and such third party would not, together with its affiliates, hold more than 50% of the Company's voting power upon receipt of such shares as voting securities.

The Series A Preferred Shares are non-voting. Initially, in connection with a conversion of Series A Preferred Shares into Common Shares as described in the preceding paragraph, each Series A Preferred Share will be convertible into 100 Common Shares.

At March 31, 2015, the Company had 10.0 million Series A Preferred Shares, par value \$0.01, authorized and 2.5 million shares issued and outstanding.

**Incentive Units**

The Incentive Units were issued pursuant to the Combination in exchange for Incentive Units that were outstanding prior to the Combination, and were amended in connection with the closing of the Combination. The Incentive Units that were outstanding prior to the Combination were not a substantive class of equity and participated only upon liquidation events meeting certain requisite financial thresholds which were not considered probable, and, as such, were considered to be liability-based awards with no fair value recognized as of December 31, 2013. As amended, the Incentive Units represent the equivalent of stock appreciation rights redeemable for an applicable number of common shares of the Company (based on the value of the common shares). As such, the Incentive Units as amended in connection with the Combination were considered to be equity-based awards with a grant date fair value of approximately \$2.1 million, of which compensation expense will be recognized on a straight line basis over the requisite derived service period. The compensation expense recognized during the three months ended March 31, 2015 was approximately \$0.1 million.

**10. Stock-Based Compensation**

**Description of plan**

In November 2014, the Company adopted the 2014 LTIP under which nonstatutory options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock, dividend equivalents, and other stock-based awards may be granted to employees, directors and consultants of the Company. The aggregate number of shares of common stock that the Company may issue under the 2014 LTIP may not exceed 20 million shares. On December 16, 2014, in connection with the closing of the Combination, subject to the approval of the Sabine shareholders, the board of directors of Sabine voted to amend the 2014 LTIP to increase the total number of Common Shares reserved for issuance in connection with awards under the 2014 LTIP from 20 million to 40 million, effective as of the date of such shareholder approval. As of March 31, 2015, the Company had 2.5 million shares available for issuance under the 2014 LTIP.

**Restricted stock**

The following table summarizes the restricted stock activity in the 2014 LTIP for the three months ended March 31, 2015.

Restricted Stock Awards		
Weighted		
Weighted Average		Number of Shares Remaining Available

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	Number of Shares	Grant Date Fair Value	for Future Issuance under 2014 LTIP
Unvested at December 31, 2014	13,923,230	\$ 0.34	3,205,597
Awarded	719,132	0.10	(719,132)
Vested	—	—	—
Forfeited	(36,604)	0.34	36,604
Unvested at March 31, 2015	14,605,758	0.33	2,523,069

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The grant date fair value of restricted stock is determined by averaging the high and low stock price of a share of Sabine common stock as published by the OTC Bulletin Board on the date of grant. Of the unvested restricted stock as of March 31, 2015, 12,656,732 shares vest as follows: (i) two-thirds will vest in one-fourth increments on each of the first four anniversaries of the date of grant and (ii) one-third will vest in full on the fourth anniversary of the date of grant; 1,149,026 shares vest ratably over three years; and 800,000 shares vest ratably over four years. Restricted stock may vest earlier upon a qualifying disability, death, certain involuntary terminations, or a change in control of the Company in accordance with the terms of the underlying agreement.

### Compensation costs

Stock compensation expense associated with restricted stock awards for the three months ended March 31, 2015 was \$0.3 million, and is included in "General and administrative expenses" on the Company's Condensed Consolidated Statement of Operations.

### 11. Statement of Cash Flows

During the three months ended March 31, 2015, Sabine's noncash investing and financing activities consisted primarily of the following transactions:

- Accrued and payable capital expenditures as of March 31, 2015 were \$76.4 million.

During the three months ended March 31, 2014, Sabine's noncash investing and financing activities consisted primarily of the following transactions:

- Accrued and payable capital expenditures as of March 31, 2014 were \$111.6 million.

The Company paid \$42.8 million and \$31.8 million for interest during the three months ended March 31, 2015 and 2014, respectively, net of capitalized interest.

### 12. Derivative Financial Instruments

Throughout the three months ended March 31, 2015, the Company has executed derivative contracts as market conditions allowed in order to economically hedge anticipated future cash flows from oil and natural gas producing activities. These include both oil and natural gas fixed-price swap agreements covering certain portions of anticipated 2016 and 2017 production volumes. The Company executed option contracts including written oil call agreements, as well as purchased oil put agreements, covering certain portions of anticipated 2016 oil production. No material premiums were recognized as a result of these option agreements. None of the fixed-price swap or option contracts were designated for hedge accounting, with all mark-to-market changes in fair value recognized currently in earnings. See the table below for specific volume, timing, and pricing details regarding Sabine's outstanding trade positions.

Additionally, prior to the three months ended March 31, 2015, the Company purchased natural gas puts, wrote oil and natural gas calls, and wrote oil and natural gas puts for periods from 2015 through 2016. No material premiums were recognized as a result of these option agreements. Sabine has sold a swaption agreement allowing the counterparty the option to execute a fixed price swap agreement at a contracted price on contracted volumes before an expiration date. Sabine's sold swaption contract expires at December 31, 2015. The net unamortized premium included in short-term derivative liabilities is \$3.5 million at March 31, 2015. No unamortized premium remained in long-term derivative liabilities at March 31, 2015. See the table below for specific volume, timing, and pricing details regarding Sabine's derivative positions.

