

GULFPORT ENERGY CORP
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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
(State or Other Jurisdiction of
Incorporation or Organization)
14313 North May Avenue, Suite 100
Oklahoma City, Oklahoma
(Address of Principal Executive Offices)
(405) 848-8807
(Registrant Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class
Common Stock, par value \$0.01 per share

73-1521290
(IRS Employer
Identification Number)
73134
(Zip Code)
Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC

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 (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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of May 1, 2014, 85,426,891 shares of the registrant's common stock were outstanding.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2014	December 31, 2013
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 170,382	\$ 458,956
Accounts receivable—oil and gas	86,768	58,824
Accounts receivable—related parties	570	2,617
Prepaid expenses and other current assets	3,352	2,581
Deferred tax asset	7,558	6,927
Short-term derivative instruments	—	324
Note receivable - related party	875	875
Total current assets	269,505	531,104
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$1,138,085 and \$950,590 excluded from amortization in 2014 and 2013, respectively	2,906,976	2,477,178
Other property and equipment	12,224	11,131
Accumulated depletion, depreciation, amortization and impairment	(841,561	) (784,717
Property and equipment, net	2,077,639	1,703,592
Other assets:		
Equity investments (\$227,474 and \$178,708 attributable to fair value option in 2014 and 2013, respectively)	499,419	440,068
Derivative instruments	2,565	521
Other assets	17,581	17,851
Total other assets	519,565	458,440
Total assets	\$ 2,866,709	\$ 2,693,136
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 239,099	\$ 190,707
Asset retirement obligation—current	795	795
Short-term derivative instruments	29,755	12,280
Current maturities of long-term debt	161	159
Total current liabilities	269,810	203,941
Long-term derivative instrument	4,277	11,366
Asset retirement obligation—long-term	14,650	14,288
Deferred tax liability	148,470	114,275
Long-term debt, net of current maturities	299,062	299,028
Total liabilities	736,269	642,898
Commitments and contingencies (Note 8)		
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:		
Common stock - \$.01 par value, 200,000,000 authorized, 85,424,391 issued and outstanding in 2014 and 85,177,532 in 2013	853	851
Paid-in capital	1,817,978	1,813,058

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Accumulated other comprehensive loss	(17,059) (9,781)
Retained earnings	328,668	246,110	
Total stockholders' equity	2,130,440	2,050,238	
Total liabilities and stockholders' equity	\$2,866,709	\$2,693,136	
See accompanying notes to consolidated financial statements.			

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2014	2013
	(In thousands, except share data)	
Revenues:		
Oil and condensate sales	\$73,377	\$53,080
Gas sales	18,349	1,466
Natural gas liquid sales	26,136	324
Other income	167	130
	118,029	55,000
Costs and expenses:		
Lease operating expenses	11,629	5,172
Production taxes	6,957	6,870
Midstream transportation, processing and marketing	7,769	417
Depreciation, depletion and amortization	56,877	22,583
General and administrative	9,511	4,412
Accretion expense	188	175
(Gain) loss on sale of assets	(11	) 427
	92,920	40,056
INCOME FROM OPERATIONS	25,109	14,944
OTHER (INCOME) EXPENSE:		
Interest expense	3,885	3,479
Interest income	(106	) (79
Litigation settlement	18,000	—
Income from equity method investments	(128,475	) (61,210
	(106,696	) (57,810
INCOME BEFORE INCOME TAXES	131,805	72,754
INCOME TAX EXPENSE	49,247	28,195
NET INCOME	\$82,558	\$44,559
NET INCOME PER COMMON SHARE:		
Basic	\$0.97	\$0.61
Diluted	\$0.96	\$0.61
Weighted average common shares outstanding—Basic	85,259,407	72,830,215
Weighted average common shares outstanding—Diluted	85,738,626	73,334,848

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,	
	2014	2013
	(In thousands)	
Net income	\$82,558	\$44,559
Foreign currency translation adjustment	(7,278)	(3,567)
Change in fair value of derivative instruments (1)	—	(1,430)
Reclassification of settled contracts (2)	—	1,797
Other comprehensive loss	(7,278)	(3,200)
Comprehensive income	\$75,280	\$41,359

(1) Net of \$0.0 million and \$(0.9) million in taxes for the three months ended March 31, 2014 and 2013, respectively.

(2) Net of \$0.0 million and \$1.2 million in taxes for the three months ended March 31, 2014 and 2013, respectively.

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 Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
	(In thousands, except share data)					
Balance at January 1, 2014	85,177,532	\$851	\$1,813,058	\$ (9,781)	\$246,110	\$2,050,238
Net income	—	—	—	—	82,558	82,558
Other Comprehensive Loss	—	—	—	(7,278)	—	(7,278)
Stock Compensation	—	—	4,307	—	—	4,307
Issuance of Restricted Stock	63,951	—	—	—	—	—
Issuance of Common Stock through exercise of options	182,908	2	613	—	—	615
Balance at March 31, 2014	85,424,391	\$853	\$1,817,978	\$ (17,059)	\$328,668	\$2,130,440
Balance at January 1, 2013	67,527,386	\$674	\$1,036,245	\$ (3,429)	\$92,918	\$1,126,408
Net income	—	—	—	—	44,559	44,559
Other Comprehensive Loss	—	—	—	(3,200)	—	(3,200)
Stock Compensation	—	—	1,502	—	—	1,502
Issuance of Common Stock in public offerings, net of related expenses	9,812,500	99	357,541	—	—	357,640
Issuance of Restricted Stock	35,221	—	—	—	—	—
Balance at March 31, 2013	77,375,107	\$773	\$1,395,288	\$ (6,629)	\$137,477	\$1,526,909

