GULFPORT ENERGY CORP
Form 10-Q
May 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ýQUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018 OR
¨TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-19514

Gulfport Energy Corporation
(Exact Name of Registrant As Specified in Its Charter)

Delaware	73-1521290
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
3001 Quail Springs Parkway Oklahoma City, Oklahoma	73134
(Address of Principal Executive Offices)	(Zip Code)

(405) 252-4600
(Registrant Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of May 1, 2018, 173,657,895 shares of the registrant's common stock were outstanding.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2018	December 31, 2017
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$118,613	$99,557
Accounts receivable—oil and natural gas	199,457	182,213
Prepaid expenses and other current assets	7,564	4,912
Short-term derivative instruments	50,906	78,847
Total current assets	376,540	365,529
Property and equipment:		
Oil and natural gas properties, full-cost accounting, $2,971,119 and $2,912,974 excluded from amortization in 2018 and 2017, respectively	9,470,697	9,169,156
Other property and equipment	89,648	86,754
Accumulated depletion, depreciation, amortization and impairment	(4,264,647)	(4,153,733)
Property and equipment, net	5,295,698	5,102,177
Other assets:		
Equity investments	311,694	302,112
Long-term derivative instruments	15,769	8,685
Deferred tax asset	—	1,208
Inventories	8,505	8,227
Other assets	20,186	19,814
Total other assets	356,154	340,046
Total assets	$6,028,392	$5,807,752
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$577,548	$553,609
Asset retirement obligation—current	120	120
Short-term derivative instruments	37,570	32,534
Current maturities of long-term debt	629	622
Total current liabilities	615,867	586,885
Long-term derivative instruments	2,499	2,989
Asset retirement obligation—long-term	76,267	74,980
Deferred tax liability	2,884	—
Other non-current liabilities	2,963	2,963
Long-term debt, net of current maturities	2,239,023	2,038,321
Total liabilities	2,939,503	2,706,138
Commitments and contingencies (Note 9)		
Preferred stock, $.01 par value; 5,000,000 authorized, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding	—	—
Stockholders' equity:		
	1,735	1,831

Common stock - $.01 par value, 200,000,000 authorized, 173,523,487 issued and outstanding at March 31, 2018 and 183,105,910 at December 31, 2017		
Paid-in capital	4,319,034	4,416,250
Accumulated other comprehensive loss	(46,042)	(40,539)
Retained deficit	(1,185,838)	(1,275,928)
Total stockholders' equity	3,088,889	3,101,614
Total liabilities and stockholders' equity	$6,028,392	$5,807,752

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2018	2017
	(In thousands, except share data)	
Revenues:		
Natural gas sales	$249,399	$177,837
Oil and condensate sales	45,686	24,411
Natural gas liquid sales	46,836	31,179
Net (loss) gain on natural gas, oil, and NGL derivatives	(16,529)	99,577
	325,392	333,004
Costs and expenses:		
Lease operating expenses	18,906	19,303
Production taxes	6,854	3,906
Midstream gathering and processing	64,193	47,941
Depreciation, depletion and amortization	111,018	65,991
General and administrative	13,099	12,600
Accretion expense	1,004	282
Acquisition expense	—	1,298
	215,074	151,321
INCOME FROM OPERATIONS	110,318	181,683
OTHER (INCOME) EXPENSE:		
Interest expense	33,965	23,479
Interest income	(37)	(842)
(Income) loss from equity method investments, net	(13,536)	4,907
Other income	(95)	(316)
	20,297	27,228
INCOME BEFORE INCOME TAXES	90,021	154,455
INCOME TAX BENEFIT	(69)	—
NET INCOME	$90,090	$154,455
NET INCOME PER COMMON SHARE:		
Basic	$0.50	$0.91
Diluted	$0.50	$0.91
Weighted average common shares outstanding—Basic	180,714,881	170,272,685
Weighted average common shares outstanding—Diluted	180,802,301	170,488,519

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Net income	$90,090	$154,455
Foreign currency translation adjustment	(5,503)	1,373
Other comprehensive (loss) income	(5,503)	1,373
Comprehensive income	$84,587	$155,828

