Titan Energy, LLC
Form 10-Q
August 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-35317

TITAN ENERGY, LLC

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	90-0812516 (I.R.S. Employer Identification No.)
425 Houston Street, Suite 300	
Fort Worth, TX	76102

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: 800-251-0171

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer	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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of outstanding common shares of the registrant on August 17, 2017 was 5,469,798.

TITAN ENERGY, LLC

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ON FORM 10-Q

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FORWARD-LOOKING STATEMENTS

The matters discussed within this report include forward-looking statements. These statements may be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “m “might,” “plan,” “potential,” “predict,” “should,” or “will,” or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report are forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- our ability to achieve the anticipated benefits from the consummation of the filings by our predecessor under Chapter 11 of the United States Bankruptcy Code;
- the prices of natural gas, oil, NGLs and condensate;
- changes in the market price of our common shares;
- future financial and operating results;
- actions that we may take in connection with our liquidity needs, including the ability to service our debt, and ability to satisfy covenants in our debt documents;
- economic conditions and instability in the financial markets;
- the impact of our securities being quoted on the OTCQX Market rather than listed on a national exchange like the NYSE;
- success in efficiently developing and exploiting our reserves and economically finding or acquiring additional recoverable reserves and meeting our substantial capital investment needs;
- the accuracy of estimated natural gas and oil reserves;
- the financial and accounting impact of hedging transactions;
- potential changes in tax laws and environmental and other regulations which may affect our operations;
- the ability to obtain adequate water to conduct drilling and production operations, and to dispose of the water used in and generated by these operations at a reasonable cost and within applicable environmental rules;
- the effects of unexpected operational events and drilling conditions, and other risks associated with drilling operations;
- impact fees and severance taxes;
- the effects of intense competition in the natural gas and oil industry;
- general market, labor and economic conditions and uncertainties;
- the ability to retain certain key customers;
- dependence on the gathering and transportation facilities of third parties;
- the availability of drilling rigs, equipment and crews;
- access to sufficient amounts of carbon dioxide for tertiary recovery operations;
- expirations of undeveloped leasehold acreage;
- exposure to financial and other liabilities of the managing general partners of the investment partnerships;
- exposure to new and existing litigation; and
- development of alternative energy resources.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described under “Item 1A: Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline

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any obligation to update any such statements or to publicly announce the results of any revisions to any of these statements to reflect future events or developments.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

TITAN ENERGY, LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	16,247	$24,446
Accounts receivable	20,908	26,472
Advances to affiliates	6,486	4,145
Subscriptions receivable	—	5,656
Prepaid expenses and other	12,578	17,108
Current assets held for sale (Note 3)	124,657	8,271
Total current assets	180,876	86,098
Property, plant and equipment, net	538,418	670,769
Long-term derivative asset	1,606	—
Other assets, net	7,250	10,562
Non-current assets held for sale (Note 3)	—	114,405
Total assets	$728,150	$881,834
LIABILITIES AND MEMBERS’ EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$25,454	$27,647
Liabilities associated with drilling contracts	—	10,656
Current portion of derivative liability	890	30,519
Accrued well drilling and completion costs	6,044	4,933
Accrued interest	1,287	1,503
Accrued liabilities	15,266	17,171
Current portion of long-term debt	643,378	694,810
Current liabilities held for sale (Note 3)	2,296	9,461
Total current liabilities	694,615	796,700
Long-term derivative liability	1	13,208
Asset retirement obligations	14,486	15,031
Other long-term liabilities	1,628	1,431
Non-current liabilities held for sale (Note 3)	—	62,405

Commitments and contingencies (Note 9)		
Members' Equity (Deficit):		
Series A Preferred member's equity (deficit)	323	(145)
Common shareholders' equity (deficit)	17,097	(6,796)
Total members' equity (deficit)	17,420	(6,941)
Total liabilities and members' equity (deficit)	$728,150	$881,834

See accompanying notes to condensed consolidated financial statements.

TITAN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(Unaudited)

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues:				
Gas and oil production	$53,939	$47,527	$113,506	$92,787
Drilling partnership management	7,610	748	15,390	5,668
Gain (loss) on mark-to-market derivatives	14,788	(67,162)	40,993	(25,601)
Total revenues	76,337	(18,887)	169,889	72,854
Costs and expenses:				
Gas and oil production	25,077	29,188	52,722	62,411
Drilling partnership management	5,310	(837)	9,778	1,306
General and administrative	10,929	20,934	22,819	36,808
Depreciation, depletion and amortization	12,806	25,311	26,468	52,687
Loss on divestiture	38,192	—	38,192	—
Total costs and expenses	92,314	74,596	149,979	153,212
Operating income (loss)	(15,977)	(93,483)	19,910	(80,358)
Interest expense	(13,615)	(30,545)	(26,548)	(56,972)
Gain on early extinguishment of debt	—	—	—	26,498
Other income (loss)	(181)	(543)	(41)	(533)
Loss from continuing operations before income taxes	(29,773)	(124,571)	(6,679)	(111,365)
Income tax provision (benefit)	(9,653)	—	(11,301)	—
Net income (loss) from continuing operations	(20,120)	(124,571)	4,622	(111,365)
Net income (loss) from discontinued operations	16,628	(16,998)	18,789	(17,441)
Net income (loss)	(3,492)	(141,569)	23,411	(128,806)
Preferred limited partner dividends	—	(365)	—	(4,013)
Net income (loss) attributable to common shareholders and Series A preferred member	$(3,492)	$—	$23,411	$—
Net loss attributable to common limited partners and the general partner	—	(141,934)	—	(132,819)
Allocation of net income (loss) attributable to :				
Series A Preferred member	(70)	—	468	—
Common shareholders	(3,422)	—	22,943	—
Common limited partners' interest	$—	$(139,096)	$—	$(130,163)
General partner's interest	—	(2,838)	—	(2,656)
Net income (loss) attributable to common shareholders per share / common limited partners per unit (Note 2):				

Basic income (loss) continuing operations	$(3.81)	$(1.20)	$0.88	$(1.10)
Diluted income (loss) continuing operations	$(3.81)	$(1.20)	$0.83	$(1.10)
Basic income (loss) from discontinued operations	$3.15	$(0.16)	$3.56	$(0.17)
Diluted income (loss) from discontinued operations	$3.15	$(0.16)	$3.37	$(0.17)
Weighted average common limited partner units outstanding (Note 2):				
Basic	5,181	102,430	5,175	102,416
Diluted	5,181	102,430	5,467	102,416

See accompanying notes to condensed consolidated financial statements.