Throughout the three months ended March 31, 2014, the Company purchased natural gas puts, wrote oil and natural gas calls, and wrote oil and natural gas puts for periods from 2014 through 2016, for which a net premium was recognized. In March 2014, Sabine restructured certain sold call contracts for which the Company had previously recognized a premium liability related to 2015 volumes. As a result of this restructuring, the Company released \$4.4 million of premium liability into earnings, recognized in “Gain (loss) on derivative instruments” on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2014.

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The following swaps and options were outstanding with associated notional volumes and contracted swap, floor, and ceiling prices that represent hedge weighted average prices for the index specified as of March 31, 2015:

## Natural Gas

Settlement Period	Derivative Instrument	Notional Amount (MMbtu)	Weighted Average Prices			
			Swap (\$/MMbtu)	Sub Floor (\$/MMbtu)	Floor (\$/MMbtu)	Ceiling (\$/MMbtu)
2015	Collar	2,750,000	\$ —	\$ —	\$ 4.10	\$ 4.30
2015	Swap	28,875,000	\$ 4.15	\$ —	\$ —	\$ —
2015	Swap with sub floor	28,325,000	\$ 4.15	\$ 3.51	\$ —	\$ —
2016	Swap	24,522,000	\$ 3.26	\$ —	\$ —	\$ —
2016	Sold call	21,960,000	\$ —	\$ —	\$ —	\$ 5.00

## Oil

Settlement Period	Derivative Instrument	Notional Amount (Bbl)	Weighted Average Prices			
			Swap (\$/Bbl)	Sub Floor	Floor	Ceiling
2015	Swap	1,660,050	\$ 89.90	\$ —	\$ —	\$ —
2015	Swap with sub floor	255,750	\$ 89.50	\$ 73.47	\$ —	\$ —
2016	Swap	640,500	\$ 63.62	\$ —	\$ —	\$ —
2016	Collar	366,000	\$ —	\$ —	\$ 60.00	\$ 68.05
2016	Swaption	366,000	\$ 98.00	\$ —	\$ —	\$ —
2017	Swap	547,500	\$ 64.80	\$ —	\$ —	\$ —

Subsequent to March 31, 2015 through May 11, 2015, Sabine has not entered into additional derivative contracts.

The table below presents the Company's "Gain (loss) on derivative instruments" located in Other income (expenses) in the Condensed Consolidated Statements of Operations:

	For the Three Months Ended March 31,	
	2015	2014
Gain (loss) on derivative instruments	\$ 36,124	\$ (22,126)

Sabine received \$46.0 million and paid \$7.3 million on settlements of derivatives in three months ended March 31, 2015 and 2014, respectively.

Sabine's derivative contracts are executed with counterparties under certain master netting agreements that allow the Company to offset assets due from, and liabilities due to, the counterparties. The table below presents the carrying value

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of Sabine's derivative assets and liabilities both before and after the impact of such netting agreements in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014:

		Derivative Assets	
		March 31, 2015	December 31, 2014
		(in thousands)	
		Fair Value	
Current assets	Derivative Instruments	\$ 168,289	\$ 191,765
Current liabilities (1)	Derivative Instruments	—	—
Total current asset fair value		\$ 168,289	191,765
Other assets	Derivative Instruments	9,612	—
Long-term liabilities (1)	Derivative Instruments	—	—
Total long-term asset fair value		9,612	—
Less: Counterparty set-off		(30,709)	(31,548)
Total derivative asset net fair value		\$ 147,192	\$ 160,217
		Derivative Liabilities	
		March 31, 2015	December 31, 2014
		(in thousands)	
		Fair Value	
Current liabilities	Derivative Instruments	\$ (3,500)	\$ (4,645)
Current assets (1)	Derivative Instruments	(29,291)	(31,548)
Total current liability fair value		(32,791)	(36,193)
Long-term liabilities	Derivative Instruments	(248)	(2,269)
Other assets (1)	Derivative Instruments	(1,418)	—
Total long-term liability fair value		(1,666)	(2,269)
Less: Counterparty set-off		30,709	31,548
Total derivative liability net fair value		\$ (3,748)	\$ (6,914)

(1) Impact of counterparty right of set-off for derivative instruments subject to certain master netting agreements. At March 31, 2015, and December 31, 2014, none of the Company's outstanding derivatives contained credit-risk related contingent features that would result in a material adverse impact to Sabine upon any change in the Company's credit ratings.