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Retained Deficit	Total Stockholders' Equity
	Shares	Amount				
	(In thousands, except share data)					
Balance at January 1, 2018	183,105,910	$1,831	$4,416,250	$ (40,539)	$(1,275,928)	$3,101,614
Net income	—	—	—	—	90,090	90,090
Other Comprehensive Income	—	—	—	(5,503)	—	(5,503)
Stock-based Compensation	—	—	2,685	—	—	2,685
Shares Repurchased	(9,692,356)	(97)	(99,900)	—	—	(99,997)
Issuance of Restricted Stock	109,933	1	(1)	—	—	—
Balance at March 31, 2018	173,523,487	$1,735	$4,319,034	$ (46,042)	$(1,185,838)	$3,088,889
Balance at January 1, 2017	158,829,816	$1,588	$3,946,442	$ (53,058)	$(1,711,080)	$2,183,892
Net income	—	—	—	—	154,455	154,455
Other Comprehensive Income	—	—	—	1,373	—	1,373
Stock-based Compensation	—	—	2,553	—	—	2,553
Issuance of Common Stock for the Vitruvian Acquisition, net of related expenses	23,852,117	239	459,242	—	—	459,481
Issuance of Restricted Stock	153,868	1	(1)	—	—	—
Balance at March 31, 2017	182,835,801	$1,828	$4,408,236	$ (51,685)	$(1,556,625)	$2,801,754

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$90,090	$154,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion	1,004	282
Depletion, depreciation and amortization	111,018	65,991
Stock-based compensation expense	1,611	1,532
(Gain) loss from equity investments	(13,495)	5,150
Change in fair value of derivative instruments	25,403	(106,796)
Deferred income tax benefit	(69)	—
Amortization of loan commitment fees	1,488	1,088
Changes in operating assets and liabilities:		
Increase in accounts receivable	(15,450)	(21,393)
Increase in accounts receivable—related party	—	(23)
Increase in prepaid expenses and other current assets	(2,652)	(8,366)
Decrease (increase) in other assets	14	(4,013)
Increase in accounts payable, accrued liabilities and other	27,486	54,738
Settlement of asset retirement obligation	(99)	—
Net cash provided by operating activities	226,349	142,645
Cash flows from investing activities:		
Additions to other property and equipment	(3,329)	(5,444)
Acquisition of oil and natural gas properties	—	(1,338,964)
Additions to oil and natural gas properties	(302,799)	(181,834)
Proceeds from sale of oil and natural gas properties	—	3,605
Proceeds from sale of other property and equipment	76	—
Contributions to equity method investments	(1,569)	(10,673)
Distributions from equity method investments	750	631
Net cash used in investing activities	(306,871)	(1,532,679)
Cash flows from financing activities:		
Principal payments on borrowings	(145)	—
Borrowings on line of credit	200,000	40,000
Borrowings on term loan	—	2,698
Debt issuance costs and loan commitment fees	(280)	(5,733)
Payments on repurchase of stock	(99,997)	—
Proceeds from issuance of common stock, net of offering costs	—	(5,321)
Net cash provided by financing activities	99,578	31,644
Net increase (decrease) in cash, cash equivalents and restricted cash	19,056	(1,358,390)
Cash, cash equivalents and restricted cash at beginning of period	99,557	1,460,875
Cash, cash equivalents and restricted cash at end of period	$118,613	$102,485
Supplemental disclosure of cash flow information:		
Interest payments	$7,944	$347
Income tax payments	$—	$—

Supplemental disclosure of non-cash transactions:		
Capitalized stock-based compensation	$1,074	$1,021
Asset retirement obligation capitalized	$382	$6,779
Interest capitalized	$843	$3,122
Foreign currency translation (loss) gain on equity method investments	$(5,503)	$1,373

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

These consolidated financial statements have been prepared by Gulfport Energy Corporation (the “Company” or “Gulfport”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company’s most recent annual report on Form 10-K. Results for the three month period ended March 31, 2018 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

Vitruvian Acquisition

In December 2016, the Company, through its wholly-owned subsidiary Gulfport MidCon LLC (“Gulfport MidCon”) (formerly known as SCOOP Acquisition Company, LLC), entered into an agreement to acquire certain assets of Vitruvian II Woodford, LLC (“Vitruvian”), an unrelated third-party seller (the “Vitruvian Acquisition”). The assets included in the Vitruvian Acquisition include 46,400 net surface acres located in Grady, Stephens and Garvin Counties, Oklahoma. On February 17, 2017, the Company completed the Vitruvian Acquisition for a total initial purchase price of approximately $1.85 billion, consisting of $1.35 billion in cash, subject to certain adjustments, and approximately 23.9 million shares of the Company’s common stock (of which approximately 5.2 million shares were placed in an indemnity escrow). The cash portion of the purchase price was funded with the net proceeds from the December 2016 common stock and senior note offerings and cash on hand. Acquisition costs of $1.3 million were incurred during the three months ended March 31, 2017 related to the Vitruvian Acquisition. No acquisition costs were incurred during the three months ended March 31, 2018.

Allocation of Purchase Price

The Vitruvian Acquisition qualified as a business combination for accounting purposes and, as such, the Company estimated the fair value of the acquired properties as of the February 17, 2017 acquisition date. The fair value of the assets acquired and liabilities assumed was estimated using assumptions that represent Level 3 inputs. See Note 11 for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the Vitruvian Acquisition for these properties approximated the fair value that would be paid by a typical market participant. As a result, no goodwill or bargain purchase gain was recognized in conjunction with the purchase.

