

Non-GAAP Financial Measures

Cash Interest

Cash Interest is a supplemental non-GAAP financial measure that is used by management and external users of the Company's financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Cash Interest as interest expense plus capitalized interest less amortization and write-offs of deferred financing costs included in interest expense. Cash Interest is not a measure of interest expense as determined by United States generally accepted accounting principles, or GAAP.

The following table presents a reconciliation of the GAAP financial measure of interest expense to the non-GAAP financial measure of Cash Interest for the periods presented:

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
	(In thousands)			
Interest Expense	\$ 34,861	\$ 36,946	\$ 140,305	\$ 149,648
Capitalized interest	3,165	4,752	16,848	18,582
Amortization of deferred financing costs	(1,715)	(1,710)	(9,757)	(7,238)
Amortization of debt discount	(2,409)	—	(2,709)	—
Cash Interest	\$ 33,902	\$ 39,988	\$ 144,687	\$ 160,992

Adjusted EBITDA Reconciliations

Adjusted EBITDA and Free Cash Flow are supplemental non-GAAP financial measures that are used by management and external users of the Company's financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation, depletion, amortization, exploration expenses and other similar non-cash or non-recurring charges. The Company defines Free Cash Flow as Adjusted EBITDA less Cash Interest and CapEx, excluding capitalized interest. Adjusted EBITDA and Free Cash Flow are not measures of net income (loss) or cash flows as determined by United States generally accepted accounting principles, or GAAP.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
	(In thousands)			
Net income (loss)	\$ (54,688)	\$ 3,968	\$ (243,016)	\$ (40,248)
(Gain) loss on sale of properties	(2)	—	1,303	—
(Gain) loss on extinguishment of debt	124	—	(4,741)	—
Net (gain) loss on derivative instruments	49,693	(99,091)	105,317	(210,376)
Derivative settlements ⁽¹⁾	6,401	78,974	121,977	370,410
Interest expense, net of capitalized interest	34,861	36,946	140,305	149,648
Depreciation, depletion and amortization	119,446	123,892	476,331	485,322
Impairment	717	21,364	4,684	46,109
Exploration expenses	593	117	1,785	2,369
Rig termination	—	—	—	3,895
Stock-based compensation expenses	5,342	5,643	24,103	25,272
Income tax (benefit) expense	(31,720)	1,706	(128,538)	(16,123)
Other non-cash adjustments	93	3,174	790	3,956
Adjusted EBITDA	130,860	176,693	500,300	820,234
Cash Interest	(33,902)	(39,988)	(144,687)	(160,992)
Capital expenditures ⁽²⁾	(883,831)	(90,433)	(1,181,527)	(610,000)
Capitalized interest	3,165	4,752	16,848	18,582
Free Cash Flow	\$ (783,708)	\$ 51,024	\$ (809,066)	\$ 67,824
Net cash provided by operating activities	\$ 104,599	\$ 79,478	\$ 228,018	\$ 359,815
Derivative settlements ⁽¹⁾	6,401	78,974	121,977	370,410
Interest expense, net of capitalized interest	34,861	36,946	140,305	149,648
Exploration expenses	593	117	1,785	2,369
Rig termination	—	—	—	3,895
Deferred financing costs amortization and other	(4,160)	(4,831)	(14,334)	(12,299)
Current tax benefit	—	(9)	—	(9)
Changes in working capital	(11,527)	(17,156)	21,759	(57,551)
Other non-cash adjustments	93	3,174	790	3,956
Adjusted EBITDA	130,860	176,693	500,300	820,234
Cash Interest	(33,902)	(39,988)	(144,687)	(160,992)
Capital expenditures ⁽²⁾	(883,831)	(90,433)	(1,181,527)	(610,000)
Capitalized interest	3,165	4,752	16,848	18,582
Free Cash Flow	\$ (783,708)	\$ 51,024	\$ (809,066)	\$ 67,824

- (1) Cash settlements represent the cumulative gains and losses on 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) CapEx (including acquisitions) reflected in the table above differs from the amounts shown in the statement of cash flows in the Company's consolidated financial statements because amounts reflected in the table above include changes in accrued liabilities from the previous reporting period for capital expenditures, while the amounts presented in the statement of cash flows are presented on a cash basis. Acquisitions totaled \$768.0 million and \$781.5 million for the fourth quarter and full year 2016, respectively, and \$0.1 million and \$28.7 million for the fourth quarter and full year 2015, respectively.