## 13. Fair Value Measurements



Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

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The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, basis swaps, options, and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The following table sets forth, by level, within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of March 31, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Recurring Fair Value Measurements (in millions)			
	Level 1	Level 2	Level 3	Total
	As of March 31, 2015			
Derivative Assets	\$ —	\$ 177.9	\$ —	\$ 177.9
Derivative Liabilities	—	(34.5)	—	(34.5)
Total	\$ —	\$ 143.4	\$ —	\$ 143.4

	Recurring Fair Value Measurements (in millions)			
	Level 1	Level 2	Level 3	Total
	As of December 31, 2014			

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Derivative Assets	\$ —	\$ 191.8	\$ —	\$ 191.8
Derivative Liabilities	—	(38.5)	—	(38.5)
Total	\$ —	\$ 153.3	\$ —	\$ 153.3

The observable data includes the forward curve for commodity prices and interest rates based on quoted markets prices and prospective volatility factors related to changes in commodity prices, as well as the impact of the Company's non performance risk as well as the non-performance risk of its counterparties which is derived using credit default swap values.

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The Company measures fair value of its long-term debt based on a Level 2 methodology using quoted market prices which include consideration of the Company's credit risk. The following table outlines the fair value of the New Revolving Credit Facility, Term Loan Facility, 2017 Notes, 2019 Notes and 2020 Notes as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
	(in thousands)	
New Revolving Credit Facility		
Carrying Value	\$ 970,987	\$ 545,000
Fair Value	\$ 897,862	\$ 512,414
Term Loan Facility		
Carrying Value, net of discount	\$ 697,328	\$ 696,916
Fair Value	\$ 343,002	\$ 653,798
2017 Senior Notes		
Carrying Value, net of discount	\$ 348,826	\$ 348,669
Fair Value	\$ 63,875	\$ 190,400
2019 Senior Notes		
Carrying Value, net of discount	\$ 309,037	\$ 293,064
Fair Value	\$ 92,466	\$ 184,932
2020 Senior Notes		
Carrying Value, net of discount	\$ 110,351	\$ 105,234
Fair Value	\$ 35,674	\$ 73,311

Sabine utilizes fair value on a non-recurring basis to perform impairment tests as required on the Company's inventory and property, plant and equipment. For the three months ended March 31, 2015 and 2014, the Company recorded no impairment charges for gas gathering and processing equipment. For the three months ended March 31, 2015 and 2014, Sabine had no material impairment charges related to the write-down of carrying value of certain sizes of casing inventory. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition (Note 7). The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified as Level 3. Additionally, the Company uses fair value to determine the inception value of the Company's asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified as Level 3.

#### 14. Commitments and Contingencies

##### Legal and Regulatory

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. All known liabilities are accrued when probable and reasonably estimable based on the Company's best estimate of the potential loss. The Company has recognized \$27.7 million and \$27.4 million of

accrued liabilities in relation to legal proceedings which is classified within “Other long-term liabilities” in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, respectively. Additionally, as of March 31, 2015 and December 31, 2014, the Company had AROs of approximately \$49.4 million and \$48.8 million attributable to the plugging of abandoned wells. There have been no updates to significant legal cases in the three months ended March 31, 2015 other than that on May 1, 2015 the Texas Supreme Court requested full briefing on the merits of Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

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Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

On February 29, 2012, two members of a three-member arbitration panel reached a decision adverse to Forest in the proceeding styled Forest Oil Corp., et al. v. El Rucio Land & Cattle Co., et al., which occurred in Harris County, Texas. The third member of the arbitration panel dissented. The proceeding was initiated in January 2005 and involves claims asserted by the landowner-claimant based on the diminution in value of its land and related damages allegedly resulting from operational and reclamation practices employed by Forest in the 1970s, 1980s, and early 1990s. The arbitration decision awarded the claimant \$23 million in damages and attorneys' fees and additional injunctive relief regarding future surface-use issues. On October 9, 2012, after vacating a portion of the decision imposing a future bonding requirement on Forest, the trial court for the 55th Judicial District, in the District Court in Harris County, Texas, reduced the arbitration decision to a judgment. The judgment was affirmed by the Court of Appeals for the First District of Texas on July 24, 2014, and a motion for rehearing was denied on August 8, 2014. Forest filed a petition for review with the Texas Supreme Court on January 5, 2015. On May 1, 2015, the Texas Supreme Court requested full briefing on the merits.

Stourbridge Investments, LLC v. Forest Oil Corporation, et al., Raul v. Carroll, et al., Rothenberg v. Forest Oil Corporation, et al., Gawlikowski v. Forest Oil Corporation, et al., Edwards v. Carroll, et al., Jabri v. Forest Oil Corporation, et al., Olinatz v. Forest Oil Corporation, et al.

Following the May 6, 2014 announcement of the proposed Combination, six putative class action lawsuits were filed by Forest Oil shareholder in the Supreme Court of the State of New York, County of New York, alleging breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by Sabine entities in connection with the proposed Combination. By order dated July 8, 2014, the six New York cases were consolidated for all purposes under the caption In re Forest Oil Corporation Shareholder Litigation, Index No. 651418/2014. On July 17, 2014, plaintiffs in the consolidated New York action filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). The Consolidated Complaint seeks to certify a plaintiff class consisting of all holders of Forest Oil common stock other than the defendants and their affiliates. The defendants named in these actions include the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), as well as Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC). The Consolidated Complaint also purports to identify FR XI Onshore AIV, L.L.C. as a defendant, but no causes of action are alleged against that entity.