The following table summarizes the consideration paid by the Company in the Vitruvian Acquisition to acquire the properties and the fair value amount of the assets acquired as of February 17, 2017.

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	(In thousands)
Consideration:	
Cash, net of purchase price adjustments	$1,354,093
Fair value of Gulfport's common stock issued	464,639
Total consideration	$1,818,732
Estimated fair value of identifiable assets acquired and liabilities assumed:	
Oil and natural gas properties	
Proved properties	$362,264
Unproved properties	1,462,957
Asset retirement obligations	(6,489)
Total fair value of net identifiable assets acquired	$1,818,732

The equity consideration included in the initial purchase price was based on an equity offering price of $20.96 on December 15, 2016. The decrease in the price of Gulfport's common stock from $20.96 on December 15, 2016 to $19.48 on February 17, 2017 resulted in a decrease to the fair value of the total consideration paid as compared to the initial purchase price of approximately $35.3 million, which resulted in a closing date fair value lower than the initial purchase price.

Post-Acquisition Operating Results

For the period from the acquisition date of February 17, 2017 to March 31, 2017, the assets acquired in the Vitruvian Acquisition contributed $26.2 million of revenue to the Company's consolidated statements of operations. The amount of net income contributed by the assets is impracticable to calculate due to the Company integrating the acquired assets into its overall operations using the full cost method of accounting.

Pro Forma Information (Unaudited)

The following unaudited pro forma combined financial information presents the Company's results as though the Vitruvian Acquisition had been completed at January 1, 2017. The pro forma combined financial information has been included for comparative purposes and is not necessarily indicative of the results that might have actually occurred had the Vitruvian Acquisition taken place on January 1, 2017; furthermore, the financial information is not intended to be a projection of future results.

	Three months ended March 31, 2017 (In thousands, except share data)
Pro forma revenue	$ 368,903
Pro forma net income	$ 175,881
Pro forma earnings per share (basic)	$ 1.03
Pro forma earnings per share (diluted)	$ 1.03

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2. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Oil and natural gas properties	$9,470,697	$9,169,156
Office furniture and fixtures	40,236	37,369
Building	44,592	44,565
Land	4,820	4,820
Total property and equipment	9,560,345	9,255,910
Accumulated depletion, depreciation, amortization and impairment	(4,264,647)	(4,153,733)
Property and equipment, net	$5,295,698	$5,102,177

Under the full cost method of accounting, the Company is required to perform a ceiling test each quarter. The test determines a limit, or ceiling, on the book value of the oil and natural gas properties. At March 31, 2018, the calculated ceiling was greater than the net book value of the Company's oil and natural gas properties, thus no ceiling test impairment was required for the three months ended March 31, 2018. No impairment was required for oil and natural gas properties for the three months ended March 31, 2017.

Included in oil and natural gas properties at March 31, 2018 is the cumulative capitalization of $174.4 million in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized general and administrative costs were approximately $8.8 million and $8.4 million for the three months ended March 31, 2018 and 2017, respectively.

The average depletion rate per Mcfe, which is a function of capitalized costs, future development costs and the related underlying reserves in the periods presented, was $0.93 and $0.84 per Mcfe for the three months ended March 31, 2018 and 2017, respectively.

The following table summarizes the Company's non-producing properties excluded from amortization by area at March 31, 2018:

	March 31, 2018
	(In thousands)
Utica	$1,548,121
MidContinent	1,421,853
Niobrara	449
Southern Louisiana	552
Bakken	99
Other	45
	$2,971,119

At December 31, 2017, approximately $2.9 billion of non-producing leasehold costs was not subject to amortization. The Company evaluates the costs excluded from its amortization calculation at least annually. Subject to industry conditions and the level of the Company's activities, the inclusion of most of the above referenced costs into the Company's amortization calculation typically occurs within three to five years. However, the majority of the Company's non-producing leases in the Utica Shale have five-year extension terms which could extend this time frame beyond five years.

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A reconciliation of the Company's asset retirement obligation for the three months ended March 31, 2018 and 2017 is as follows:

	March 31, 2018	March 31, 2017
	(In thousands)	
Asset retirement obligation, beginning of period	$75,100	$ 34,276
Liabilities incurred	329	6,779
Liabilities settled	(99)	—
Accretion expense	1,004	282
Revisions in estimated cash flows	53	—
Asset retirement obligation as of end of period	76,387	41,337
Less current portion	120	195
Asset retirement obligation, long-term	$76,267	$ 41,142

3. EQUITY INVESTMENTS

Investments accounted for by the equity method consist of the following as of March 31, 2018 and December 31, 2017:

		Carrying value		(Income) loss from equity method investments	
	Approximate ownership %	March 31, 2018	December 31, 2017	Three months ended March 31, 2018	2017
		(In thousands)			
Investment in Tatex Thailand II, LLC	23.5 %	$—	$ —	$(41)	$(243)
Investment in Grizzly Oil Sands ULC	24.9999 %	53,564	57,641	330	365
Investment in Timber Wolf Terminals LLC	50.0 %	980	983	2	4
Investment in Windsor Midstream LLC	22.5 %	30	30	—	(311)
Investment in Stingray Cementing LLC[1]	— %	—	—	—	128
Investment in Blackhawk Midstream LLC	48.5 %	—	—	—	—
Investment in Stingray Energy Services LLC[1]	— %	—	—	—	197
Investment in Sturgeon Acquisitions LLC[1]	— %	—	—	—	68
Investment in Mammoth Energy Services, Inc.[1]	25.1 %	179,770	165,715	(13,470)	2,158
Investment in Strike Force Midstream LLC	25.0 %	77,350	77,743	(357)	2,541
		$311,694	$ 302,112	$(13,536)	$4,907

(1) On June 5, 2017, Mammoth Energy Services, Inc. ("Mammoth Energy") acquired Stingray Cementing LLC, Stingray Energy

Services LLC and Sturgeon Acquisitions LLC. See below under Mammoth Energy Partners LP/Mammoth Energy Services, Inc. for information regarding these transactions.

The tables below summarize financial information for the Company’s equity investments as of March 31, 2018 and December 31, 2017.

Summarized balance sheet information:

	March 31, 2018	December 31, 2017
	(In thousands)	
Current assets	$395,679	$ 415,032
Noncurrent assets	$2,109,829	$ 1,542,090
Current liabilities	$285,521	$ 261,086
Noncurrent liabilities	$87,259	$ 148,839

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Summarized results of operations:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Gross revenue	$511,133	$94,478
Net income (loss)	$64,452	$(25,339)

Tatex Thailand II, LLC

The Company has an indirect ownership interest in Tatex Thailand II, LLC (“Tatex II”). Tatex II holds an 8.5% interest in APICO, LLC (“APICO”), an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering approximately 180,000 acres which includes the Phu Horm Field. The Company received an immaterial amount and $0.2 million in distributions from Tatex II during the three months ended March 31, 2018 and 2017, respectively.

Tatex Thailand III, LLC

The Company has an ownership interest in Tatex Thailand III, LLC (“Tatex III”). Tatex III previously owned a concession covering approximately 245,000 acres in Southeast Asia. As of December 31, 2014, the Company reviewed its investment in Tatex III and, together with Tatex III, made the decision to allow the concession to expire in January 2015. As such, the Company fully impaired the asset as of December 31, 2014. In December 2017, Tatex III was dissolved and the Company received a final distribution of $0.2 million.

Grizzly Oil Sands ULC

The Company, through its wholly owned subsidiary Grizzly Holdings Inc. (“Grizzly Holdings”), owns an interest in Grizzly Oil Sands ULC (“Grizzly”), a Canadian unlimited liability company. The remaining interest in Grizzly is owned by Grizzly Oil Sands Inc. (“Oil Sands”). As of March 31, 2018, Grizzly had approximately 830,000 acres under lease in the Athabasca, Peace River and Cold Lake oil sands regions of Alberta, Canada. Grizzly has high-graded three oil sands projects to various stages of development. Grizzly commenced commercial production from its Algar Lake Phase I steam-assisted gravity drainage ("SAGD") oil sand project during the second quarter of 2014 and has regulatory approval for up to 11,300 barrels per day of bitumen production. Algar Lake production peaked at 2,200 barrels per day during the ramp-up phase of the SAGD facility, however, in April 2015, Grizzly made the decision to suspend operations at its Algar Lake facility due to the commodity price drop and its effect on project economics. Grizzly continues to monitor market conditions as it assesses start up plans for the facility. The Company reviewed its investment in Grizzly for impairment based on FASB ASC 323 at March 31, 2018 and 2017 and determined no impairment was required. If commodity prices decline in the future however, impairment of the investment in Grizzly may be necessary. During the three months ended March 31, 2018, Gulfport paid $1.6 million in cash calls. Grizzly’s functional currency is the Canadian dollar. The Company’s investment in Grizzly was decreased by $5.3 million as a result of a foreign currency translation loss and increased by $1.3 million as a result of a foreign currency translation gain for the three months ended March 31, 2018 and 2017, respectively.

Timber Wolf Terminals LLC

During 2012, the Company invested in Timber Wolf Terminals LLC (“Timber Wolf”). Timber Wolf was formed to operate a crude/condensate terminal and a sand transloading facility in Ohio. During the three months ended March 31, 2018 and 2017, the Company paid no cash calls to Timber Wolf.