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,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$82,558	\$44,559
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount—Asset Retirement Obligation	188	175
Depletion, depreciation and amortization	56,877	22,583
Stock-based compensation expense	2,584	901
Gain from equity investments	(43,688	) (61,210
Interest income - note receivable	(13) —
Unrealized loss on derivative instruments	8,665	171
Deferred income tax expense	33,564	28,195
Amortization of loan commitment fees	294	254
Amortization of note discount and premium	78	72
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(27,944	) 3,592
Decrease (increase) in accounts receivable—related party	2,047	(2,214
(Increase) decrease in prepaid expenses	(771	) 71
Increase (decrease) in accounts payable and accrued liabilities	43,406	(1,362
Settlement of asset retirement obligation	(1,695	) (780
Net cash provided by operating activities	156,150	35,007
Cash flows from investing activities:		
Deductions to cash held in escrow	8	—
Additions to other property and equipment	(1,002	) (262
Additions to oil and gas properties	(420,431	) (320,489
Contributions to equity method investments	(23,687	) (12,653
Distributions from equity method investments	—	188
Net cash used in investing activities	(445,112	) (333,216
Cash flows from financing activities:		
Principal payments on borrowings	(42	) (37
Debt issuance costs and loan commitment fees	(185	) (502
Proceeds from issuance of common stock, net of offering costs and exercise of stock options	615	357,640
Net cash provided by financing activities	388	357,101
Net (decrease) increase in cash and cash equivalents	(288,574	) 58,892
Cash and cash equivalents at beginning of period	458,956	167,088
Cash and cash equivalents at end of period	\$170,382	\$225,980
Supplemental disclosure of cash flow information:		
Interest payments	\$18	\$35
Income tax payments	\$13,000	\$750
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	\$1,723	\$601
Asset retirement obligation capitalized	\$1,869	\$670
Interest capitalized	\$2,318	\$2,629

Foreign currency translation loss on investment in Grizzly Oil Sands ULC \$(7,278) \$(3,567)
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, 2014 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

On February 15, 2013, the Company completed an acquisition of approximately 22,000 net acres in the Utica Shale in Eastern Ohio. The purchase price was approximately \$220.0 million, subject to certain adjustments. At closing, approximately \$33.6 million of the purchase price was placed in escrow pending completion of title review after the closing. Gulfport funded this acquisition with a portion of the net proceeds from its common stock offering that closed on February 15, 2013. The Company received aggregate net proceeds of approximately \$325.8 million from this equity offering. All of the acreage included in these transactions was nonproducing at the time of the applicable transaction and the Company is the operator of all of this acreage, subject to existing development and operating agreements between the parties. These acquisitions excluded the seller's interest in 14 existing wells and 16 proposed future wells together with certain acreage surrounding these wells.

In March 2014, the Company acquired additional oil and natural gas properties consisting of approximately 8,200 net acres from Rhino Exploration LLC ("Rhino"), as well as its interest in all of the producing wells, in the Utica Shale of Eastern Ohio from Rhino, for a gross purchase price of approximately \$184.0 million (the "Rhino Acquisition"), of which the Company has closed on approximately \$179.0 million (\$177.4 million net of purchase price adjustments). The remainder of the purchase price is to be closed on within 90 days of the original closing. The revenues and expenses recognized as a result of the Rhino Acquisition from the closing date of March 20, 2014 through March 31, 2014 did not have a material impact to the Company's consolidated financial statements.

The Rhino 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 March 20, 2014 acquisition date. The fair value of the assets and liabilities acquired was estimated using assumptions that represent Level 3 inputs. See "Note 10 - Fair Value Measurements" for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the Rhino 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 in the Rhino Acquisition to acquire the properties and the fair value amounts of the assets acquired as of March 20, 2014. Both the consideration paid and the fair value assigned to the assets is preliminary and subject to adjustment upon final closing.

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	(in thousands)
Consideration paid	
Cash, net of purchase price adjustments	\$ 177,444
Fair value of identifiable assets acquired	
Oil and natural gas properties	
Proved	\$ 32,005
Unproved	6,263
Unevaluated	139,176
Fair value of net identifiable assets acquired	\$ 177,444

2. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
Oil and natural gas properties	\$ 2,906,976	\$ 2,477,178
Office furniture and fixtures	6,936	6,093
Building	4,876	4,626
Land	412	412
Total property and equipment	2,919,200	2,488,309
Accumulated depletion, depreciation, amortization and impairment	(841,561	) (784,717
Property and equipment, net	\$ 2,077,639	\$ 1,703,592

Included in oil and natural gas properties at March 31, 2014 is the cumulative capitalization of \$53.8 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 \$6.3 million and \$2.9 million for the three months ended March 31, 2014 and 2013, respectively. The following table summarizes the Company's non-producing properties excluded from amortization by area at March 31, 2014:

	March 31, 2014 (In thousands)
Colorado	\$ 6,045
Bakken	295
Southern Louisiana	544
Ohio	1,131,156
Other	45
	\$ 1,138,085

At December 31, 2013, approximately \$950.6 million 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 is expected to occur within three to five years.

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A reconciliation of the Company's asset retirement obligation for the three months ended March 31, 2014 and 2013 is as follows:

	March 31, 2014	March 31, 2013
	(In thousands)	
Asset retirement obligation, beginning of period	\$ 15,083	\$ 13,275
Liabilities incurred	1,869	670
Liabilities settled	(1,695	) (780
Accretion expense	188	175
Asset retirement obligation as of end of period	15,445	13,340
Less current portion	795	780
Asset retirement obligation, long-term	\$ 14,650	\$ 12,560

On May 7, 2012, the Company entered into a contribution agreement with Diamondback Energy Inc. ("Diamondback"). Under the terms of the contribution agreement, the Company agreed to contribute to Diamondback, prior to the closing of the Diamondback initial public offering ("Diamondback IPO"), all its oil and natural gas interests in the Permian Basin (the "Contribution"). The Contribution was completed on October 11, 2012. At the closing of the Contribution, Diamondback issued to the Company (i) 7,914,036 shares of Diamondback common stock and (ii) a promissory note for \$63.6 million, which was repaid to the Company at the closing of the Diamondback IPO on October 17, 2012. This aggregate consideration was subject to a post-closing cash adjustment based on changes in the working capital, long-term debt and certain other items of Diamondback O&G LLC, formerly Windsor Permian LLC ("Diamondback O&G"), as of the date of the Contribution. In January 2013, the Company received an additional payment from Diamondback of approximately \$18.6 million as a result of this post-closing adjustment. Diamondback O&G is a wholly-owned subsidiary of Diamondback. Under the contribution agreement, the Company is generally responsible for all liabilities and obligations with respect to the contributed properties arising prior to the Contribution and Diamondback is responsible for such liabilities and obligations with respect to the contributed properties arising after the Contribution.