The Consolidated Complaint alleges that the proposed Combination arises out of a series of unlawful actions by the board of directors of Forest Oil seeking to ensure that Sabine and affiliates of First Reserve Corporation ("First Reserve") acquire the assets of, and take control over, Forest Oil through an alleged "three-step merger transaction" that allegedly does not represent a value-maximizing transaction for the shareholders of Forest Oil. The Consolidated Complaint also complains that the proposed Combination has been improperly restructured to require only a majority vote of current Forest Oil shareholders to approve the Combination with Sabine, rather than a two-thirds majority as would have been required under the original transaction structure. The Consolidated Complaint additionally alleges that members of Forest Oil's board, as well as Forest Oil's financial adviser for the proposed Combination, are subject to conflicts of interest that compromise their loyalty to Forest Oil's shareholders, that the defendants have improperly sought to "lock up" the proposed Combination with certain inappropriate "deal protection devices" that impede Forest Oil from pursuing superior potential transactions with other bidders.

The Consolidated Complaint asserts causes of action against the directors of Forest Oil for breaches of fiduciary duty and violations of the New York Business Corporation Law, as well as a cause of action against the Sabine defendants for aiding and abetting the directors' breaches of duty and violations of law, and it seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission and/or

rescissory and other damages in the event that the proposed Combination is consummated before the lawsuit is resolved.

In addition to these New York proceedings, one putative class action lawsuit has been filed by Forest Oil shareholders in the United States District Court for the District of Colorado. That action, captioned Olinatz v. Forest Oil Corp., No. 1:14-cv-01409-MSK-CBS, was commenced on May 19, 2014, and plaintiffs filed an Amended Complaint (the “Olinatz Complaint”) on June 13, 2014. The Olinatz Complaint also alleges breaches of fiduciary duty by the

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directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by the Sabine defendants in connection with the proposed Combination, as well as related claims alleging violations of Section 14 (a) and 20 (a) of the Securities Exchange Act of 1934, and Securities and Exchange Commission Rule 14a-9 promulgated thereunder, in connection with alleged misstatements in a Form S-4 Registration Statement filed by Forest Oil on May 29, 2014, which recommends that Forest Oil shareholders approve the proposed Combination. The Olinatz Complaint names as defendants Forest Oil and certain of its affiliates (specifically, Forest Oil Corporation, New Forest Oil Inc., and Forest Oil Merger Sub Inc.), the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), and Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC), and seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission in the event the proposed Combination is consummated before the lawsuit is resolved, as well as imposition of a constructive trust on any alleged benefits improperly received by defendants.

On October 14, 2014, on motion by the Colorado plaintiffs, the Court in the Colorado action entered an order directing the Clerk of the Court to administratively close the action, subject to reopening on good cause shown.

On November 11, 2014, the defendants reached an agreement in principle with plaintiffs in the New York action regarding a settlement of that action, and that agreement is reflected in a memorandum of understanding executed by the parties on that date. The settlement, if consummated, will also resolve the Colorado action. In connection with the settlement contemplated by the memorandum of understanding, Forest Oil agreed to make certain additional disclosures related to the proposed transaction with Sabine, which are contained in Forest Oil's November 12, 2014 Form 8-K, and Sabine agreed that, within 120 days after the closing of the proposed combination transaction, Sabine Investor Holdings LLC will designate for a period of no less than three (3) years at least one additional independent director, as defined in Section 303A.02 of the New York Stock Exchange Listed Company Manual, as a Sabine Nominee (as defined in Section 1.4 of the Amended and Restated Agreement and Plan of Merger). The total number of Sabine Nominees will remain unchanged, but at least one of the remaining two Sabine Nominees that had not yet been determined was required to be independent. In connection with the closing of the Combination, Thomas Chewing, an independent director as defined in Section 303A.02 of the New York Exchange Listed Company Manual, was appointed as a Sabine Nominee. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement.

On March 13, 2015, plaintiffs informed Sabine that they believed Sabine had materially violated the terms of the memorandum of understanding by (i) failing to replace or create a mechanism to replace an independent director who resigned from the board of directors in January of 2015, and (ii) making changes to the terms of the merger agreement that were not necessary or required to facilitate the consummation of the proposed transaction without first disclosing and permitting shareholders to vote on the changes. Sabine disagrees with plaintiffs' position and believes it has fully complied with the memorandum of understanding. In an attempt to facilitate a resolution, however, Sabine offered to: (i) appoint an independent director if an additional director was added to the Board of Directors (bringing the total number of directors eight) in the next twelve months, and (ii) remove or waive the "Reincorporation Penalty" provision. Plaintiffs accepted the offer on April 22, 2015, contingent upon the Parties' reaching agreement on a stipulation of settlement, which they are presently negotiating.

The stipulation of settlement will be subject to customary conditions, including court approval. In the event the parties enter into a stipulation of settlement, a hearing will be scheduled at which the New York Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims or actions that were or could have been brought challenging any aspect of the proposed combination transaction, the Amended and Restated Agreement and Plan of Merger, the merger agreement originally entered into by Sabine Investor Holdings LLC, Forest Oil, New Forest Oil Inc. and certain of their affiliated entities



on May 5, 2014, any disclosure made in connection therewith, including the Definitive Proxy Statement, and all other matters that were the subject of the complaint in the New York action, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that the parties will negotiate in good faith regarding the amount of attorney's fees and expenses that shall be paid to plaintiffs' counsel in connection with the Actions. There can be no assurances that the parties will ultimately enter into a stipulation of settlement or that the New York Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of

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understanding may be terminated. The parties are presently negotiating the stipulation of settlement. At this time, the Company is unable to guarantee the potential outcome of this litigation or the ultimate exposure.