Windsor Midstream LLC

At March 31, 2018, the Company held a 22.5% interest in Windsor Midstream LLC (“Midstream”), an entity controlled and managed by an unrelated third party. Midstream previously owned a 28.4% interest in Coronado Midstream LLC (“Coronado”), a gas processing plant in West Texas. In March 2015, Coronado was sold to EnLink Midstream Partners, LP (“EnLink”). As a result of the sale of Coronado to EnLink, Midstream received common units of EnLink, which were subsequently sold by Midstream. The Company received $0.2 million in distributions from Midstream during the three months ended March 31, 2017 and no distributions during the same period in 2018.

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Stingray Cementing LLC

During 2012, the Company invested in Stingray Cementing LLC (“Stingray Cementing”). Stingray Cementing provides well cementing services. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations. On June 5, 2017, the Company contributed all of its membership interests in Stingray Cementing to Mammoth Energy. See below under Mammoth Energy Partners LP/Mammoth Energy Services, Inc. for information regarding this transaction.

Blackhawk Midstream LLC

During 2012, the Company invested in Blackhawk Midstream LLC (“Blackhawk”). Blackhawk coordinated gathering, compression, processing and marketing activities for the Company in connection with the development of its Utica Shale acreage. Blackhawk does not have any current activities.

Stingray Energy Services LLC

During 2013, the Company invested in Stingray Energy Services LLC (“Stingray Energy”). Stingray Energy provides rental tools for land-based oil and natural gas drilling, completion and workover activities as well as the transfer of fresh water to wellsites. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations. On June 5, 2017, the Company contributed all of its membership interests in Stingray Energy to Mammoth Energy. See below under Mammoth Energy Partners LP/Mammoth Energy Services, Inc. for information regarding this transaction.

Sturgeon Acquisitions LLC

During 2014, the Company invested $20.7 million and received an ownership interest of 25% in Sturgeon Acquisitions LLC (“Sturgeon”). Sturgeon owns and operates sand mines that produce hydraulic fracturing grade sand. On June 5, 2017, the Company contributed all of its membership interests in Sturgeon to Mammoth Energy. See below under Mammoth Energy Partners LP/Mammoth Energy Services, Inc. for information regarding this transaction.

Mammoth Energy Partners LP/Mammoth Energy Services, Inc.

In the fourth quarter of 2014, the Company contributed its investments in four entities to Mammoth Energy Partners LP (“Mammoth”) for a 30.5% interest in this entity. In October 2016, Mammoth converted from a limited partnership into a limited liability company named Mammoth Energy Partners LLC (“Mammoth LLC”) and the Company and the other members of Mammoth LLC contributed their interests in Mammoth LLC to Mammoth Energy. Following the contribution, Mammoth Energy completed its initial public offering of shares of its common stock.

On June 5, 2017, the Company contributed all of its membership interests in Sturgeon (which owns Taylor Frac, LLC, Taylor Real Estate Investments, LLC and South River Road, LLC), Stingray Energy and Stingray Cementing to Mammoth Energy in exchange for approximately 2.0 million shares of Mammoth Energy common stock (the "June 2017 Transactions"). As of March 31, 2018, the Company held approximately 25.1% of Mammoth Energy’s outstanding common stock. The Company accounted for the transactions as a sale of financial assets under FASB ASC 860. The Company valued the shares of Mammoth Energy common stock it received in the June 2017 Transactions at $18.50 per share, which was the closing price of Mammoth Energy common stock on June 5, 2017. During the second quarter of 2017, the Company recognized a gain of $12.5 million from the June 2017 Transactions. The Company’s investment in Mammoth Energy was decreased by a $0.2 million foreign currency loss and increased by a $0.1 million foreign currency gain resulting from Mammoth Energy’s foreign subsidiary for the three months ended March 31, 2018 and 2017, respectively. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations.

Strike Force Midstream LLC

In February 2016, the Company, through its wholly owned subsidiary Gulfport Midstream Holdings, LLC (“Midstream Holdings”), entered into an agreement with Rice Midstream Holdings LLC (“Rice”), a subsidiary of Rice Energy Inc., to develop natural gas gathering assets in eastern Belmont County and Monroe County, Ohio through Strike Force Midstream LLC ("Strike Force"). In 2017, Rice was acquired by EQT Corporation ("EQT"). The Company owns a 25% interest in Strike

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Force, and EQT acts as operator and owns the remaining 75% interest in Strike Force. Construction of the gathering assets, which is ongoing, provides gathering services for wells operated by Gulfport and other operators and connectivity of existing dry gas gathering systems. During the three months ended March 31, 2018, Gulfport received distributions of $0.8 million from Strike Force. During the three months ended March 31, 2017, Gulfport paid $10.0 million in cash calls to Strike Force and received distributions of $0.4 million from Strike Force.