Immediately upon completion of the Contribution, the Company owned a 35% equity interest in Diamondback, rather than leasehold interests in the Company's Permian Basin acreage. Upon completion of the Diamondback IPO in October 2012, Gulfport owned approximately 21.4% of Diamondback's outstanding common stock. As of March 31, 2014, Gulfport owned 3,379,500 shares representing approximately 6.7% of Diamondback's outstanding common stock. Following the Contribution, the Company has accounted for its interest in Diamondback as an equity investment. See Note 3, "Equity Investments - Diamondback Energy, Inc."

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3. EQUITY INVESTMENTS

Investments accounted for by the equity method consist of the following as of March 31, 2014 and December 31, 2013:

	Approximate Ownership %	Carrying Value		(Income) loss from equity method investments Three months ended	
		March 31, 2014	December 31, 2013	March 31, 2014	2013
		(In thousands)			
Investment in Tatex Thailand II, LLC	23.5 %	\$—	\$—	\$—	\$—
Investment in Tatex Thailand III, LLC	17.9 %	10,725	10,774	49	18
Investment in Grizzly Oil Sands ULC	24.9999 %	190,263	191,473	2,001	532
Investment in Bison Drilling and Field Services LLC	40.0 %	22,608	12,318	1,933	(148)
Investment in Muskie Proppant LLC	25.0 %	8,011	7,544	534	441
Investment in Timber Wolf Terminals LLC	50.0 %	1,001	1,001	—	8
Investment in Windsor Midstream LLC	22.5 %	13,195	10,632	(168)	(384)
Investment in Stingray Pressure Pumping LLC	50.0 %	18,872	19,624	513	(703)
Investment in Stingray Cementing LLC	50.0 %	3,067	3,291	95	22
Investment in Blackhawk Midstream LLC	50.0 %	—	—	(84,787)	39
Investment in Stingray Logistics LLC	50.0 %	821	903	81	26
Investment in Diamondback Energy, Inc.	6.7 %	227,474	178,708	(48,767)	(61,096)
Investment in Stingray Energy Services LLC	50.0 %	3,382	3,800	41	35
		\$499,419	\$440,068	\$(128,475)	\$(61,210)

The tables below summarize financial information for the Company's equity investments as of March 31, 2014 and December 31, 2013.

Summarized balance sheet information:

	March 31, 2014	December 31, 2013
	(In thousands)	
Current assets	\$168,313	\$146,075
Noncurrent assets	\$3,004,333	\$2,567,225
Current liabilities	\$291,642	\$233,726
Noncurrent liabilities	\$824,263	\$664,848

Summarized results of operations:

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Gross revenue	\$158,281	\$56,938
Net income	\$181,505	\$20,627

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Tatex Thailand II, LLC

The Company has an indirect ownership interest in Tatex Thailand II, LLC ("Tatex"). Tatex holds 85,122 of the 1,000,000 outstanding shares of 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 243,000 acres which includes the Phu Horm Field.

Tatex Thailand III, LLC

The Company has an ownership interest in Tatex Thailand III, LLC ("Tatex III"). Tatex III owns a concession covering approximately 245,000 acres in Southeast Asia. During the three months ended March 31, 2014, the Company did not pay any cash calls related to Tatex III.

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, 2014, Grizzly had approximately 830,000 acres under lease in the Athabasca and Peace River oil sands regions of Alberta, Canada. During the three months ended March 31, 2014, Gulfport paid \$8.1 million in cash calls. Grizzly's functional currency is the Canadian dollar. The Company's investment in Grizzly was decreased by \$7.3 million and \$3.6 million as a result of a foreign currency translation loss for the three months ended March 31, 2014 and 2013, respectively.

Bison Drilling and Field Services LLC

During 2011, the Company invested in Bison Drilling and Field Services LLC ("Bison"). Bison owns and operates drilling rigs. During the three months ended March 31, 2014, Gulfport paid \$12.2 million in cash calls to Bison.

Muskie Proppant LLC

During 2011, the Company invested in Muskie Proppant LLC ("Muskie"), formerly known as Muskie Holdings LLC. Muskie processes and sells sand for use in hydraulic fracturing by the oil and natural gas industry and holds certain rights in a lease covering land in Wisconsin for mining oil and natural gas fracture grade sand. During the three months ended March 31, 2014, Gulfport paid \$1.0 million in cash calls to Muskie.

The Company entered into a loan agreement with Muskie effective July 1, 2013, under which it loaned Muskie \$0.9 million. Interest accrues at the prime rate plus 2.5% and the loan has a maturity date of July 31, 2014. At March 31, 2014, the outstanding balance on the loan is included in notes receivable-related party on the accompanying consolidated balance sheets.

Timber Wolf Terminals LLC

During 2012, the Company invested in Timber Wolf Terminals LLC ("Timber Wolf"). The Company's initial investment during 2012 was \$1.0 million. Timber Wolf will operate a crude/condensate terminal and a sand transloading facility in Ohio. During the three months ended March 31, 2014, Gulfport did not pay any cash calls related to Timber Wolf.

Windsor Midstream LLC

During 2012, the Company purchased an ownership interest in Windsor Midstream LLC ("Midstream"). Midstream owns a 28.4% interest in MidMar Gas LLC, a gas processing plant in West Texas. During the three months ended March 31, 2014, Gulfport paid \$2.4 million in cash calls to Midstream.

Stingray Pressure Pumping LLC

During 2012, the Company invested in Stingray Pressure Pumping LLC ("Stingray Pressure"). Stingray Pressure provides well completion services. During the three months ended March 31, 2014, the Company did not pay any cash calls related to Stingray Pressure. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations.

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Stingray Cementing LLC

During 2012, the Company invested in Stingray Cementing LLC ("Stingray Cementing"). Stingray Cementing provides well cementing services. During the three months ended March 31, 2014, the Company did not pay any cash calls related to Stingray Cementing. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations.