### Wilmington Savings Fund Society, FSB v. Forest Oil Corporation

On February 26, 2015, we were served with a complaint concerning the indenture governing our 2019 Notes. The complaint is pending in the Supreme Court of the State of New York and generally alleges that certain events of default occurred with respect to the 2019 Notes due to the business combination between Forest Oil Corporation and Sabine Oil & Gas LLC. We also received a notice of default and acceleration from the trustee with respect to the 2019 Notes containing similar allegations. If we are not successful in our defense of this complaint, we may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes, and if the court determines we are in default under the indenture governing the 2019 Notes, a cross-default and acceleration under our other debt agreements may result. Sabine filed its Answer to the complaint on April 17, 2015. We believe these allegations against us are without merit and intend to vigorously defend against such claims and pursue any and all defenses available. However, we are unable to predict the outcome of such matter, and the proceedings may have a negative impact on our liquidity, financial condition and results of operations.

We are separately evaluating potential claims that we may assert against the trustee for the 2019 Notes for any and all losses we may suffer as a result of the complaint or notice. We can provide no guarantee that any such claims, if brought by us, will be successful or, if successful, that the responsible parties will have the financial resources to address any such claims. While we intend to vigorously defend the claims against us and believe they are without merit, an adverse ruling could cause our indebtedness to become immediately due and payable.

Additional claims, lawsuits, or proceedings may be filed or commenced arising out of the indentures to which we are a party and with respect to the business combination.

### Drilling and Completion

At March 31, 2015, Sabine had one drilling rig under contract which expires in 2016 and two drilling rigs under contracts which expire in 2018. As of March 31, 2015 total future commitments relating to the Company's secured rig and servicing contracts were \$57.4 million over the next three years.

Furthermore, the Company has a Committed Oilfield Services Agreement (the "Services Agreement") with Nabors, which commits to Nabors service contracts with revenues of no less than 20% and 75% of certain of the Company's gross spend on hydraulic fracturing services and drilling and directional services, respectively, through December 13, 2016. If at any yearly anniversary of the execution of the Services Agreement, Sabine has failed to meet the revenue commitment for the previous 12-month period and Nabors has complied with its service obligations under the Services Agreement, the Company may be required to pay Nabors an amount equal to the revenue commitment shortfall multiplied by 40%. No revenue commitment shortfall liability was recorded as of December 31, 2014 for the annual period ended December 13, 2014 under the Services Agreement. For the annual period ended December 13, 2013, the Company recognized a revenue commitment shortfall liability amount due to Nabors of \$1.7 million which was paid in January 2014 pursuant to the terms of the Services Agreement.

As part of Sabine's ongoing operations, since inception the Company has contracted with affiliates of Nabors to secure drilling rigs and other services for the oil and natural gas well activity the Company has undertaken. The Company recognized a liability in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014 of \$11.1 million and \$11.8 million, respectively, for these services which are reflected in "Accounts payable – trade" and "Accrued exploration and development" balances in the Condensed Consolidated Balance Sheets.

Other Commitments

The Company's borrowing base under its New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. Since the Company's New Revolving Credit Facility is fully drawn, the decrease in the Company's borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million.

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Additionally, the Company has elected to exercise its right to a grace period with respect to a \$15.3 million interest payment under its Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits the Company 30 days to make such interest payment before an event of default occurs. The Company believes it is in the best interests of its stakeholders to actively address the Company's debt and capital structure and intends to continue discussions with its creditors and their respective professionals during the 30-day grace period. If the Company fails to pay the interest payment during the 30-day grace period and does not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day standstill. If the Company continues to fail to pay the interest payment, such failure could constitute a cross default under certain of the Company's other indebtedness. If the indebtedness under the Term Loan Facility or any of the Company's other indebtedness is accelerated, the Company may have to file for bankruptcy.

The Company is currently engaged in discussion with the lenders under its Term Loan Facility regarding a waiver or forbearance with respect to any event of default that may occur upon the expiration of the 30-day grace period with respect to the April 21, 2015 interest payment.

The Company has operating commitments which consist of committed production and development activities. The gas and condensate gathering agreements for the transportation and processing of natural gas and condensate cover certain properties with contractually obligated annual minimum volume commitments of gas and condensate. Under the terms of the agreements, the Company is required to make deficiency payments for any shortfalls in delivering the minimum volumes under these commitments and the Company recognizes shortfalls on a quarterly basis. The Company recognized \$0.7 million in the three months ended March 31, 2015 under these commitments. No shortfalls were recognized for the three months ended March 31, 2014 under these commitments. The drilling commitment requires an annual minimum of one well be drilled each year through May 2, 2017. Under the terms of the agreement, the Company is required to purchase the associated gathering facilities should this commitment not be met.