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TITAN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$(3,492)	$(141,569)	$23,411	$(128,806)
Other comprehensive loss:				
Derivative instruments designated as cash flow hedges:				
Reclassification to net income (loss) of mark-to-market gains	—	(5,555)	—	(9,070)
Total other comprehensive loss	—	(5,555)	—	(9,070)
Comprehensive income (loss) attributable to Series A Preferred member and common shareholders	$(3,492)	$—	23,411	—
Comprehensive loss attributable to common and preferred limited partners and the general partner	$—	$(147,124)	$—	$(137,876)

See accompanying notes to condensed consolidated financial statements.

TITAN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY (DEFICIT)

(in thousands, except unit data)

(Unaudited)

	Series A Preferred Member's Interest		Common Shareholders' Interest		Total Members' Equity (Deficit)
	Shares	Amount	Shares	Amount	
Balance at December 31, 2016	1	$ (145)	5,447,787	$ (6,796)	$ (6,941)
Net issued and unissued shares under incentive plans	—	—	22,011	950	950
Net income	—	468	—	22,943	23,411
Balance at June 30, 2017	1	$ 323	5,469,798	$ 17,097	$ 17,420

See accompanying notes to condensed consolidated financial statements.

TITAN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Successor	Predecessor
	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$23,411	$(128,806)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net (income) loss from discontinued operations	(18,789)	17,441
Depreciation, depletion and amortization	26,468	52,687
Loss on divestiture	38,192	—
(Gain) loss on derivatives	(29,470)	34,731
(Gain) on extinguishment of debt	—	(26,498)
Other loss	452	533
Non-cash compensation expense	950	(298)
Non-cash interest expense	13,911	—
Deferred income taxes (benefit)	(11,301)	—
Amortization of deferred financing costs and debt discount	1,303	9,127
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other	(11,015)	76,419
Accounts payable and accrued liabilities	(14,046)	(51,980)
Net cash provided by (used in) continuing operating activities	20,066	(16,644)
Net cash provided by discontinued operating activities	4,189	(665)
Net cash provided by (used in) operating activities	24,255	(17,309)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(32,635)	(18,820)
Net cash used in continuing investing activities	(32,635)	(18,820)
Net cash provided by discontinued investing activities	66,629	—
Net cash provided by (used in) investing activities	33,994	(18,820)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	—	135,000
Repayments under revolving credit facility	(65,609)	(57,500)
Senior note repurchases	—	(5,528)
Distributions paid to shareholders/unitholders	—	(12,578)
Net proceeds from issuance of common limited partner units	—	204
Deferred financing costs, distribution equivalent rights and other	(839)	(564)
Net cash provided by (used in) financing activities	(66,448)	59,034
Net change in cash and cash equivalents	(8,199)	22,905
Cash and cash equivalents, beginning of period	24,446	1,353

Cash and cash equivalents, end of period	$16,247	$24,258

See accompanying notes to condensed consolidated financial statements.

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TITAN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – ORGANIZATION

We are a publicly traded (OTCQX: TTEN) Delaware limited liability company and an independent developer and producer of natural gas, crude oil and NGLs with operations in basins across the United States but primarily focused on the horizontal development of resource potential from the Eagle Ford Shale in South Texas. We sponsor and manage tax-advantaged investment partnerships (the "Drilling Partnerships"), in which we coinvest, to finance a portion of our natural gas, crude oil and NGL production activities. As discussed further below, we are the successor to the business and operations of Atlas Resource Partners, L.P. ("ARP"). Unless the context otherwise requires, references to "Titan Energy, LLC," "Titan," "the Company," "we," "us," and "our," refer to Titan Energy, LLC and our consolidated subsidiaries (and our predecessor, where applicable).

Titan Energy Management, LLC ("Titan Management") manages us and holds our Series A Preferred Share, which entitles Titan Management to receive 2% of the aggregate of distributions paid to shareholders (as if it held 2% of our members' equity, subject to dilution as discussed below) and to appoint four of our seven directors. Titan Management is a wholly owned subsidiary of Atlas Energy Group, LLC ("ATLS"; OTCQX: ATLS), which is a publicly traded company.

In addition to its preferred member interest in us, ATLS also holds general and limited partner interests in Atlas Growth Partners, L.P. ("AGP"), a Delaware limited partnership and an independent developer and producer of natural gas, oil and NGLs, with operations primarily focused in the Eagle Ford Shale, and in Lightfoot Capital Partners, L.P. and Lightfoot Capital Partners GP, LLC, which incubate new MLPs and invest in existing MLPs.

At June 30, 2017, we had 5,469,798 common shares representing limited liability company interests issued and outstanding.

ARP Restructuring and Emergence from Chapter 11 Proceedings

On July 25, 2016, ARP and certain of its subsidiaries and ATLS, solely with respect to certain sections thereof, entered into a Restructuring Support Agreement (the "Restructuring Support Agreement") with certain of their lenders (the "Restructuring Support Parties") to support ARP's restructuring pursuant to a pre-packaged plan of reorganization (the "Plan").

On July 27, 2016, ARP and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court," and the cases commenced thereby, the "Chapter 11 Filings"). The cases commenced thereby were jointly administered under the caption "In re: ATLAS RESOURCE PARTNERS, L.P., et al."

On August 26, 2016, an order confirming the Plan was entered by the Bankruptcy Court. On September 1, 2016, (the "Plan Effective Date"), pursuant to the Plan, the following occurred:

- ARP's first lien lenders received cash payment of all obligations owed to them by ARP pursuant to the senior secured revolving credit facility (other than $440 million of principal and face amount of letters of credit) and became lenders under our first lien exit facility credit agreement, composed of a $410 million conforming reserve-based tranche and

a $30 million non-conforming tranche (the "First Lien Credit Facility") (refer to Note 5 – Debt for further information regarding terms and provisions).

- ARP's second lien lenders received a pro rata share of our second lien exit facility credit agreement with an aggregate principal amount of $252.5 million (the "Second Lien Credit Facility") (refer to Note 5 – Debt for further information regarding terms and provisions). In addition, ARP's second lien lenders received a pro rata share of 10% of our common shares, subject to dilution by a management incentive plan.
- ARP's senior note holders, in exchange for 100% of the $668 million aggregate principal amount of senior notes outstanding plus accrued but unpaid interest as of the commencement of the Chapter 11 Filings, received 90% of our common shares, subject to dilution by a management incentive plan.
- all of ARP's preferred limited partnership units and common limited partnership units were cancelled without the receipt of any consideration or recovery.