Blackhawk Midstream LLC

During 2012, the Company invested in Blackhawk Midstream LLC ("Blackhawk"). Blackhawk coordinates gathering, compression, processing and marketing activities for the Company in connection with the development of its Utica Shale acreage. On January 28, 2014, Blackhawk closed on the sale of its equity interest in Ohio Gathering Company, LLC and Ohio Condensate Company, LLC for a purchase price of \$190.0 million, of which \$14.3 million was placed in escrow. Gulfport received \$84.8 million in net proceeds from this transaction, which is included in income from equity method investments in the accompanying consolidated statements of operations.

Stingray Logistics LLC

During 2012, the Company invested in Stingray Logistics LLC ("Stingray Logistics"). Stingray Logistics provides well services. During the three months ended March 31, 2014, the Company did not pay any cash calls.

Diamondback Energy, Inc.

As noted above in Note 2, on May 7, 2012, following the closing of the Diamondback IPO, the Company owned 7,914,036 shares of Diamondback's outstanding common stock for an initial investment in Diamondback of \$138.5 million. In June and November of 2013, the Company sold 2,234,536 and 2,300,000 shares of its Diamondback common stock, respectively and received aggregate net proceeds of approximately \$192.7 million. As of March 31, 2014, the Company owned 3,379,500 shares representing approximately 6.7% of Diamondback's outstanding common stock.

The Company accounts for its interest in Diamondback as an equity method investment and has elected the fair value option of accounting for this investment. While the Company's ownership in Diamondback was below 20% at March 31, 2014, the Company has designated a member of Diamondback's Board. As the Company continues to have influence through this board seat, the Company continues to account for its investment in Diamondback as an equity method investment. The Company valued its investment in Diamondback using the quoted closing market price of Diamondback's stock on March 31, 2014 of \$67.31 per share multiplied by the number of outstanding shares of Diamondback's stock held by the Company. The Company recognized an aggregate gain of approximately \$48.8 million and \$61.1 million on its investment in Diamondback for three months ended March 31, 2014 and 2013, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Stingray Energy Services LLC

During 2013, the Company invested in Stingray Energy Services LLC ("Stingray Energy") at a cost of \$2.9 million. 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. During the three months ended March 31, 2014, the Company did not pay any cash calls to Stingray Energy. The (income) loss from equity method investments presented in the table above reflects any intercompany profit eliminations.

4. OTHER ASSETS

Other assets consist of the following as of March 31, 2014 and December 31, 2013:

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	March 31, 2014	December 31, 2013
	(In thousands)	
Plugging and abandonment escrow account on the WCBB properties (Note 8)	\$3,097	\$3,105
Certificates of Deposit securing letter of credit	275	275
Prepaid drilling costs	526	526
Loan commitment fees	9,083	9,341
Derivative receivable	4,493	4,493
Deposits	34	34
Other	73	77
	\$17,581	\$17,851

5. LONG-TERM DEBT

Long-term debt consisted of the following items as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
	(In thousands)	
Revolving credit agreement (1)	\$—	\$—
Building loans (2)	1,953	1,995
7.75% senior unsecured notes due 2020 (3)	300,000	300,000
Unamortized original issue (discount) premium, net (4)	(2,730)	(2,808)
Less: current maturities of long term debt	(161)	(159)
Debt reflected as long term	\$299,062	\$299,028

The Company capitalized approximately \$2.3 million and \$2.6 million in interest expense to oil and natural gas properties during the three months ended March 31, 2014 and 2013, respectively.

(1) On December 27, 2013, the Company entered into an Amended and Restated Credit Agreement with The Bank of Nova Scotia, as administrative agent, sole lead arranger and sole bookrunner, Amegy Bank National Association, as syndication agent, KeyBank National Association, as documentation agent, and other lenders (The "Amended and Restated Credit Agreement") that provides for a maximum facility amount of \$1.5 billion. The Amended and Restated Credit Agreement matures on June 6, 2018. The Company's wholly-owned subsidiaries have guaranteed the obligations of the Company under the Amended and Restated Credit Agreement. As of March 31, 2014, the Company had no borrowings outstanding under the Amended and Restated Credit Agreement. At March 31, 2014, the total available funds under the Amended and Restated Credit Agreement, including a reduction for a \$6.4 million letter of credit in effect, was \$143.6 million.

On April 23, 2014, the Company entered into a first amendment to the Amended and Restated Credit Agreement. The first amendment increased the letter of credit sublimit from \$20.0 million to \$70.0 million and provided for an increase in the borrowing base availability from \$150.0 million to \$275.0 million. The first amendment also made certain changes to the lenders and their respective lending commitments thereunder.

Advances under the Amended and Restated Credit Agreement 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 Reuters Screen LIBOR01 Page for deposits in U.S. dollars, or, if such rate is not available, the offered rate on such other page or service that displays the average British Bankers Association Interest Settlement 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.

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The Amended and Restated Credit Agreement 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 and forward sales 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 Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement also contains certain affirmative covenants, including, but not limited to the following financial covenants:

- (i) the ratio of funded debt to EBITDAX (net income, excluding any non-cash revenue or expense associated with swap contracts resulting from ASC 815, plus without duplication and 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) non-cash losses from minority investments, (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, and less non-cash income attributable to equity income from minority investments) for a twelve-month period may not be greater than 2.00 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 all covenants at March 31, 2014.

(2) In March 2011, the Company entered into a new building loan agreement for the office building it occupies in Oklahoma City, Oklahoma. The new loan agreement refinanced the \$2.4 million outstanding under the previous building loan agreement. The new agreement matures in February 2016 and bears interest at the rate of 5.82% per annum. The new building loan requires monthly interest and principal payments of approximately \$22,000 and is collateralized by the Oklahoma City office building and associated land.

(3) On October 17, 2012, the Company issued \$250.0 million in aggregate principal amount of senior unsecured notes due 2020 (the "October 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 "October Notes Offering") under an indenture among the Company, its subsidiary guarantors and Wells Fargo Bank, National Association, as the trustee (the "senior note indenture"). On December 21, 2012, the Company issued an additional \$50.0 million in aggregate principal amount of senior unsecured notes due 2020 (the "December 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 December Notes Offering"). The December Notes were issued as additional securities under the senior note indenture. The October Notes Offering and the December Notes Offering are collectively referred to as the "Notes Offerings". The Company used a portion of the net proceeds from the October Notes Offering to repay all amounts outstanding at such time under its revolving credit facility. The Company used the remaining net proceeds of October Notes Offering and the net proceeds of the December Notes Offering for general corporate purposes, which included funding a portion of its 2013 capital development plan.