As is customary in the oil and natural gas industry, the Company may at times have commitments in place to reserve or earn certain acreage positions or wells. If the Company does not pay such commitments, the acreage positions or wells may be lost.

In March 2015, the Company awarded cash bonuses and performance awards (collectively the "Performance Awards") under the 2014 LTIP to employees and non-employee directors of the Company. As of March 31, 2015, approximately \$3.3 million was accrued in "Accrued operating expenses and other" on the Condensed Consolidated Balance Sheets. Additionally, an aggregate of approximately \$16.6 million of future commitments are expected to be paid quarterly under the Performance Awards through June 30, 2016 based on continued employment and the achievement of pre-established performance goals.

There have been no other material changes to commitments and contingencies in the three months ended March 31, 2015.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report and in the Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors which could cause actual results to vary from expectations include changes in oil and natural gas prices, the timing of planned capital expenditures, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, as well as those factors discussed below and elsewhere in this report and in the Annual Report on Form 10-K, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. See "Cautionary Statement Regarding Forward-Looking Statements."

Overview

We are an independent oil and natural gas company engaged in the acquisition, development, exploitation and exploration of oil and natural gas properties onshore in the United States. Our properties are primarily focused in three core geographic areas:

- East Texas targeting the Cotton Valley Sand, Haynesville Shale and Pettet formations;
- South Texas, targeting the Eagle Ford Shale formation; and
- North Texas, targeting the Granite Wash formation.

As of March 31, 2015, we held interests in approximately 286,500 gross (227,400 net) acres in East Texas, 87,800 gross (56,900 net) acres in South Texas and 51,400 gross (29,100 net) acres in North Texas. As of March 31, 2015, we were the operator on 89%, 99% and 99% of our net acreage positions in East Texas, South Texas and North Texas, respectively.

Our full year 2015 capital expenditures are forecasted to total approximately \$230 million to \$275 million. As a result, we expect production growth from our 2015 capital program will not offset production declines, which will result in material decreases to our production and related cash flows. Consistent with our historical practice, we periodically review our capital expenditures and adjust our budget based on liquidity, commodity prices and drilling results.

We expect to focus operations in the exploration and production segment of the energy industry in the United States. Our gathering and processing assets are primarily dedicated to supporting the natural gas volumes we produce and do not generate any material amounts of revenue. Our ability to develop and produce current reserves and add additional reserves is driven by several factors, including:

- success in the drilling of new wells;
- commodity prices;
- the availability of attractive acquisition opportunities and our ability to execute them;
- the activities and elections of third parties under our joint development agreements;
- the availability of capital and the amount we invest in the leasing and development of properties and the drilling of wells;



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- facility or equipment availability and unexpected delays or downtime, including delays imposed by or resulting from compliance with regulatory requirements; and
- the rate at which production volumes naturally decline.

### The Combination

On December 16, 2014, the Legacy Sabine Investors contributed the equity interests in Sabine O&G to Sabine Oil & Gas Corporation, which was then known as Forest Oil Corporation. In exchange for this contribution, the Legacy Sabine Investors received shares of Sabine common stock and Sabine Series A preferred stock, collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. Immediately following the contribution, Sabine O&G and related holding companies merged into Forest, with Forest surviving the mergers. Holders of Sabine common stock immediately prior to the closing of the Combination continued to hold their Sabine common stock following the closing, which immediately following the closing represented approximately a 26.5% economic interest in Sabine and 60% of the total voting power in Sabine. On December 19, 2014, Forest Oil Corporation changed its name to Sabine Oil & Gas Corporation. In connection with the completion of the Combination, the executive management team of Sabine O&G were appointed as the executive management team of Sabine, and the members of the former executive management team of Forest resigned or were removed from their positions.

Sabine O&G is considered the predecessor of Sabine or acquirer of Forest, and, accordingly, the historical financial statements and results of operations of Sabine for periods prior to the completion of the Combination are those of Sabine O&G, as the predecessor, and the historical financial statements and results of operations for the year ending December 31, 2014 include the historical financial statements of Sabine O&G, with the combined operating results of Forest consolidated therein only from the closing date of December 16, 2014 and thereafter. Accordingly, our results of operations discussed in this section may not be indicative of our results of operation following the Combination. The underlying Forest assets acquired and liabilities assumed by us were based on their respective fair market values. No goodwill resulted from the Combination as the fair value of assets acquired and liabilities assumed approximated purchase price.

Prior to the Combination, Sabine O&G was a privately-held company and Forest's common stock was listed on the NYSE. Following the Combination, our common stock trades on the OTCQB, currently under the ticker symbol SOGC.

### Source of Revenues

We derive substantially all of our revenue from the sale of oil, NGLs and natural gas that are produced from our interests in properties located onshore in the United States. Oil and natural gas prices are inherently volatile and are influenced by many factors outside of our control. Oil and natural gas prices decreased significantly in the second half of 2014 and have remained low throughout the first and second quarters of 2015. If commodity prices remain at current levels, we expect significantly lower revenues and operating cash flows compared to historical results.

To achieve more predictable cash flows and to reduce exposure to downward price fluctuations, we use derivative instruments to hedge future sales prices on a significant portion of oil and natural gas production. We currently use a combination of fixed price oil and natural gas swaps and options for which we receive a fixed price (via either swap price, floor or collar or put price) for future production in exchange for a payment of the variable market price received at the time future production is sold. See "Commodity Hedging Activities" below for more information regarding our economic hedge positions.