- ARP transferred all of its assets and operations to us as a new holding company and ARP dissolved. As a result, we became the successor issuer to ARP for purposes of and pursuant to Rule 12g-3 of the Securities Exchange Act of 1934, as amended.
- Titan Management, a wholly owned subsidiary of ATLS, received a Series A Preferred Share, which entitles Titan Management to receive 2% of the aggregate of distributions paid to shareholders (as if it held 2% of our members' equity, subject to dilution if catch-up contributions are not made with respect to future equity issuances, other than pursuant to the management incentive plan) and certain other rights as provided for in the Restructuring Support Agreement. Four of the seven initial members of the board of directors were designated by Titan Management (the "Titan Class A Directors"). For so long as Titan Management holds such preferred share, the Titan Class A Directors will be appointed by a majority of the Titan Class A Directors then in office. We have a continuing right to purchase the preferred share at fair market value (as determined pursuant to the methodology provided for in our limited liability company agreement), subject to the receipt of certain approvals, including the holders of at least 67% of the outstanding common shares of us unaffiliated with Titan Management voting in favor of the exercise of the right to purchase the preferred share.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and the applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting and include all adjustments that are necessary for a fair presentation of our consolidated results of operations, financial condition and cash flows for the periods shown, including normal, recurring accruals and other items. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year. The year-end condensed consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. For a more complete discussion of our accounting policies and certain other information, refer to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

In connection with the Chapter 11 Filings, we were subject to the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 852 Reorganizations ("ASC 852").

Upon emergence from bankruptcy on the Plan Effective Date, we adopted fresh-start accounting in accordance with ASC 852. Upon adoption of fresh-start accounting, our assets and liabilities were recorded at their fair values as of the Plan Effective Date, which differed materially from the recorded values of ARP's assets and liabilities.

As a result, our condensed consolidated statement of operations subsequent to the Plan Effective Date is not comparable to ARP's condensed consolidated statement of operations prior to the Plan Effective Date. Our condensed consolidated financial statements and related footnotes are presented with a black line division which delineates the lack of comparability between amounts presented on or after the Plan Effective Date and dates prior. Our financial results for future periods following the application of fresh-start accounting will be different from historical trends and the differences may be material.

References to "Successor" relate to the Company on and subsequent to the Plan Effective Date. References to "Predecessor" refer to the Company prior to the Plan Effective Date. The condensed consolidated financial statements of

the Successor have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business.

Reclassifications

Certain reclassifications have been made to our condensed consolidated financial statements for the prior year periods to conform to classifications used in the current year, specifically related to our discontinued operations (see Note 3) and our segment information on the condensed consolidated statement of operations and segment footnote disclosures (see Note 11).

Principles of Consolidation

Our condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. Transactions between us and other ATLS managed operations have been identified in the condensed consolidated financial statements as transactions between affiliates, where applicable. All material intercompany transactions have been eliminated.

In accordance with established practice in the oil and gas industry, our condensed consolidated financial statements include our pro-rata share of assets, liabilities, income and lease operating and general and administrative costs and expenses of the Drilling Partnerships in which we have an interest. Such interests generally approximate 10-30%. Our condensed consolidated financial statements do not include proportional consolidation of the depletion or impairment expenses of the Drilling Partnerships. Rather, we calculate these items specific to our own economics.

Liquidity and Capital Resources and Ability to Continue as a Going Concern

Since the Plan Effective Date, we have funded our operations through cash flows generated from our operations and cash on hand. We currently do not have the capacity to access additional liquidity from our First Lien Credit Facility and our ability to access public equity and debt markets may be limited. Our future cash flows are subject to a number of variables, including oil and natural gas prices. Prices for oil and natural gas began to decline significantly during the fourth quarter of 2014 and continue to remain low in 2017. These lower commodity prices have negatively impacted our revenues, earnings and cash flows. Sustained low commodity prices could have a material and adverse effect on our liquidity position. In addition, since the Plan Effective Date, our ability to raise capital through our Drilling Partnerships has been challenged. The decline in the fee-income generated from our Drilling Partnerships business has negatively impacted our ability to remain in compliance with the covenants under our credit facilities.

We were not in compliance with certain of the financial covenants under our credit facilities as of December 31, 2016, as well as the requirement to deliver audited financial statements without a going concern qualification. As a result of the amendment referenced below, our financial covenants will not be tested again until the quarter ending December 31, 2017. We do not currently have sufficient liquidity to repay all of our outstanding indebtedness, and as a result, there is substantial doubt regarding our ability to continue as a going concern. We have classified $643.4 million of outstanding indebtedness under our credit facilities, which is net of $1.8 million of deferred financing costs, as current portion of long term debt, net within our condensed consolidated balance sheet as of June 30, 2017, based on the occurrence of the event of default, the lenders under our credit facilities, as applicable, could elect to declare all amounts outstanding immediately due and payable and the lenders could terminate all commitments to extend further credit.

On April 19, 2017, we entered into an amendment to our First Lien Credit Facility. The amendment provides for, among other things, waivers of our non-compliance, increases in certain financial covenant ratios and scheduled decreases in our borrowing base (refer to Note 5 – Debt for further information regarding the specific amended terms and provisions). As part of our overall business strategy, we have continued to execute on our sales of non-core assets, which has included the sale of our Appalachia and Rangely operations. The proceeds of the consummated asset sales were used to repay borrowings under our First Lien Credit Facility. Our strategy is to continue to sell non-core assets to reduce our leverage position, which will also help us to comply with the requirements of our First Lien Credit Facility amendment.

In addition to the amendments to the financial ratio covenants, the First Lien Credit Facility lenders waived certain defaults by us with respect to the fourth quarter of 2016, including compliance with the ratios of Total Debt to EBITDA and First Lien Debt to EBITDA, as well as our obligation to deliver financial statements without a “going concern” qualification. The First Lien Credit Facility lenders’ waivers are subject to revocation in certain circumstances, including the exercise of remedies by junior lenders (including pursuant to our Second Lien Credit Facility), the failure to extend the standstill period under the intercreditor agreement at least 15 business days prior to its expiration, and the occurrence of additional events of default under the First Lien Credit Facility.

Even following this amendment, we continue to face liquidity issues and are currently considering, and are likely to make, changes to our capital structure to maintain sufficient liquidity, meet our debt obligations and manage and strengthen our balance sheet.