Under the senior note indenture, interest on the Notes accrues at a rate of 7.75% per annum on the outstanding principal amount from October 17, 2012, payable semi-annually on May 1 and November 1 of each year, commencing on May 1, 2013.

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The Notes are the Company's senior unsecured obligations and rank equally in the right of payment with all of the Company's other senior indebtedness and senior in right of payment to any future subordinated indebtedness. All of the Company's existing and future restricted subsidiaries that guarantee the Company's secured revolving credit facility or certain other debt guarantee the Notes; provided, however, that the Notes are not guaranteed by Grizzly Holdings, Inc. and will not be guaranteed by any of the Company's future unrestricted subsidiaries. The Company may redeem some or all of the Notes at any time on or after November 1, 2016, at the redemption prices listed in the senior note indenture. Prior to November 1, 2016, the Company may redeem the Notes at a price equal to 100% of the principal amount plus a "make-whole" premium. In addition, prior to November 1, 2015, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings, provided that at least 65% of the aggregate principal amount of the Notes initially issued remains outstanding immediately after such redemption.

(4) The October Notes were issued at a price of 98.534% resulting in a gross discount of \$3.7 million and an effective rate of 8.000%. The December Notes were issued at a price of 101.000% resulting in a gross premium of \$0.5 million and an effective rate of 7.531%. The premium and discount are being amortized using the effective interest method.

6. STOCK-BASED COMPENSATION

During the three months ended March 31, 2014 and 2013, the Company's stock-based compensation cost was \$4.3 million and \$1.5 million, respectively, of which the Company capitalized \$1.7 million and \$0.6 million, respectively, relating to its exploration and development efforts.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. Expected volatilities are based on the historical volatility of the market price of Gulfport's common stock over a period of time ending on the grant date. Based upon the historical experience of the Company, the expected term of options granted is equal to the vesting period plus one year. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The 2013 Restated Stock Incentive Plan (which amended and restated the 2005 Plan) provides that all options must have an exercise price not less than the fair value of the Company's common stock on the date of the grant.

No stock options were issued during the three months ended March 31, 2014 and 2013.

The Company has not declared dividends and does not intend to do so in the foreseeable future, and thus did not use a dividend yield. In each case, the actual value that will be realized, if any, depends on the future performance of the common stock and overall stock market conditions. There is no assurance that the value an optionee actually realizes will be at or near the value estimated using the Black-Scholes model.

A summary of the status of stock options and related activity for the three months ended March 31, 2014 is presented below:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Options outstanding at December 31, 2013	210,241	\$3.50	1.07	\$12,538
Granted	—	—		
Exercised	(182,908)	3.36		11,717
Forfeited/expired	—	—		
Options outstanding at March 31, 2014	27,333	\$4.40	0.93	\$1,825
Options exercisable at March 31, 2014	27,333	\$4.40	0.93	\$1,825

The following table summarizes information about the stock options outstanding at March 31, 2014:

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Exercise Price	Number Outstanding	Weighted Average Remaining Life (in years)	Number Exercisable
\$3.36	22,333	0.81	22,333
\$9.07	5,000	1.44	5,000
	27,333		27,333

The following table summarizes restricted stock activity for the three months ended March 31, 2014:

	Number of Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Unvested shares as of December 31, 2013	463,637	\$44.80
Granted	114,293	64.04
Vested	(63,951)	) 37.40
Forfeited	(4,667)	) 57.42
Unvested shares as of March 31, 2014	509,312	\$49.94

Unrecognized compensation expense as of March 31, 2014 related to outstanding stock options and restricted shares was \$21.9 million. The expense is expected to be recognized over a weighted average period of 1.77 years.

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7. EARNINGS PER SHARE

Reconciliations of the components of basic and diluted net income per common share are presented in the tables below:

	Three months ended March 31, 2014			2013		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except share data)					
Basic:						
Net income	\$82,558	85,259,407	\$0.97	\$44,559	72,830,215	\$0.61
Effect of dilutive securities:						
Stock options and awards	—	479,219		—	504,633	
Diluted:						
Net income	\$82,558	85,738,626	\$0.96	\$44,559	73,334,848	\$0.61

There were no potential shares of common stock that were considered anti-dilutive for the three months ended March 31, 2014 and 2013.

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In connection with the Company's acquisition in 1997 of the remaining 50% interest in its WCBB properties, the Company assumed the seller's (Chevron) obligation to contribute approximately \$18,000 per month through March 2004 to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Chevron retained a security interest in production from these properties until the Company's abandonment obligations to Chevron have been fulfilled. Beginning in 2009, the Company could access the trust for use in plugging and abandonment charges associated with the property, although it has not yet done so. As of March 31, 2014, the plugging and abandonment trust totaled approximately \$3.1 million. At March 31, 2014, the Company had plugged 374 wells at WCBB since it began its plugging program in 1997, which management believes fulfills its current minimum plugging obligation.

Employment Agreements

Effective November 1, 2012, the Company entered into an employment agreement with each of its three executive officers, each with an initial three-year term expiring on November 1, 2015 subject to automatic one-year extensions unless terminated by either party to the agreement at least 90 days prior to the end of the then current term. These agreements provided for minimum salary and bonus levels, subject to review and potential increase by the Compensation Committee and/or the Board of Directors, as well as participation in the Company's incentive plans and other employee benefits.

Effective February 15, 2014, Gulfport's former Chief Executive Officer, Mr. Palm, retired and his employment agreement with the company terminated. The Company entered into a separation agreement with Mr. Palm, under which agreement certain benefits are provided to, and obligations imposed on, Mr. Palm. Gulfport's former Chairman, Mr. Liddell, resigned effective June 2013 at which date his employment agreement with Gulfport terminated. At that same date, the Company entered into a consulting agreement with Mr. Liddell. The minimum commitment under Mr. Liddell's consulting agreement at March 31, 2014 was approximately \$0.9 million and the minimum commitment under Mr. Palm's separation agreement at March 31, 2014 was approximately \$0.6 million. The aggregate minimum commitment for future salaries and bonuses at March 31, 2014 under the remaining November 2012 employment agreement was approximately \$1.6 million.