### Principal Components of Cost Structure

- Lease operating, marketing, gathering, transportation and other. These are costs incurred to produce oil and natural gas and deliver the volumes to the market, together with the costs incurred to maintain producing properties, such as maintenance and repairs. These costs, which have both a fixed and variable component, are primarily a function of volume of oil and natural gas produced from currently producing wells and incrementally from new production from drilling and completion activities. Lease operating expenses include workover expenses.



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- Production and ad valorem taxes. Production taxes are paid on produced oil and natural gas primarily based on the wellhead value of production. The applicable rates vary across the areas in which we operate. As the proportion of production changes from area to area, production tax rates will vary depending on the quantities produced from each area and the applicable production tax rates then in effect. Ad valorem taxes are typically computed on the basis of a property valuation as determined by certain state and local taxing authorities and will vary annually based on commodity price fluctuations.
- General and administrative. This cost includes all overhead associated with our business activities, including payroll and benefits for corporate staff, costs of maintaining our headquarters, audit, tax, legal and other professional and consulting fees, insurance and other costs necessary in the management of our production and development operations.

As a full cost method of accounting company, we capitalize general and administrative expenses that are directly attributable to our oil and natural gas activities. We capitalized \$3.5 million and \$3.3 million for the three months ended March 31, 2015 and 2014, respectively.

- Depletion, depreciation and amortization. This includes the systematic expensing of the capitalized costs incurred to acquire and develop oil and natural gas properties. As a full cost company, we capitalize all costs associated with acquisition, exploration, development and related efforts and deplete these costs using the units-of-production method.
- Impairments. We evaluate the impairment of proved oil and natural gas properties on a full cost basis. Property impairment charges result from application of the ceiling test under the full cost accounting rules, which we are required to calculate on a quarterly basis. The ceiling test requires that a non-cash impairment charge be taken to reduce the carrying value of oil and natural gas properties if the carrying value exceeds a defined cost-center ceiling. Because current commodity prices, and related calculations of the discounted present value of reserves, are significant factors in the full cost ceiling test, impairment charges may result from declines in oil, NGLs and natural gas prices. For the three months ended March 31, 2015, we recorded a \$236.5 million non-cash impairment charge as a result of the full cost ceiling limitation. For the three months ended March 31, 2014, the Company did not recognize an impairment for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation.

We review all of our unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties and otherwise if impairment has occurred. In addition, we analyze our unevaluated leasehold and transfer to evaluated properties leasehold that can be associated with proved reserves, leasehold that expired in the quarter or leasehold that is not a part of our development strategy and will be abandoned.

We evaluate gas gathering and processing equipment for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. No impairment charge for gas gathering and processing equipment was recorded in the three months ended March 31, 2015 and 2014.

- Interest. During the periods presented, we have historically financed a portion of our working capital requirements and acquisitions with borrowings under the Former Revolving Credit Facility, the New Revolving Credit Facility and the Term Loan Facility. As a result, we incurred interest expense that was affected by the level of drilling, completion and acquisition activities, as well as fluctuations in interest rates and our financing decisions. We also incurred interest expense on our 2017 Notes, and, for the period following the completion of the Combination on December 16, 2014, the 2019 Notes and 2020 Notes. As of March 31, 2015, the total outstanding principal amount of our long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, which will continue to expose us to interest rates. As of March 31, 2015, no extensions of credit are available under the New Revolving Credit Facility. We will likely continue to incur significant interest expense as we continue to grow. To date, we have not entered into any interest rate hedging arrangements to mitigate the effects of interest rate changes. Additionally, we capitalized \$1.3 million and \$1.9 million of interest expense for the three months ended March 31, 2015 and 2014,

respectively.

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· Income Tax Expense. Prior to the Combination, we were a limited liability company treated as a partnership for federal and state income tax purposes. Accordingly, no provision for federal or state income taxes was recorded prior to the Combination as our equity holders were responsible for income tax on our profits. In connection with the completion of the Combination, we merged into a corporation and became subject to federal and state income taxes. Our book and tax basis in assets and liabilities differed at the time of our change in tax status due primarily to different cost recovery periods utilized for book and tax purposes for our oil and natural gas properties. For the three months ended March 31, 2015, we recorded no income tax expense, resulting in an effective tax rate of 0%. The significant difference between our effective tax rate and federal statutory income tax rate of 35% is due to a full valuation allowance recorded on net deferred tax asset in excess of deferred tax liabilities.