On April 21, 2017, the lenders under the our Second Lien Credit Facility delivered a notice of events of default and reservation of rights, pursuant to which they noticed events of default related to financial covenants and the failure to deliver financial statements without a “going concern” qualification. The delivery of such notice began the 180-day standstill period under the intercreditor agreement, during which the lenders under the Second Lien Credit Facility are prevented from pursuing remedies against the collateral securing our obligations under the Second Lien Credit Facility. The lenders have not accelerated the payment of amounts outstanding under the Second Lien Credit Facility.

On May 4, 2017, we entered into a definitive agreement to sell our conventional Appalachia and Marcellus assets to Diversified Gas & Oil, PLC (“Diversified”), for $84.2 million. The transaction included the sale of approximately 8,400 oil and gas wells across Pennsylvania, Ohio, Tennessee, New York and West Virginia, along with the associated infrastructure (the “Appalachian Assets”). We retained our Utica Shale position, Indiana assets and West Virginia CBM assets in the region. On June 30, 2017, we completed a majority of the Appalachian Assets sale for net cash proceeds of $65.6 million, which included customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility. We expect

to complete the remainder of the Appalachia Assets sale for additional cash proceeds of approximately $11.4 million by September 2017, which will be used to repay a portion of outstanding borrowings under our First Lien Credit Facility.

On June 12, 2017, we entered into a definitive agreement to sell our 25% interest in Rangely Field to an affiliate of Merit Energy Company, LLC for $105 million. Rangely is a CO_2 flood located in Rio Blanco County, Colorado, and operated by Chevron. The transaction includes the sale of our interest in Rangely Field, its 22% interest in Raven Ridge Pipeline, a CO_2 transportation line, as well as surrounding acreage in Rio Blanco and Moffat Counties, Colorado (collectively, the “Rangely Assets”). On August 7, 2017, we completed the Rangely Assets sale for net cash proceeds of $103.5 million, subject to customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility and achieve compliance with the requirement to reduce our First Lien Credit Facility borrowings below $360 million, as required by August 31, 2017.

We continually monitor the capital markets and our capital structure and may make changes to our capital structure from time to time, with the goal of maintaining financial flexibility, preserving or improving liquidity, strengthening our balance sheet and meeting our debt service obligations. We could pursue options such as refinancing, restructuring or reorganizing our indebtedness or capital structure or seek to raise additional capital through debt or equity financing to address our liquidity concerns and high debt levels. We are evaluating various options, but there is no certainty that we will be able to implement any such options, and we cannot provide any assurances that any refinancing or changes in our debt or equity capital structure would be possible or that additional equity or debt financing could be obtained on acceptable terms, if at all, and such options may result in a wide range of outcomes for our stakeholders.

We cannot assure you that we will be able to implement the above actions, if necessary, on commercially reasonable terms, or at all, in a manner that will be permitted under the terms of our debt instruments or in a manner that does not negatively impact the price of our securities. Additionally, there can be no assurance that the above actions will allow us to meet our debt obligations and capital requirements.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities that exist at the date of our condensed consolidated financial statements, as well as the reported amounts of revenue and costs and expenses during the reporting periods. Our condensed consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depletion of gas and oil properties, fair value of derivative instruments, and the fair value of assets held for sale. The oil and gas industry principally conducts its business by processing actual transactions as many as 60 days after the month of delivery. Consequently, the most recent two months’ financial results were recorded using estimated volumes and contract market prices. Actual results could differ from those estimates.

Assets Held For Sale

Assets are classified as held for sale when we commit to a plan to sell the assets and there is reasonable certainty the sale will take place within one year. Upon classification as held for sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to identify and expense any excess of carrying value over fair value less estimated costs to sell. Any subsequent changes to the fair value less estimated costs to sell impact the

measurement of assets held for sale, with any gain or loss reflected in the loss on divestitures line item in our condensed consolidated statements of operations. See Note 3 for additional disclosures regarding assets held for sale.

Discontinued Operations

A disposal of a component of our entity is classified as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results. For components classified as discontinued operations, the balance sheet amounts and results of operations are reclassified from their historical presentation to assets and liabilities held for sale on the condensed consolidated balance sheet and to net income (loss) from discontinued operations on the condensed consolidated statement of operations for all periods presented. The gains or losses associated with these divested components are recorded in net income (loss) from discontinued operations on the condensed consolidated statement of operations. See Note 3 for additional disclosures regarding discontinued operations.

Income Taxes

Our effective tax rate for the Successor three and six months ended June 30, 2017 was 0.6% and 1.14%, respectively, which represents our expected Texas Franchise Tax liability. Our income tax provision differs from the provision computed by applying the U.S. Federal statutory corporate income tax rate of 35% primarily due to the valuation allowance on our deferred tax assets. For the Successor three and six months ended June 30, 2017, we recognized a provision for income taxes of $9.7 million and $11.6 million, respectively, in net income (loss) from discontinued operations on our condensed consolidated statement of operations. For the Successor three and six months ended June 30, 2017, we recognized a corresponding income tax benefit of $9.7 million and $11.6 million, respectively, in net income (loss) from continuing operations on our condensed consolidated statement of operations, which represents a direct offset of the provision for income taxes included within our discontinued operations.

Predecessor's 2012 Long-Term Incentive Plan

On May 12, 2016, due to the income tax ramifications of the potential options our Predecessor was considering, our Predecessor's Board of Directors delayed the vesting date of approximately 110,000 units granted to employees, directors and officers until March 2017. The phantom units were set to vest between May 15, 2016 and August 31, 2016. The delayed vesting schedule did not have a significant impact on the compensation expense recorded in general and administrative expenses on the condensed consolidated statement of operations for the three and six months ended June 30, 2016 or our Predecessor's remaining unrecognized compensation expense related to such awards. As a result of the Chapter 11 Filings, our Predecessor's 2012 LTIP phantom units were cancelled.

Successor's Net Income Attributable to Common Shareholders Per Share

The Successor's basic net income attributable to common shareholders per share is computed by dividing net income attributable to our common shareholders by the weighted-average number of common shares outstanding, excluding any unvested restricted shares, for the period. The Successor's diluted net income attributable to common shareholders per share is similarly calculated except that the common shares outstanding for the period are increased using the treasury stock method to reflect the potential dilution that could occur if outstanding share based awards were vested at the end of the applicable period. Anti-dilutive shares represent potentially dilutive securities that are excluded from the computation of diluted net income attributable to common shareholders per share as their impact would be anti-dilutive. We determine if potentially dilutive shares are anti-dilutive based on their impact to net income (loss) from continuing operations.