On April 22, 2014, the Company's Board of Directors appointed Michael Moore as Chief Executive Officer, at which same date, Mr. Moore entered into an amended and restated employment agreement.

Operating Leases

The Company leases office facilities under non-cancellable operating leases exceeding one year. Future minimum lease commitments under these leases at March 31, 2014 are as follows:

	(In thousands)
Remaining 2014	\$—
2015	402
2016	494
2017	426
2018	398
Total	\$1,720

Litigation

The Louisiana Department of Revenue ("LDR") is disputing Gulfport's severance tax payments to the State of Louisiana from the sale of oil under fixed price contracts during the years 2005 through 2007. The LDR maintains that Gulfport paid approximately \$1.8 million less in severance taxes under fixed price terms than the severance taxes Gulfport would have had to pay had it paid severance taxes on the oil at the contracted market rates only. Gulfport has denied any liability to the LDR for underpayment of severance taxes and has maintained that it was entitled to enter into the fixed price contracts with unrelated third parties and pay severance taxes based upon the proceeds received under those contracts. Gulfport has maintained its right to contest any final assessment or suit for collection if brought by the

State. On April 20, 2009, the LDR filed a lawsuit in the 15th Judicial District Court, Lafayette Parish, in Louisiana against Gulfport seeking \$2.3 million in severance taxes, plus interest

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and court costs. Gulfport filed a response denying any liability to the LDR for underpayment of severance taxes. The LDR had taken no further action on this lawsuit since filing its petition other than propounding discovery requests to which Gulfport has responded. Gulfport served discovery requests on the LDR and received the LDR's responses in 2012. No trial date has been set.

In December 2010, the LDR filed two identical lawsuits against Gulfport in different venues (the 15th Judicial District Court and the 19th Judicial Court) to recover allegedly underpaid severance taxes on crude oil for the period January 1, 2007 through December 31, 2010, together with a claim for attorney's fees. The petitions do not make any specific claim for damages or unpaid taxes. As with the lawsuit filed by the LDR in 2009 discussed in the paragraph above, Gulfport denies all liability. The LDR filed motions to stay the lawsuits before Gulfport filed any responsive pleadings. Subsequently, the LDR recently moved to dismiss one of the identical lawsuits it filed in the 19th Judicial District Court in 2010, amended the petition it filed in the 15th Judicial District Court in 2010 and served discovery requests on Gulfport. The LDR asserts that Gulfport underpaid severance taxes by nearly \$12 million from 2007 to 2010. The LDR also asserts that Gulfport owes an additional \$4.4 million and may be subject to additional penalties. In 2013, the LDR asserted that Gulfport owes additional severance taxes in connection with the cash settlements it received to terminate forward sales contracts. The LDR's claims are still in their infancy and there has been no formal discovery. Gulfport maintains that the LDR's claims are not well-grounded in fact or law and intends to aggressively defend the lawsuits.

On July 30, 2010, six individuals and one limited liability company sued 15 oil and gas companies in Cameron Parish Louisiana for surface contamination in areas where the defendants operated in an action entitled Reeds et al. v. BP American Production Company et al., 38th Judicial District. No. 10-18714. The plaintiffs' original petition for damages, which did not name Gulfport as a defendant, alleges that the plaintiffs' property located in Cameron Parish, Louisiana within the Hackberry oil field is contaminated as a result of historic oil and gas exploration and production activities. The plaintiffs allege that the defendants conducted, directed and participated in various oil and gas exploration and production activities on their property which allegedly have contaminated or otherwise caused damage to the property, and have sued the defendants for alleged breaches of oil, gas and mineral leases, as well as for alleged negligence, trespass, failure to warn, strict liability, punitive damages, lease liability, contract liability, unjust enrichment, restoration damages, assessment and response costs and stigma damages. On December 7, 2010, Gulfport was served with a copy of the plaintiffs' first supplemental and amending petition which added four additional plaintiffs and six additional defendants, including Gulfport, bringing the total number of defendants to 21. It also increased the total acreage at issue in this litigation from 240 acres to approximately 1,700 acres. In addition to the damages sought in the original petition, the plaintiffs now also seek: damages sufficient to cover the cost of conducting a comprehensive environmental assessment of all present and yet unidentified pollution and contamination of their property; the cost to restore the property to its pre-polluted original condition; damages for mental anguish and annoyance, discomfort and inconvenience caused by the nuisance created by defendants; land loss and subsidence damages and the cost of backfilling canals and other excavations; damages for loss of use of land and lost profits and income; attorney fees and expenses and damages for evaluation and remediation of any contamination that threatens groundwater. In addition to Gulfport, current defendants include ExxonMobil Oil Corporation, Mobil Exploration & Producing North America Inc., Chevron U.S.A. Inc., The Superior Oil Company, Union Oil Company of California, BP America Production Company, Tempest Oil Company, Inc., ConocoPhillips Company, Continental Oil Company, WM. T. Burton Industries, Inc., Freeport Sulphur Company, Eagle Petroleum Company, U.S. Oil of Louisiana, M&S Oil Company, and Empire Land Corporation, Inc. of Delaware. On January 21, 2011, Gulfport filed a pleading challenging the legal sufficiency of the petitions on several grounds and requesting that they either be dismissed or that plaintiffs be required to amend such petitions. In response to the pleadings filed by Gulfport and similar pleadings filed by other defendants, the plaintiffs filed a third amending petition with exhibits which expands the description of the property at issue, attaches numerous aerial photos and identifies the mineral leases at issue. In response, Gulfport and numerous defendants re-urged their pleadings challenging the legal sufficiency of the petitions. Some of the defendants' grounds for challenging the plaintiffs' petitions were heard by the court on May 25, 2011 and were denied.

The court signed the written judgment on December 9, 2011. Gulfport noticed its intent to seek supervisory review on December 19, 2011 and the trial court fixed a return date of January 11, 2012 for the filing of the writ application. Gulfport filed its supervisory writ, which was denied by the Louisiana Third Circuit Court of Appeal and the Louisiana Supreme Court. The parties engaged in a non-binding mediation in July 2013 and discussion are on-going. In 2014, Gulfport and the plaintiffs have had settlement discussions focused on Gulfport's payment of approximately \$18.0 million plus the cost of a plan of remediation to be approved by the Court and the Louisiana Department of Natural Resources. The settlement has not yet been finalized and there can be no assurance that a settlement will be reached on these or any other terms. The Company has accrued the \$18.0 million proposed settlement as of March 31, 2014, which is included in litigation settlement in the accompanying consolidated statements of operations. The case is set for trial in July 2014 in the event that the Company does not enter into a settlement agreement.