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## Results of Operations

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

The following table sets forth selected operating data for the three months ended March 31, 2015 compared to the three months ended March 31, 2014:

	For the Three Months		Amount of Increase (Decrease)	Percent Change	
	Ended March 31, 2015 (in thousands)	2014			
Revenues					
Oil, natural gas liquids and natural gas	\$ 97,628	\$ 112,306	\$ (14,678)	(13)	%
Other	397	411	(14)	(3)	%
Total revenues	98,025	112,717	(14,692)	(13)	%
Operating expenses					
Lease operating	24,355	11,371	12,984	114	%
Marketing, gathering, transportation and other	9,357	4,386	4,971	113	%
Production and ad valorem taxes	2,768	5,592	(2,824)	(51)	%
General and administrative	15,038	6,390	8,648	135	%
Depletion, depreciation and amortization	54,063	39,925	14,138	35	%
Accretion	474	217	257	118	%
Impairments	236,485	—	236,485		*
Other operating expenses (income)	5,393	(1,429)	6,822		*
Total operating expenses	347,933	66,452	281,481	424	%
Other income (expenses)					
Interest, net of capitalized interest	(70,247)	(25,825)	44,422	172	%
Gain (loss) on derivative instruments	36,124	(22,126)	(58,250)		*
Total other expenses	(34,123)	(47,951)	(13,828)		*
Net loss before income taxes	\$ (284,031)	\$ (1,686)	\$ (282,345)		*
Income tax expense	—	—	—		*
Net loss	\$ (284,031)	\$ (1,686)	\$ (282,345)		*
Reconciliation to derive Adjusted EBITDA (1):					
Interest, net of capitalized interest	70,247	25,825			
Depletion, depreciation and amortization	54,063	39,925			
Impairments	236,485	—			
Other	3,969	(1,499)			
Amortization of deferred rent	—	(27)			
Accretion	474	217			
Loss on derivative instruments	11,004	20,941			
Option premium amortization	(1,145)	(6,156)			
Income tax expense	—	—			
Adjusted EBITDA (1)	\$ 91,066	\$ 77,540			

\* Not meaningful or applicable

(1) Adjusted EBITDA is a non-GAAP financial measure. Please see “—Non-GAAP Financial Measure.”

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	For the Three Months		Amount of Increase (Decrease)	Percent Change	
	Ended March 31, 2015	2014			
Oil, NGL and natural gas sales by product (in thousands):					
Oil	\$ 37,928	\$ 39,123	\$ (1,195)	(3)	%
NGL	11,397	17,077	(5,680)	(33)	%
Natural gas	48,303	56,106	(7,803)	(14)	%
Total	\$ 97,628	\$ 112,306	\$ (14,678)	(13)	%
Production data:					
Oil (MBbl)	906.45	419.06	487.39	116	%
NGL (MBbl)	894.69	508.34	386.35	76	%
Natural gas (Bcf)	16.66	11.05	5.61	51	%
Combined (Bcfe) (1)	27.47	16.61	10.86	65	%
Average prices before effects of economic hedges (2):					
Oil (per Bbl)	\$ 41.84	\$ 93.36	\$ (51.52)	(55)	%
NGL (per Bbl)	\$ 12.74	\$ 33.59	\$ (20.85)	(62)	%
Natural gas (per Mcf)	\$ 2.90	\$ 5.08	\$ (2.18)	(43)	%
Combined (per Mcfe) (1)	\$ 3.55	\$ 6.76	\$ (3.21)	(47)	%
Average realized prices after effects of economic hedges (2):					
Oil (per Bbl)	\$ 68.78	\$ 89.78	\$ (21.00)	(23)	%
NGL (per Bbl)	\$ 12.74	\$ 33.59	\$ (20.85)	(62)	%
Natural gas (per Mcf)	\$ 4.19	\$ 4.55	\$ (0.36)	(8)	%
Combined (per Mcfe)(1)	\$ 5.23	\$ 6.32	\$ (1.09)	(17)	%
Average costs (per Mcfe) (1):					
Lease operating	\$ 0.89	\$ 0.68	\$ 0.21	31	%
Marketing, gathering, transportation and other	\$ 0.34	\$ 0.26	\$ 0.08	31	%
Production and ad valorem taxes	\$ 0.10	\$ 0.34	\$ (0.24)	(71)	%
General and administrative	\$ 0.55	\$ 0.38	\$ 0.17	45	%
Depletion, depreciation and amortization	\$ 1.97	\$ 2.40	\$ (0.43)	(18)	%

(1) Oil and NGL production was converted at 6 Mcf per Bbl to calculate combined production and per Mcfe amounts.

(2) Average prices shown in the table reflect prices both before and after the effects of cash settlements on commodity derivative transactions. The Company's calculation of such effects includes gains or losses on cash settlements for commodity derivative transactions.

Oil, natural gas liquids and natural gas sales. Revenues from production of oil and natural gas decreased from \$112.3 million in the three months ended March 31, 2014 to \$97.6 million in the three months ended March 31, 2015, a decrease of 13%. This decrease of \$14.7 million was primarily the result of a decrease in oil, natural gas liquids and natural gas revenues of \$1.2 million, \$5.7 million and \$7.8 million, respectively, due to decreases in prices of \$51.52/Bbl, \$20.85/Bbl and \$2.18/Mcfe, respectively. These decreases were partially offset by a 65% increase in production due to an active and successful development program throughout 2014 and the Combination.



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The following table sets forth additional information concerning our production volumes for the three months ended March 31, 2015 compared to the three months ended March 31, 2014:

	For the Three Months Ended March 31, 2015 2014 (in Bcfe)		Percent Change	
South Texas	6.44	5.14	25	%
East Texas	18.25	10.10	81	%