

Oasis Petroleum Inc.

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted Net Income are supplemental non-GAAP financial measures that are used by management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies. These non-GAAP measures should not be considered in isolation or as a substitute for net income, operating income, net cash provided by operating activities or any other measures prepared under accounting principles generally accepted in the United States of America (“GAAP”). Because Adjusted EBITDA and Adjusted Net Income exclude some but not all items that affect net income and may vary among companies, the amounts presented may not be comparable to similar metrics of other companies.

Adjusted EBITDA

We define Adjusted EBITDA as earnings before interest expense, income taxes, depreciation, depletion, amortization, exploration expenses and other similar non-cash or non-recurring charges. Adjusted EBITDA is not a measure of net income or cash flows as determined by GAAP. Management believes that the presentation of Adjusted EBITDA provides useful additional information to investors and analysts for assessing our results of operations and our ability to incur and service debt and to fund capital expenditures.

The following table presents reconciliations of the GAAP financial measures of net income (loss) and net cash provided by operating activities to the non-GAAP financial measure of Adjusted EBITDA for the periods presented:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(In thousands)			
Net income (loss)	\$ 27,055	\$ 121,587	\$ (44,216)	\$ 330,373
Gain on sale of properties	(172)	(43)	(172)	(187,076)
Net gain on derivative instruments	(103,637)	(103,426)	(111,285)	(20,253)
Derivative settlements ⁽¹⁾	78,100	(11,129)	291,436	(24,773)
Interest expense, net of capitalized interest	36,513	39,420	112,702	118,568
Depreciation, depletion and amortization	123,734	106,972	361,430	295,520
Impairment of oil and gas properties	80	1,439	24,917	2,243
Rig termination	—	—	3,895	—
Exploration expenses	327	1,100	2,252	1,955
Stock-based compensation expenses	5,966	6,077	19,629	15,755
Income tax (benefit) expense	20,392	76,484	(17,829)	201,290
Other non-cash adjustments	883	351	782	(277)
Adjusted EBITDA	<u>\$ 189,241</u>	<u>\$ 238,832</u>	<u>\$ 643,541</u>	<u>\$ 733,325</u>
Net cash provided by operating activities	\$ 50,451	\$ 187,238	\$ 280,337	\$ 673,492
Derivative settlements ⁽¹⁾	78,100	(11,129)	291,436	(24,773)
Interest expense, net of capitalized interest	36,513	39,420	112,702	118,568
Rig termination	—	—	3,895	—
Exploration expenses	327	1,100	2,252	1,955
Deferred financing costs amortization and other	(2,409)	(1,989)	(7,468)	(5,209)
Current tax expense	—	(2,369)	—	3,742
Changes in working capital	25,376	26,210	(40,395)	(34,173)
Other non-cash adjustments	883	351	782	(277)
Adjusted EBITDA	<u>\$ 189,241</u>	<u>\$ 238,832</u>	<u>\$ 643,541</u>	<u>\$ 733,325</u>

(1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

The following tables present reconciliations of the GAAP financial measure of income (loss) before income taxes to the non-GAAP financial measure of Adjusted EBITDA for our three reportable business segments on a gross basis for the periods presented:

Exploration and Production

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Income (loss) before income taxes	\$ 29,070	\$ 190,152	\$ (104,102)	\$ 504,657
Gain on sale of properties	(172)	(43)	(172)	(187,076)
Net gain on derivative instruments	(103,637)	(103,426)	(111,285)	(20,253)
Derivative settlements ⁽¹⁾	78,100	(11,129)	291,436	(24,773)
Interest expense, net of capitalized interest	36,513	39,420	112,702	118,568
Depreciation, depletion and amortization	122,075	105,548	357,664	292,253
Impairment of oil and gas properties	80	1,439	24,917	2,243
Rig termination	—	—	3,895	—
Exploration expenses	327	1,100	2,252	1,955
Stock-based compensation expenses	5,761	5,877	19,276	15,398
Other non-cash adjustments	883	351	782	(277)
Adjusted EBITDA	\$ 169,000	\$ 229,289	\$ 597,365	\$ 702,695

- (1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

Well Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Income before income taxes	\$ 10,950	\$ 23,388	\$ 29,588	\$ 53,212
Depreciation, depletion and amortization	4,904	3,960	14,430	9,719
Stock-based compensation expenses	544	524	1,530	1,183
Adjusted EBITDA	\$ 16,398	\$ 27,872	\$ 45,548	\$ 64,114

Midstream Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Income before income taxes	\$ 18,828	\$ 5,126	\$ 44,039	\$ 15,854
Depreciation, depletion and amortization	1,509	979	4,070	2,713
Stock-based compensation expenses	206	—	529	—
Adjusted EBITDA	\$ 20,543	\$ 6,105	\$ 48,638	\$ 18,567

Adjusted Net Income

We define Adjusted Net Income as net income (loss) after adjusting first for (1) the impact of certain non-cash and non-recurring items, including non-cash changes in the fair value of derivative instruments, impairment of oil and gas properties and other similar non-cash and non-recurring charges, and then (2) the non-cash and non-recurring items' impact on taxes based on our effective tax rate in the same period. Adjusted Net Income is not a measure of net income (loss) as determined by GAAP. We define Adjusted Diluted Earnings Per Share as Adjusted Net Income divided by diluted weighted average shares outstanding. Management believes that the presentation of Adjusted Net Income and Adjusted Diluted Earnings Per Share provides useful additional information to investors and analysts for evaluating our operational trends and performance.

The following table presents reconciliations of the GAAP financial measure of net income (loss) to the non-GAAP financial measure of Adjusted Net Income and the GAAP financial measure of diluted earnings (loss) per share to the non-GAAP financial measure of Adjusted Diluted Earnings Per Share for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Net income (loss)	\$ 27,055	\$ 121,587	\$ (44,216)	\$ 330,373
Gain on sale of properties	(172)	(43)	(172)	(187,076)
Net gain on derivative instruments	(103,637)	(103,426)	(111,285)	(20,253)
Derivative settlements ⁽¹⁾	78,100	(11,129)	291,436	(24,773)
Impairment of oil and gas properties	80	1,439	24,917	2,243
Rig termination	—	—	3,895	—
Other non-cash adjustments	883	351	782	(277)
Tax impact ⁽²⁾	10,635	43,560	(60,222)	87,131
Adjusted Net Income	\$ 12,944	\$ 52,339	\$ 105,135	\$ 187,368
Diluted earnings (loss) per share	\$ 0.20	\$ 1.21	\$ (0.35)	\$ 3.29
Gain on sale of properties	—	—	—	(1.86)
Net gain on derivative instruments	(0.76)	(1.03)	(0.87)	(0.20)
Derivative settlements ⁽¹⁾	0.57	(0.11)	2.28	(0.25)
Impairment of oil and gas properties	—	0.01	0.19	0.02
Rig termination	—	—	0.03	—
Other non-cash adjustments	0.01	—	0.01	—
Tax impact ⁽²⁾	0.07	0.44	(0.47)	0.87
Adjusted Diluted Earnings Per Share	\$ 0.09	\$ 0.52	\$ 0.82	\$ 1.87
Diluted weighted average shares outstanding	137,014	100,306	127,827	100,356
Effective tax rate	43.0%	38.6%	28.7%	37.9%

- (1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.
- (2) The tax impact is computed utilizing our effective tax rate on the adjustments for certain non-cash and non-recurring items.