The following is a reconciliation of net income attributable to our Successor's common shareholders for purposes of calculating net income attributable to our Successor's common shareholders per share (in thousands):

	Successor Three Months ended June 30, 2017	Six Months Ended June 30, 2017
Net income (loss) from continuing operations	$ (20,120)	$ 4,622
Less: Series A Preferred member interest in income (loss) from continuing operations	(402)	92
Net income (loss) from continuing operations utilized in the calculation of net income (loss) attributable to common shareholders per share	$ (19,718)	$ 4,530
Net income from discontinued operations	$ 16,628	$ 18,789
Less: Series A Preferred member interest in net income from discontinued operations	332	376
Net income from discontinued operations utilized in the calculation of net income attributable to common shareholders per share	$ 16,296	$ 18,413

The following table is a reconciliation of the Successor's basic and diluted weighted average number of common shares used to calculate basic and diluted net income attributable to common shareholders per share (in thousands):

	Successor Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Weighted average number of common shares - basic (1)	5,181	5,175
Add dilutive effect of share based awards at end of period (2)	—	292
Weighted average number of common shares - diluted	5,181	5,467

(1) For each period presented, 278,000 restricted common shares outstanding were excluded from the basic weighted average number of common shares because they were not vested.

(2) We determine if potentially dilutive shares are anti-dilutive based on their impact to net income (loss) from continuing operations. Since the three months ended June 30, 2017 resulted in net loss from continuing operations attributable to common shareholders, potentially dilutive shares were excluded because their inclusion would have been anti-dilutive.

Predecessor's Net Income (Loss) Per Common Unit

The following is a reconciliation of net income (loss) allocated to our Predecessor's common limited partners for purposes of calculating net income (loss) attributable to our Predecessor's common limited partners per unit (in thousand):

	Predecessor Three Months ended June 30, 2016	Six Months Ended June 30, 2016
Net loss from continuing operations	$ (124,571)	$ (111,365)
Preferred limited partner dividends	(365)	(4,013)
Net loss from continuing operations attributable to common limited partners and the general partner	(124,936)	(115,378)
Less: General partner's interest in net loss from continuing operations	(2,498)	(2,308)
Net loss from continuing operations attributable to common limited partners	(122,438)	(113,070)
Less: Net income from continuing operations attributable to participating securities – phantom units	—	—
Net loss from continuing operations utilized in the calculation of net loss attributable to common limited partners per unit – Basic	(122,438)	(113,070)
Plus: Convertible preferred limited partner dividends[(1)]	—	—
Net loss from continuing operations utilized in the calculation of net loss attributable to common limited partners per unit – Diluted	$ (122,438)	$ (113,070)
Net loss from discontinued operations attributable to common limited partners and the general partner	$ (16,998)	$ (17,441)
Less: General partner's interest in net loss from discontinued operations	(340)	(349)
Net loss from discontinued operations attributable to common limited partners	(16,658)	(17,092)
Less: Net income from discontinued operations attributable to participating securities – phantom units	—	—
Net loss from discontinued operations utilized in the calculation of net loss attributable to common limited partners per unit – Basic	(16,658)	(17,092)
Plus: Convertible preferred limited partner dividends[(1)]	—	—
Net loss from discontinued operations utilized in the calculation of net loss attributable to common limited partners per unit – Diluted	$ (16,658)	$ (17,092)

(1) For the periods presented, distributions on our Predecessor's Class C convertible preferred units were excluded, because the inclusion of such preferred distributions would have been anti-dilutive.

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The following table sets forth the reconciliation of our Predecessor's weighted average number of common limited partner units used to compute basic net income (loss) attributable to our Predecessor's common limited partners per unit with those used to compute diluted net income attributable to our Predecessor's common limited partners per unit (in thousands):

	Predecessor Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Weighted average number of common limited partner units—basic	102,430	102,416
Add effect of dilutive incentive awards[(1)]	—	—
Add effect of dilutive convertible preferred limited partner units[(2)]	—	—
Weighted average number of common limited partner units—diluted	102,430	102,416

(1) For the three and six months ended June 30, 2016, 274,000 and 283,000 phantom units, respectively, were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive.

(2) For the period presented, potential common limited partner units issuable upon (a) conversion of our Predecessor's Class C preferred units and (b) exercise of the common unit warrants issued with our Predecessor's Class C preferred units were excluded from the computation of diluted earnings attributable to common limited partners per unit, because the inclusion of such units would have been anti-dilutive. As our Predecessor's Class D and Class E preferred units were convertible only upon a change of control event, they were not considered dilutive securities for earnings per unit purposes.

Recently Issued Accounting Standards

In February 2016, the FASB updated the accounting guidance related to leases. The updated accounting guidance requires lessees to recognize a lease asset and liability at the commencement date of all leases (with the exception of short-term leases), initially measured at the present value of the lease payments. The updated guidance is effective for us as of January 1, 2019 and requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest period presented. We are currently in the process of determining the impact that the updated accounting guidance will have on our condensed consolidated financial statements.

In May 2014, the FASB updated the accounting guidance related to revenue recognition. The updated accounting guidance provides a single, contract-based revenue recognition model to help improve financial reporting by providing clearer guidance on when an entity should recognize revenue, and by reducing the number of standards to which an entity has to refer. In July 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. We intend to adopt the new standard using the modified retrospective method, which is expected to have an immaterial impact on our financial statements. The accounting guidance will require that our revenue recognition policy disclosures include further detail regarding our performance obligations as to the nature, amount, timing, and estimates of revenue and cash flows generated from our contracts with customers.

NOTE 3 – DISCONTINUED OPERATIONS AND DIVESTITURES

Appalachia Divestiture – Discontinued Operations

As disclosed in Note 2, on June 30, 2017, we completed a majority of the Appalachian Assets sale for net cash proceeds of $65.6 million, which included customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility. We expect to complete the remainder of the Appalachian Assets sale for additional cash proceeds of approximately $11.4 million by September 2017, which will be used to repay a portion of outstanding borrowings under our First Lien Credit Facility.