The Company has elected to report its proportionate share of Strike Force's earnings on a one-quarter lag as permitted under FASB ASC 323. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations.

4. VARIABLE INTEREST ENTITIES

As of March 31, 2018, the Company held variable interests in the following variable interest entities ("VIEs"), but was not the primary beneficiary: Midstream and Timber Wolf. These entities have governing provisions that are the functional equivalent of a limited partnership and are considered VIEs because the limited partners or non-managing members lack substantive kick-out or participating rights which causes the equity owners, as a group, to lack a controlling financial interest. The Company is a limited partner or non-managing member in each of these VIEs and is not the primary beneficiary because it does not have a controlling financial interest. The general partner or managing member has power to direct the activities that most significantly impact the VIEs' economic performance. The Company also held a variable interest in Strike Force due to the fact that it does not have sufficient equity capital at risk. The Company is not the primary beneficiary of this entity. Prior to Mammoth Energy's IPO, Mammoth LLC was considered a VIE. As a result of the Company's contribution of its interest in Mammoth LLC to Mammoth Energy in exchange for Mammoth Energy common stock and the completion of Mammoth Energy's IPO, the Company determined that it no longer held an interest in a VIE. Prior to the contribution of Stingray Energy, Stingray Cementing and Sturgeon to Mammoth Energy, these entities were considered VIEs. As a result of the Company's contribution of its membership interests in Stingray Energy, Stingray Cementing and Sturgeon to Mammoth Energy in exchange for Mammoth Energy common stock, the Company determined that it no longer held an interest in a VIE.

The Company accounts for its investment in these VIEs following the equity method of accounting. The carrying amounts of the Company's equity investments are classified as other non-current assets on the accompanying consolidated balance sheets. The Company's maximum exposure to loss as a result of its involvement with these VIEs is based on the Company's capital contributions and the economic performance of the VIEs, and is equal to the carrying value of the Company's investments which is the maximum loss the Company could be required to record in the consolidated statements of operations. See Note 3 for further discussion of these entities, including the carrying amounts of each investment.

5. LONG-TERM DEBT

Long-term debt consisted of the following items as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(In thousands)	
Revolving credit agreement (1)	$200,000	$—
6.625% senior unsecured notes due 2023 (2)	350,000	350,000
6.000% senior unsecured notes due 2024 (3)	650,000	650,000
6.375% senior unsecured notes due 2025 (4)	600,000	600,000
6.375% senior unsecured notes due 2026 (5)	450,000	450,000
Net unamortized debt issuance costs (6)	(33,927)	(34,781)
Construction loan (7)	23,579	23,724
Less: current maturities of long term debt	(629)	(622)
Debt reflected as long term	$2,239,023	$2,038,321

The Company capitalized approximately $0.8 million and $3.1 million in interest expense to undeveloped oil and natural gas properties during the three months ended March 31, 2018 and 2017, respectively.

(1) The Company has entered into a senior secured revolving credit facility, as amended, with The Bank of Nova Scotia, as the lead arranger and administrative agent and certain lenders from time to time party thereto. The credit agreement provides

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for a maximum facility amount of $1.5 billion and matures on December 31, 2021. On March 29, 2017, the Company further amended its revolving credit facility to, among other things, amend the definition of the term EBITDAX to permit pro forma treatment of acquisitions that involve the payment of consideration by Gulfport and its subsidiaries in excess of $50.0 million and of dispositions of property or series of related dispositions of properties that yields gross proceeds to Gulfport or any of its subsidiaries in excess of $50.0 million. On May 4, 2017, the revolving credit facility was further amended to increase the borrowing base from $700.0 million to $1.0 billion, adjust certain of the Company's investment baskets and add five additional banks to the syndicate. On November 21, 2017, the Company further amended its revolving credit facility to, among other things, (a) decrease the applicable rate for all loans by 0.5% and (b) add a provision that allows Gulfport to elect a commitment amount (the "Elected Commitment Amount") that is less than the borrowing base. In connection with this amendment, the borrowing base was set at $1.2 billion, with an elected commitment of $1.0 billion.

As of March 31, 2018, $200.0 million was outstanding under the revolving credit facility and the total availability for future borrowings under this facility, after giving effect to an aggregate of $242.8 million of letters of credit, was $557.2 million. The Company's wholly-owned subsidiaries have guaranteed the obligations of the Company under the revolving credit facility.