Segment Adjusted EBITDA Reconciliations

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 the Company's three reportable business segments on a gross basis for the periods presented:

	Exploration and Production			
	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands)			
Loss before income taxes	\$ (105,395)	\$ (14,868)	\$ (436,469)	\$ (118,970)
(Gain) loss on sale of properties	(2)	—	1,661	—
(Gain) loss on extinguishment of debt	124	—	(4,741)	—
Net (gain) loss on derivative instruments	49,693	(99,091)	105,317	(210,376)
Derivative settlements ⁽¹⁾	6,401	78,974	121,977	370,410
Interest expense, net of capitalized interest	34,861	36,946	140,305	149,648
Depreciation, depletion and amortization	117,346	122,028	467,894	479,693
Impairment	717	21,364	2,253	46,109
Exploration expenses	593	117	1,785	2,369
Rig termination	—	—	—	3,895
Stock-based compensation expenses	5,152	5,486	23,346	24,762
Other non-cash adjustments	21	2,937	718	3,719
Adjusted EBITDA	<u>\$ 109,511</u>	<u>\$ 153,893</u>	<u>\$ 424,046</u>	<u>\$ 751,259</u>

- (1) Cash settlements represent the cumulative gains and losses on 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.

	Midstream Services			
	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands)			
Income before income taxes	\$ 19,132	\$ 15,828	\$ 68,394	\$ 59,867
Gain on sale of properties	—	—	(358)	—
Depreciation, depletion and amortization	3,200	1,695	8,525	5,764
Impairment	—	—	2,431	—
Stock-based compensation expenses	249	162	911	692
Other non-cash adjustments	10	—	10	—
Adjusted EBITDA	<u>\$ 22,591</u>	<u>\$ 17,685</u>	<u>\$ 79,913</u>	<u>\$ 66,323</u>

	Well Services			
	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands)			
Income before income taxes	\$ 10	\$ 19,608	\$ 3,471	\$ 49,197
Depreciation, depletion and amortization	3,287	4,643	14,892	19,073
Stock-based compensation expenses	262	422	1,515	1,952
Other non-cash adjustments	62	237	62	237
Adjusted EBITDA	<u>\$ 3,621</u>	<u>\$ 24,910</u>	<u>\$ 19,940</u>	<u>\$ 70,459</u>

Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share

Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share are supplemental non-GAAP financial measures that are used by management and external users of the Company's financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Adjusted Net Income (Loss) 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, and other similar non-cash and non-recurring charges, and then (2) the non-cash and non-recurring items' impact on taxes based on the Company's effective tax rate applicable to those adjusting items in the same period. Adjusted Net Income (Loss) is not a measure of net income (loss) as determined by GAAP. The Company defines Adjusted Diluted Earnings (Loss) Per Share as Adjusted Net Income (Loss) divided by diluted weighted average shares outstanding.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net income (loss)	\$ (54,688)	\$ 3,968	\$ (243,016)	\$ (40,248)
(Gain) loss on sale of properties	(2)	—	1,303	—
(Gain) loss on extinguishment of debt	124	—	(4,741)	—
Net (gain) loss on derivative instruments	49,693	(99,091)	105,317	(210,376)
Derivative settlements ⁽¹⁾	6,401	78,974	121,977	370,410
Impairment	717	21,364	4,684	46,109
Rig termination	—	—	—	3,895
Amortization of deferred financing costs ⁽²⁾	1,715	1,710	9,757	7,238
Amortization of debt discount	2,409	—	2,709	—
Other non-cash adjustments	93	3,174	790	3,956
Tax impact ⁽³⁾	(22,882)	(2,292)	(90,480)	(82,697)
Adjusted Net Income (Loss)	\$ (16,420)	\$ 7,807	\$ (91,700)	\$ 98,287
Diluted earnings (loss) per share	\$ (0.25)	\$ 0.03	\$ (1.32)	\$ (0.31)
(Gain) loss on sale of properties	—	—	0.01	—
(Gain) loss on extinguishment of debt	—	—	(0.03)	—
Net (gain) loss on derivative instruments	0.23	(0.72)	0.57	(1.62)
Derivative settlements ⁽¹⁾	0.03	0.58	0.66	2.85
Impairment	—	0.16	0.03	0.35
Rig termination	—	—	—	0.03
Amortization of deferred financing costs ⁽²⁾	0.01	0.01	0.05	0.06
Amortization of debt discount	0.01	—	0.01	—
Other non-cash adjustments	—	0.02	—	0.03
Tax impact ⁽³⁾	(0.11)	(0.02)	(0.48)	(0.64)
Adjusted Diluted Earnings (Loss) Per Share	\$ (0.08)	\$ 0.06	\$ (0.50)	\$ 0.75
Diluted weighted average shares outstanding	217,332	137,184	183,615	130,186
Effective tax rate applicable to adjustment items	37.4%	37.4%	37.4%	37.4%

(1) Cash settlements represent the cumulative gains and losses on 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) As of December 31, 2016, Adjusted Net Income (Loss) includes the non-cash adjustment for amortization of deferred financing costs. Comparative periods have been conformed. The amortization of deferred financing costs is included in interest expense on the Company's Consolidated Statement of Operations.
- (3) The tax impact is computed utilizing the Company's effective tax rate applicable to the adjustments for certain non-cash and non-recurring items.