We determined the Appalachian Assets represent discontinued operations as they constitute a disposal of a group of components and a strategic shift that will have a major effect on our operations and financial results. We evaluated the Appalachian Assets sale on our gas and oil production and Drilling Partnership management segments’ results of operations and cash flows, as well as expected asset retirement obligations, and concluded the impact will have a major effect on our expected operations and financial results. As a result, we reclassified the Appalachian Assets from their historical presentation to assets and liabilities held for sale on the condensed consolidated balance sheet and to net income (loss) from discontinued operations on the condensed consolidated statement of operations for all periods presented.

The remainder of our Appalachian Assets are classified as held for sale in our condensed consolidated balance sheet at June 30, 2017. We determined that the carrying value of the remainder of our Appalachian Assets exceeded the fair value less costs to sell,

which resulted in an impairment of $4.3 million recognized in net income (loss) from discontinued operations on our condensed consolidated statement of operations during the three and six months ended June 30, 2017.

The following table reconciles the major classes of line items from the discontinued operations of the Appalachian Assets included within net income (loss) from discontinued operations in thousands:

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Revenues:				
Gas and oil production	$9,892	$ 3,880	$20,925	$ 7,120
Drilling partnership management	4,731	4,539	7,996	8,479
Gain (loss) on mark-to-market derivatives	1,666	(6,101)	4,955	(1,542)
Other, net	702	—	—	—
Total revenues	16,991	2,318	33,876	14,057
Costs and expenses:				
Gas and oil production	$5,118	$ 1,967	$8,167	$ 4,790
Drilling partnership management	3,729	3,350	7,896	7,489
Depreciation, depletion and amortization	2,226	3,696	5,055	6,366
General and administrative	2,245	2,827	4,080	4,032
(Gain) loss on sale of assets	(28,564)	(88)	(28,602)	(22)
Impairment on assets held for sale	4,272	—	4,272	—
Interest expense	1,600	1,408	2,654	2,687
Other (income) loss	—	6,156	—	6,156
Total costs and expenses	$(9,374)	$ 19,316	$3,522	$ 31,498
Income (loss) from discontinued operations before income taxes	26,365	(16,998)	30,354	(17,441)
Income tax provision (benefit)	9,737	—	11,565	—
Net income (loss) from discontinued operations	$16,628	$ (16,998)	$18,789	$ (17,441)

We allocated First Lien Credit Facility interest expense to our discontinued operations based on the relative proportion of the net cash proceeds from the sale (and expected sale) of the Appalachian Assets used to repay (and expected to repay) outstanding indebtedness under our First Lien Credit Facility to the total outstanding indebtedness under our First Lien Credit Facility for the periods presented.

We allocated gain (loss) on mark-to-market natural gas commodity derivatives to our discontinued operations based on the relative proportion of the Appalachian Assets' natural gas production volumes to our total natural gas production volumes for the periods presented.

Rangely Divestiture

As disclosed in Note 2, on August 7, 2017, we completed the Rangely Assets sale for net cash proceeds of $103.5 million, subject to customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility. The Rangely Assets were classified as held for sale in our condensed consolidated balance sheet at June 30, 2017. We determined that the carrying value of the Rangely Assets exceeded the fair value less costs to sell, which resulted in an impairment of $38.2 million recognized in loss on divesture on our condensed consolidated statement of operations during the three and six months ended June 30, 2017.

We considered the Rangely Assets to be an individually significant component of our operations. The following table presents the net income (loss) before income taxes of the Rangely Assets held for sale for the periods presented, in thousands:

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Income (loss) before income taxes [(1)]	$(37,251)	$ (1,227)	$(34,087)	$ 8,199

(1) Income (loss) before income taxes reflects gas and oil production revenues less gas and oil production expenses, general and administrative expenses, depletion, depreciation, amortization expenses, and loss on divestitures of $38.2 million as disclosed above.

Assets Held For Sale

The following table details the major classes of assets and liabilities of the Appalachian Assets and Rangely Assets classified as held for sale for the periods presented, in thousands:

	June 30, 2017	December 31, 2016
Current assets:		
Accounts receivable	$ —	$7,254
Prepaid expenses and other	—	1,017
Property, plant and equipment, net	11,405	—
Total current assets of Appalachian Assets discontinued operations held for sale	11,405	8,271
Rangely Assets held for sale	113,252	—
Total current assets classified as held for sale	124,657	8,271
Property, plant and equipment, net	—	113,956
Other assets	—	449
Total non-current assets of Appalachian Assets discontinued operations held for sale	—	114,405
Total assets classified as held for sale	$124,657	$122,676
Current liabilities:		
Accounts payable	$—	$2,516
Current portion of derivative liability	—	4,279
Accrued liabilities and other	296	2,666
Asset retirement obligations	593	—
Other long-term liabilities	368	—
Total current liabilities of Appalachian Assets discontinued operations held for sale	1,257	9,461
Rangely Assets held for sale	1,039	—
Total current liabilities classified as held for sale	2,296	9,461
Long-term derivative liability	—	1,407
Asset retirement obligations	—	60,316
Other long-term liabilities	—	682
Total non-current liabilities of Appalachian Assets discontinued operations held for sale	—	62,405
Total liabilities classified as held for sale	$2,296	$71,866

We allocated natural gas commodity derivatives assets and liabilities to our discontinued operations held for sale based on the relative proportion of the Appalachian Assets' natural gas production volumes to our total natural gas production volumes as of December 31, 2016.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment at the dates indicated (in thousands):

	June 30, 2017	December 31, 2016
Natural gas and oil properties:		
Proved properties	$518,886	$608,901
Unproved properties	52,767	73,057
Support equipment and other	8,376	8,081
Total natural gas and oil properties	580,029	690,039
Less – accumulated depreciation, depletion and amortization	(41,611)	(19,270)
Total property, plant and equipment, net	$538,418	$670,769

During the Successor six months ended June 30, 2017 and the Predecessor six months ended June 30, 2016, we recognized $1.2 million and $15.5 million, respectively, of non-cash investing activities capital expenditures, which was reflected within the changes in accounts payable and accrued liabilities on our condensed consolidated statements of cash flows.

We capitalize interest on borrowed funds related to capital projects only for periods that activities are in progress to bring these projects to their intended use. The weighted average interest rate used to capitalize interest on borrowed funds during the Successor three months ended June 30, 2017 and the Predecessor three months ended June 30, 2016, was 8.0% and 6.6%, respectively. The aggregate amount of interest capitalized during the Successor three months ended June 30, 2017 and the Predecessor three months ended June 30, 2016 was $0.2 million and $2.4 million, respectively. The weighted average interest rate used to capitalize interest on borrowed funds during the Successor six months ended June 30, 2017 and the Predecessor six months ended June 30, 2016, was 7.8% and 6.7%, respectively The aggregate amount of interest capitalized by us was $0.2 million and $4.8 million for the Successor six months ended June 30, 2017 and the Predecessor six months ended June 30, 2016, respectively.