Advances under the revolving credit facility may be in the form of either base rate loans or eurodollar loans. The interest rate for base rate loans is equal to (1) the applicable rate, which ranges from 0.50% to 1.50%, plus (2) the highest of: (a) the federal funds rate plus 0.50%, (b) the rate of interest in effect for such day as publicly announced from time to time by agent as its "prime rate," and (c) the eurodollar rate for an interest period of one month plus 1.00%. The interest rate for eurodollar loans is equal to (1) the applicable rate, which ranges from 1.50% to 2.50%, plus (2) the London interbank offered rate that appears on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate for deposits in U.S. dollars, or, if such rate is not available, the rate as administered by ICE Benchmark Administration (or any other person that takes over administration of such rate) per annum equal to the offered rate on such other page or service that displays on average London interbank offered rate as determined by ICE Benchmark Administration (or any other person that takes over administration of such rate) for deposits in U.S. dollars, or, if such rate is not available, the average quotations for three major New York money center banks of whom the agent shall inquire as the "London Interbank Offered Rate" for deposits in U.S. dollars. At March 31, 2018, amounts borrowed under the credit facility bore interest at the eurodollar rate with a weighted average of 3.52%.

The revolving credit facility contains customary negative covenants including, but not limited to, restrictions on the Company's and its subsidiaries' ability to:

- incur indebtedness;
- grant liens;
- pay dividends and make other restricted payments;
- make investments;
- make fundamental changes;
- enter into swap contracts;
- dispose of assets;
- change the nature of their business; and
- enter into transactions with affiliates.

The negative covenants are subject to certain exceptions as specified in the revolving credit facility. The revolving credit facility also contains certain affirmative covenants, including, but not limited to the following financial covenants:

(i) the ratio of net funded debt to EBITDAX (net income, excluding (i) any non-cash revenue or expense associated with swap contracts resulting from ASC 815 and (ii) any cash or non-cash revenue or expense attributable to minority investments plus without duplication and, in the case of expenses, to the extent deducted from revenues in determining net income, the sum of (a) the aggregate amount of consolidated interest expense for such period, (b) the aggregate amount of income, franchise, capital or similar tax expense (other than ad valorem taxes) for such period, (c) all amounts attributable to depletion, depreciation, amortization and asset or goodwill impairment or writedown for such period, (d) all other non-cash charges, (e) exploration costs deducted in determining net income under successful efforts accounting, (f) actual cash distributions received from minority investments, (g) to the extent actually reimbursed by insurance, expenses with respect to liability on casualty

events or business interruption, and (h) all reasonable transaction expenses related to dispositions and acquisitions of assets, investments and debt and equity offerings (provided that expenses related to any unsuccessful disposition will be limited to $3.0 million in the aggregate) for a twelve-month period may not be greater than 4.00 to 1.00; and (ii) the ratio of EBITDAX to interest expense for a twelve-month period may not be less than 3.00 to 1.00.
The Company was in compliance with its financial covenants at March 31, 2018.
In connection with the Company's 2018 spring redetermination under the revolving credit facility, the lead lenders have proposed to increase the Company's borrowing base from $1.2 billion to $1.4 billion, with an elected commitment of $1.0 billion, and decrease the interest rate by 25 basis points, subject to the approval of the additional required banks within the syndicate.
(2) On April 21, 2015, the Company issued $350.0 million in aggregate principal amount of 6.625% Senior Notes due 2023 (the "2023 Notes") to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in accordance with Regulation S under the Securities Act (the "2023 Notes Offering"). The Company received net proceeds of approximately $343.6 million after initial purchaser discounts and commissions and estimated offering expenses.
The 2023 Notes were issued under an indenture, dated as of April 21, 2015, among the Company, the subsidiary guarantors party thereto and Wells Fargo Bank, National Association, as trustee. In October 2015, the 2023 Notes were exchanged for a new issue of substantially identical debt securities registered under the Securities Act. Pursuant to the indenture relating to the 2023 Notes, interest on the 2023 Notes accrues at a rate of 6.625% per annum on the outstanding principal amount thereof, payable semi-annually on May 1 and November 1 of each year. The 2023 Notes are not guaranteed by Grizzly Holdings, Inc. and will not be guaranteed by any of the Company's future unrestricted subsidiaries.
(3) On October 14, 2016, the Company issued the 2024 Notes in aggregate principal amount of $650.0 million. The 2024 Notes were issued under an indenture, dated as of October 14, 2016, among the Company, the subsidiary guarantors party thereto and the senior note indenture trustee (the "2024 Indenture"), to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in accordance with Regulation S under the Securities Act (the "2024 Notes Offering"). Under the 2024 Indenture, interest on the 2024 Notes accrues at a rate of 6.000% per annum on the outstanding principal amount thereof from October 14, 2016, payable semi-annually on April 15 and October 15 of each year, commencing on April 15, 2017. The 2024 Notes will mature on October 15, 2024. The Company received approximately $638.9 million in net proceeds from the offering of the 2024 Notes, which was used, together with cash on hand, to purchase the then outstanding 2020 Notes in a concurrent cash tender offer, to pay fees and expenses thereof, and to redeem any of the 2020 Notes that remained outstanding after the completion of the tender offer.
(4) On December 21, 2016, the Company issued $600.0 million in aggregate principal amount of 6.375% Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes were issued under an indenture, dated as of December 21, 2016, among the Company, the subsidiary guarantors party thereto and the senior note indenture trustee (the "2025 Indenture"), to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. Under the 2025 Indenture, interest on the 2025 Notes accrues at a rate of 6.375% per annum on the outstanding principal amount thereof from December 21, 2016, payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2017. The 2025 Notes will mature on May 15, 2025. The Company received approximately $584.7 million in net proceeds from the offering of the 2025 Notes, which was used, together with the net proceeds from the Company's December 2016 common stock offering and cash on hand, to fund the cash portion of the purchase price for the Vitruvian Acquisition. See "Note 1 – Acquisitions" for additional discussion of the Vitruvian Acquisition.
(5) On October 11, 2017, the Company issued $450.0 million in aggregate principal amount of its 6.375% Senior Notes due 2026 (the "2026 Notes") to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. Interest on the 2026 Notes accrues at a rate of 6.375% per annum on the outstanding principal amount thereof from October 11, 2017, payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2018. The 2026 Notes will mature