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Due to the early stages of the LDR litigation and the remediation portion of the Reeds settlement, the outcome is uncertain and management cannot determine the amount of loss, if any, that may result. In the LDR case, management has determined the possibility of loss is remote. However, litigation is inherently uncertain. Adverse decisions in one or more of the above matters could have a material adverse effect on the Company's financial condition or results of operations and management cannot determine the amount of loss, if any, that may result.

The Company has been named as a defendant in various other lawsuits related to its business. In each such case, management has determined that the possibility of loss is remote. The resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations in future periods.

9. HEDGING ACTIVITIES**Oil Price Hedging Activities**

The Company seeks to reduce its exposure to unfavorable changes in oil and natural gas prices, which are subject to significant and often volatile fluctuation, by entering into fixed price swaps. These contracts allow the Company to predict with greater certainty the effective oil and natural gas prices to be received for hedged production and benefit operating cash flows and earnings when market prices are less than the fixed prices provided in the contracts.

However, the Company will not benefit from market prices that are higher than the fixed prices in the contracts for hedged production.

The Company accounts for its oil and natural gas derivative instruments as cash flow hedges for accounting purposes under FASB ASC 815 and related pronouncements. All derivative contracts are marked to market each quarter end and are included in the accompanying consolidated balance sheets as derivative assets and liabilities.

During 2013 and 2014, the Company entered into fixed price swap and swaption contracts for 2013 through 2016 with four financial institutions. The Company's fixed price swap contracts are tied to the commodity prices on the International Petroleum Exchange ("IPE") and NYMEX. The Company will receive the fixed price amount stated in the contract and pay to its counterparty the current market price as listed on the IPE for Brent Crude for oil and on the NYMEX Henry Hub for natural gas. At March 31, 2014, the Company had the following fixed price swaps in place:

	Daily Volume (Bbls/day)	Weighted Average Price
April - December 2014	2,000	\$101.50
	Daily Volume (MMBtu/day)	Weighted Average Price
April 2014	105,000	\$4.01
May 2014	130,000	\$4.05
June - December 2014	155,000	\$4.07
January - December 2015	175,000	\$4.08
January - March 2016	105,000	\$4.04
April 2016	95,000	\$4.04

At March 31, 2014 the fair value of derivative assets and liabilities related to the fixed price swaps and swaptions was as follows:

	(In thousands)
Long-term derivative instruments - asset	\$2,565
Short-term derivative instruments - liability	\$29,755
Long-term derivative instruments - liability	\$4,277

All fixed price swaps and swaptions have been executed in connection with the Company's oil and natural gas price hedging program. For fixed price swaps qualifying as cash flow hedges pursuant to FASB ASC 815, the realized contract price is included in oil and gas sales in the period for which the underlying production was hedged.

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For derivatives designated as cash flow hedges and meeting the effectiveness guidelines of FASB ASC 815, changes in fair value are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The Company had no cash flow hedges in place for the three months ending March 31, 2014, as all fixed price swaps and swaptions were deemed ineffective at their inception. Amounts reclassified out of accumulated other comprehensive income (loss) into earnings as a component of oil and condensate sales for the three months ended March 31, 2014 and 2013 are presented below.

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Reduction to oil and condensate sales	\$—	\$(2,957)

At March 31, 2014, no amounts related to fixed price swaps remain in accumulated other comprehensive income (loss).

Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. The Company recognized a loss of \$8.7 million related to hedge ineffectiveness for the three months ended March 31, 2014, which is included in oil and condensate and gas sales in the consolidated statements of operations. The Company recognized a loss of \$0.2 million related to hedge ineffectiveness for the three months ended March 31, 2013, which is included in oil and condensate sales in the consolidated statements of operations.

10. FAIR VALUE MEASUREMENTS

The Company records certain financial and non-financial assets and liabilities on the balance sheet at fair value in accordance with FASB ASC 820. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The following tables summarize the Company's financial and non-financial liabilities by FASB ASC 820 valuation level as of March 31, 2014:

	March 31, 2014		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
Fixed price swaps	\$—	\$2,565	\$—
Equity investment in Diamondback	227,474	—	—
Liabilities:			
Fixed price swaps and swaptions	\$—	\$34,032	\$—

The estimated fair value of the Company's fixed price swap contracts and swaptions were based upon forward commodity prices based on quoted market prices, adjusted for differentials, and for the Company's swaptions, market

implied volatilities of the underlying commodity were also evaluated. See Note 9 for further discussion of the Company's hedging

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activities. The estimated fair value of the Company's equity investment in Diamondback was based upon the public closing share price of Diamondback's common stock as of March 31, 2014.

The estimated fair values of proved oil and gas properties assumed in business combinations are based on a discounted cash flow model and market assumptions as to future commodity prices, projections of estimated quantities of oil and natural gas reserves, expectations for timing and amount of future development and operating costs, projections of future rates of production, expected recovery rates, and risk-adjusted discount rates. The estimated fair values of unevaluated oil and gas properties was based on geological studies, historical well performance, location and applicable mineral lease terms. Based on the unobservable nature of certain the inputs the estimated fair value of the oil and gas properties assumed is deemed to use Level 3 inputs. See Note 1 for further discussion of the Company's acquisitions.

The Company estimates asset retirement obligations pursuant to the provisions of FASB ASC Topic 410, "Asset Retirement and Environmental Obligations" ("FASB ASC 410"). The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs. See Note 2 for further discussion of the Company's asset retirement obligations. Asset retirement obligations incurred during the three months ended March 31, 2014 were approximately \$1.9 million.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts on the accompanying consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and current debt are carried at cost, which approximates market value due to their short-term nature. Long-term debt related to the building loan is carried at cost, which approximates market value based on the borrowing rates currently available to the Company with similar terms and maturities.