For the Successor three months ended June 30, 2017 and the Predecessor three months ended June 30, 2016, we recorded $0.4 million and $0.7 million, respectively, of accretion expense related to our and our Predecessor's asset retirement obligations within depreciation, depletion and amortization in our and our Predecessor's condensed consolidated statements of operations. For the Successor six months ended June 30, 2017 and the Predecessor six months ended June 30, 2016, we recorded $0.7 million and $1.4 million, respectively, of accretion expense related to our asset retirement obligations within depreciation, depletion and amortization in our condensed consolidated statements of operations.

NOTE 5 – DEBT

Total debt consists of the following at the dates indicated (in thousands):

	June 30, 2017	December 31, 2016
First Lien Credit Facility	$370,200	$435,809
Second Lien Credit Facility	274,933	261,022
Deferred financing costs, net of accumulated amortization of $505 and $172, respectively	(1,755)	(2,021)
Total debt, net	643,378	694,810
Less current maturities	(643,378)	(694,810)
Total long-term debt, net	$—	$—

Cash Interest. Total cash payments for interest for the Successor three months ended June 30, 2017, and the Predecessor three months ended June 30, 2016, were $7.1 million and $12.5 million, respectively. Total cash payments for interest for the Successor six months ended June 30, 2017, and the Predecessor six months ended June 30, 2016, were $13.9 million and $53.7 million, respectively.

First Lien Credit Facility

On September 1, 2016, we entered into our $440 million First Lien Credit Facility with Wells Fargo Bank, National Association (“Wells Fargo”), as administrative agent, and the lenders party thereto. A summary of the key provisions of the First Lien Credit Facility is as follows:

- Borrowing base of a $410 million conforming reserve based tranche plus a $30 million non-conforming tranche.
- Provides for the issuance of letters of credit, which reduce borrowing capacity.
- Obligations are secured by mortgages on substantially all of our oil and gas properties and first priority security interests in substantially all of our assets and are guaranteed by certain of our material subsidiaries, and any non-guarantor subsidiaries of ours are minor.
- Borrowings bear interest at our election at either LIBOR plus an applicable margin between 3.00% and 4.00% per annum or the “alternate base rate” plus an applicable margin between 2.00% and 3.00% per annum, which fluctuates based on utilization. We are also required to pay a fee of 0.50% per annum on the unused portion of the borrowing base. At June 30, 2017, the weighted average interest rate on outstanding borrowings under the First Lien Credit Facility was 5.0%.
- Contains covenants that limit our ability to incur additional indebtedness, grant liens, make loans or investments, make distributions, merge into or consolidate with other persons, enter into commodity or interest rate swap agreements that do not conform to specified terms or that exceed specified amounts, or engage in certain asset dispositions including a sale of all or substantially all of our assets.
- Requires us to enter into commodity hedges covering at least 80% of our expected 2019 production prior to December 31, 2017.

We were not in compliance with certain of the financial covenants under our credit facilities as of December 31, 2016, as well as the requirement to deliver audited financial statements without a going concern qualification. On April 19, 2017, we, Titan Energy Operating, LLC (our wholly owned subsidiary), as borrower, and certain subsidiary guarantors entered into a Third Amendment (the “First Lien Credit Facility Amendment”) to the First Lien Credit Facility with Wells Fargo, as administrative agent, and the lenders party thereto. Pursuant to the First Lien Credit Facility Amendment, certain of the financial ratio covenants were revised upwards. Specifically, beginning December 31, 2017, we will be required to maintain a ratio of Total Debt to EBITDA (each as defined in the First Lien Credit Facility) of not more than 5.50 to 1.00 for each fiscal quarter through December 31, 2018 and of not more than 5.00 to 1.00 thereafter. We will also be required, beginning December 31, 2017, to maintain a ratio of First Lien Debt (as defined in the First Lien Credit Facility) to EBITDA of not more than 4.00 to 1.00 for each fiscal quarter through December 31, 2018 and of not more than 3.50 to 1.00 thereafter.

In addition to the amendments to the financial ratio covenants, the First Lien Credit Facility lenders waived certain defaults by us with respect to the fourth quarter of 2016, including compliance with the ratios of Total Debt to EBITDA and First Lien Debt to EBITDA, as well as our obligation to deliver financial statements without a “going concern” qualification. The First Lien Credit Facility lenders’ waivers are subject to revocation in certain circumstances, including the exercise of remedies by junior lenders (including pursuant to our second lien credit facility), the failure to extend the 180-day standstill period under the intercreditor agreement at least 15 business days prior to its expiration, and the occurrence of additional events of default under the First Lien Credit Facility.

The First Lien Credit Facility Amendment confirms the conforming and non-conforming tranches of the borrowing base at $410 million and $30 million, respectively, but requires us to take actions (which can include asset sales and equity offerings) to reduce the conforming tranche of the borrowing base to $330 million by August 31, 2017 and to $190 million by October 1, 2017 (subject to extension at the administrative agent’s option to October 31, 2017). Similarly, the non-conforming tranche of the borrowing base will be required to be reduced to $10 million by November 1, 2017. In addition, we will be required to use excess asset sale proceeds (after application in accordance with the existing terms of the First Lien Credit Facility) to repay outstanding borrowings and reduce the applicable

borrowing base to the required level.

On June 30, 2017, we completed a majority of the Appalachian Assets sale for net cash proceeds of $65.6 million, which included customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility. On August 7, 2017, we completed the Rangely Assets sale for net cash proceeds of $103.5 million, subject to customary preliminary purchase price adjustments, all of which was used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility and achieve compliance with the requirement to reduce our First Lien Credit Facility borrowings below $360 million, as required by August 31, 2017.