on January 15, 2026. The Company received approximately $444.1 million in net proceeds from the offering of the 2026 Notes, a portion of which was used to repay all of the Company's outstanding borrowings under its secured revolving credit facility on October 11, 2017 and the balance was used to fund the remaining outspend related to the Company's 2017 capital development plans.

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In connection with the 2026 Notes offering, the Company and its subsidiary guarantors entered into a registration rights agreement pursuant to which the Company agreed to file a registration statement with respect to an offer to exchange the 2026 Notes for a new issue of substantially identical debt securities registered under the Securities Act. On January 18, 2018, the Company filed a registration statement on Form S-4 with respect to an offer to exchange the 2026 Notes for substantially identical debt securities registered under the Securities Act, which registration statement was declared effective by the SEC on February 12, 2018. The exchange offer relating to the 2026 notes closed on March 22, 2018.

(6) Loan issuance costs related to the 2023 Notes, the 2024 Notes, the 2025 Notes and the 2026 Notes (collectively the “Notes”) have been presented as a reduction to the Notes. At March 31, 2018, total unamortized debt issuance costs were \$5.0 million for the 2023 Notes, \$9.6 million for the 2024 Notes, \$13.6 million for the 2025 Notes and \$5.5 million for the 2026 Notes. In addition, loan commitment fee costs for the construction loan agreement described immediately below were \$0.1 million at March 31, 2018.

(7) On June 4, 2015, the Company entered into a construction loan agreement (the “Construction Loan”) with InterBank for the construction of a new corporate headquarters in Oklahoma City, which was substantially completed in December 2016. The Construction Loan allows for maximum principal borrowings of \$24.5 million and required the Company to fund 30% of the cost of the construction before any funds could be drawn, which occurred in January 2016. Interest accrues daily on the outstanding principal balance at a fixed rate of 4.50% per annum and was payable on the last day of the month through May 31, 2017. Starting June 30, 2017, the Company began making monthly payments of principal and interest, with the final payment due June 4, 2025. At March 31, 2018, the total borrowings under the Construction Loan were approximately \$23.6 million.

6. COMMON STOCK AND CHANGES IN CAPITALIZATION

Issuance of Common Stock

On February 17, 2017, the Company completed the Vitruvian Acquisition for a total initial purchase price of approximately \$1.85 billion, consisting of \$1.35 billion in cash, subject to certain adjustments, and approximately 23.9 million shares of the Company’s common stock (of which approximately 5.2 million shares are subject to the indemnity escrow). See “Note 1 - Acquisitions” for additional discussion of the Vitruvian Acquisition.

Stock Repurchase Program

In January 2018, the board of directors of the Company approved a stock repurchase program to acquire up to \$100 million of the Company's outstanding stock during 2018. Purchases under the repurchase program may be made from time to time in open market or privately negotiated transactions, and are subject to market conditions, applicable legal requirements, contractual obligations, and other factors. The repurchase program does not require the Company to acquire any specific number of shares. This repurchase program is authorized to extend through December 31, 2018 and may be suspended from time to time, modified, extended, or discontinued by the board of directors at any time. During the three months ended March 31, 2018, the Company repurchased 9.7 million shares for a total cost of approximately \$100.0 million. All repurchased shares have been retired.

7. STOCK-BASED COMPENSATION

During the three months ended March 31, 2018 and 2017, the Company’s stock-based compensation cost was \$2.7 million and \$2.6 million, respectively, of which the Company capitalized \$1.1 million and \$1.0 million, respectively, relating to its exploration and development efforts.

The following table summarizes restricted stock activity for the three months ended March 31, 2018:

	Number of Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Unvested shares a		