At March 31, 2014, the carrying value of the outstanding debt represented by the Notes was \$297.3 million, including the remaining unamortized discount of approximately \$3.1 million related to the October Notes and the remaining unamortized premium of approximately \$0.4 million related to the December Notes. Based on the quoted market price, the fair value of the Notes was determined to be approximately \$326.4 million at March 31, 2014.

The fair value of the derivative instruments is computed based on the difference between the prices provided by the fixed-price contracts and forward market prices as of the specified date, as adjusted for basis differentials, and for the Company's swaptions, market implied volatilities of the underlying commodity are also evaluated. Forward market prices for oil and natural gas are dependent upon supply and demand factors in such forward market and are subject to significant volatility.

12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On October 17, 2012 and December 21, 2012, the Company issued an aggregate of \$300.0 million of its 7.75% Senior Notes (the "Notes"). The Notes are guaranteed on a senior unsecured basis by all existing consolidated subsidiaries that guarantee the Company's secured revolving credit facility or certain other debt (the "Guarantors"). The Notes are not guaranteed by Grizzly Holdings, Inc., (the "Non-Guarantor"). The Guarantors are 100% owned by Gulfport (the "Parent"), and the guarantees are full, unconditional, joint and several. There are no significant restrictions on the ability of the Parent or the Guarantors to obtain funds from each other in the form of a dividend or loan.

The following condensed consolidating balance sheets, statements of operations, statements of comprehensive income (loss) and statements of cash flows are provided for the Parent, the Guarantors and the Non-Guarantor and include the consolidating adjustments and eliminations necessary to arrive at the information for the Company on a condensed consolidated basis. The information has been presented using the equity method of accounting for the Parent's ownership of the Guarantors and the Non-Guarantor.

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CONDENSED CONSOLIDATING BALANCE SHEETS

(Amounts in thousands)

	March 31, 2014				
	Parent	Guarantors	Non-Guarantor	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 168,476	\$ 1,906	\$ —	\$—	\$ 170,382
Accounts receivable - oil and gas	81,130	5,638	—	—	86,768
Accounts receivable - related parties	570	—	—	—	570
Accounts receivable - intercompany	23,317	26	—	(23,343)	—
Prepaid expenses and other current assets	3,352	—	—	—	3,352
Deferred tax asset	7,558	—	—	—	7,558
Note receivable - related party	875	—	—	—	875
Total current assets	285,278	7,570	—	(23,343)	269,505
Property and equipment:					
Oil and natural gas properties, full-cost accounting	2,898,168	9,381	—	(573)	2,906,976
Other property and equipment	12,195	29	—	—	12,224
Accumulated depletion, depreciation, amortization and impairment	(841,539)	(22)	—	—	(841,561)
Property and equipment, net	2,068,824	9,388	—	(573)	2,077,639
Other assets:					
Equity investments and investments in subsidiaries	491,955	—	190,263	(182,799)	499,419
Derivative instruments	2,565	—	—	—	2,565
Other assets	17,581	—	—	—	17,581
Total other assets	512,101	—	190,263	(182,799)	519,565
Total assets	\$ 2,866,203	\$ 16,958	\$ 190,263	\$ (206,715)	\$ 2,866,709
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 238,593	\$ 506	\$ —	\$—	\$ 239,099
Accounts payable - intercompany		23,238	105	(23,343)	—
Asset retirement obligation - current	795	—	—	—	795
Short-term derivative instruments	29,755	—	—	—	29,755
Current maturities of long-term debt	161	—	—	—	161
Total current liabilities	269,304	23,744	105	(23,343)	269,810
Long-term derivative instrument	4,277	—	—	—	4,277
Asset retirement obligation - long-term	14,650	—	—	—	14,650
Deferred tax liability	148,470	—	—	—	148,470
Long-term debt, net of current maturities	299,062	—	—	—	299,062
Total liabilities	735,763	23,744	105	(23,343)	736,269
Stockholders' equity:					
Common stock	853	—	—	—	853
Paid-in capital	1,817,978	322	216,347	(216,669)	1,817,978
	(17,059)	—	(17,059)	17,059	(17,059)

Accumulated other comprehensive
income (loss)

Retained earnings (accumulated deficit)	328,668	(7,108	) (9,130	) 16,238	328,668
Total stockholders' equity	2,130,440	(6,786	) 190,158	(183,372	) 2,130,440
Total liabilities and stockholders' equity	\$2,866,203	\$ 16,958	\$ 190,263	\$(206,715) \$2,866,709

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CONDENSED CONSOLIDATING BALANCE SHEETS

(Amounts in thousands)

	December 31, 2013				
	Parent	Guarantors	Non-Guarantor	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$451,431	\$7,525	\$ —	\$—	\$458,956
Accounts receivable - oil and gas	58,662	162	—	—	58,824
Accounts receivable - related parties	2,617	—	—	—	2,617
Accounts receivable - intercompany	21,379	27	—	(21,406)	—
Prepaid expenses and other current assets	2,581	—	—	—	2,581
Deferred tax asset	6,927	—	—	—	6,927
Short-term derivative instruments	324	—	—	—	324
Note receivable - related party	875	—	—	—	875
Total current assets	544,796	7,714	—	(21,406)	531,104
Property and equipment:					
Oil and natural gas properties, full-cost accounting,	2,470,411	7,340	—	(573)	2,477,178
Other property and equipment	11,102	29	—	—	11,131
Accumulated depletion, depreciation, amortization and impairment	(784,695)	(22)	—	—	(784,717)
Property and equipment, net	1,696,818	7,347	—	(573)	1,703,592
Other assets:					
Equity investments and investments in subsidiaries	432,727	—	191,473	(184,132)	440,068
Derivative instruments	521	—	—	—	521
Other assets	17,851	—	—	—	17,851
Total other assets	451,099	—	191,473	(184,132)	458,440
Total assets	\$2,692,713	\$15,061	\$ 191,473	\$(206,111)	\$2,693,136
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities	\$190,284	\$423	\$ —	\$—	\$190,707
Accounts payable - intercompany	—	21,296	110	(21,406)	—
Asset retirement obligation - current	795	—	—	—	795
Short-term derivative instruments	12,280	—	—	—	12,280
Current maturities of long-term debt	159	—	—	—	159