Second Lien Credit Facility

On September 1, 2016, we entered into our Second Lien Credit Facility with Wilmington Trust, National Association, as administrative agent, and the lenders party thereto for an aggregate principal amount of $252.5 million maturing on February 23, 2020. A summary of the key provisions of the Second Lien Credit Facility is as follows:

- Until May 1, 2017, interest will be payable at a rate of 2% in cash plus paid-in-kind interest at a rate equal to the Adjusted LIBO Rate (as defined in the Second Lien Credit Facility) plus 9% per annum. During the subsequent 15-month period, cash and paid-in-kind interest will vary based on a pricing grid tied to our leverage ratio under the First Lien Credit Facility. After such 15-month period, interest will accrue at a rate equal to the Adjusted LIBO Rate plus 9% per annum and will be payable in cash.
- All prepayments are subject to the following premiums, plus accrued and unpaid interest:
  - 4.5% of the principal amount prepaid for prepayments prior to February 23, 2017;
  - 2.25% of the principal amount prepaid for prepayments on or after February 23, 2017 and prior to February 23, 2018; and
  - no premium for prepayments on or after February 23, 2018.
- Obligations are secured on a second priority basis by security interests in the same collateral securing the First Lien Credit Facility and are guaranteed by certain of our material subsidiaries, and any non-guarantor subsidiaries of ours are minor.
- Contains covenants that limit our ability to make restricted payments, take on indebtedness, issue preferred stock, grant liens, conduct sales of assets and subsidiary stock, make distributions from restricted subsidiaries, conduct affiliate transactions, engage in other business activities, and other covenants substantially similar to those in the First Lien Credit Facility, including, among others, restrictions on swap agreements, debt of unrestricted subsidiaries, drilling and operating agreements and the sale or discount of receivables.
- Requires us to maintain certain financial ratios (the financial ratios will use an annualized EBITDA measurement for periods prior to June 30, 2017):
  - EBITDA to Interest Expense (each as defined in the Second Lien Credit Facility) of not less than 2.50 to 1.00;
  - Total Leverage Ratio (as defined in the Second Lien Credit Facility) of no greater than 5.5 to 1.0 prior to December 31, 2017 and no greater than 5.0 to 1.0 thereafter; and
  - Current assets to current liabilities (each as defined in the Second Lien Credit Facility) of not less than 1.0 to 1.0.

On April 21, 2017, the lenders under the our Second Lien Credit Facility delivered a Notice, pursuant to which they noticed events of default related to financial covenants and the failure to deliver financial statements without a “going concern” qualification. The delivery of the Notice began the 180-day standstill period under the intercreditor agreement, during which the lenders under the Second Lien Credit Facility are prevented from pursuing remedies against the collateral securing our obligations under the Second Lien Credit Facility. The lenders have not accelerated the payment of amounts outstanding under the Second Lien Credit Facility.

NOTE 6 – DERIVATIVE INSTRUMENTS

We use a number of different derivative instruments, principally swaps and options, in connection with our commodity price risk management activities. We do not apply hedge accounting to any of our derivative instruments. As a result, gains and losses associated with derivative instruments are recognized in earnings.

We enter into commodity future option contracts to achieve more predictable cash flows by hedging our exposure to changes in commodity prices. At any point in time, such contracts may include regulated New York Mercantile Stock Exchange (“NYMEX”) futures and options contracts and non-regulated over-the-counter futures contracts with qualified counterparties. NYMEX contracts are generally settled with offsetting positions, but may be settled by the physical delivery of the commodity. Crude oil contracts are based on a West Texas Intermediate (“WTI”) index. NGL fixed price swaps are priced based on a WTI crude oil index, while ethane, propane, butane and iso butane contracts are priced based on the respective Mt. Belvieu price. These contracts were recorded at their fair values.

The following table summarizes the commodity derivative activity and presentation in our condensed consolidated statements of operations for the periods indicated (in thousands):

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Portion of settlements associated with gains previously recognized within accumulated other comprehensive income, net of prior year offsets[1]	$—	$ 5,477	$—	$ 8,926
Portion of settlements attributable to subsequent mark- to-market gains (losses)	(678)	35,805	(3,975)	77,164
Total cash settlements on commodity derivative contracts	$(678)	$ 41,282	$(3,975)	$ 86,090
Gains (losses) recognized on cash settlement[2]	$1,236	$ (2,291)	$11,523	$ 9,130
Gains (losses) recognized on open derivative contracts[2]	13,552	(64,871)	29,470	(34,731)
Gains (losses) on mark-to-market derivatives	$14,788	$ (67,162)	$40,993	$ (25,601)

(1) Recognized in gas and oil production revenue.
(2) Recognized in gain (loss) on mark-to-market derivatives.

The following table summarizes the gross fair values of our derivative instruments, presenting the impact of offsetting the derivative assets and liabilities included on our condensed consolidated balance sheets for the periods indicated (in thousands):

Offsetting Derivatives as of June 30, 2017	Gross Amounts Recognized	Gross Amounts Offset	Net Amount Presented
Current portion of derivative assets	$ 4,213	$ (3,688)	$ 525
Long-term portion of derivative assets	1,898	(292)	1,606
Total derivative assets	$ 6,111	$ (3,980)	$ 2,131
Current portion of derivative liabilities	$ (4,578)	$ 3,688	$ (890)
Long-term portion of derivative liabilities	(293)	292	(1)
Total derivative liabilities	$ (4,871)	$ 3,980	$ (891)
Offsetting Derivatives as of December 31, 2016			
Current portion of derivative assets	$ 7	$ (7)	$ —
Long-term portion of derivative assets	677	(677)	—
Total derivative assets	$ 684	$ (684)	$ —
Current portion of derivative liabilities	$ (30,526)	$ 7	$ (30,519)

Long-term portion of derivative liabilities	(13,885)	677	(13,208)
Total derivative liabilities	$ (44,411)	$ 684	$ (43,727)

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At June 30, 2017, we had the following commodity derivatives instruments:

Type	Production Period Ending December 31,	Volumes[1]		Average Fixed Price[2]	Fair Value Asset / (Liability) (in thousands)[2]	Total Type (in thousands)
Natural Gas – Fixed Price Swaps	2017	25,839,800	(3)	$ 3.140	$ 1,116	
	2018	43,947,300		$ 2.959	$ (1,465)	
						$ (349)
Crude Oil – Fixed Price Swaps	2017	392,900	(3)	$ 47.441	$ 383	
	2018	588,200		$ 50.284	$ 1,206	
						$ 1,589
					Total net asset	$ 1,240

(1) Volumes for natural gas are stated in million British Thermal Units. Volumes for crude oil are stated in barrels.
(2) Fair value for natural gas fixed price swaps are based on forward NYMEX natural gas prices, as applicable. Fair value of crude oil fixed price swaps are based on forward West Texas Intermediate ("WTI") index crude oil prices, as applicable.
(3) The production volumes for 2017 include the remaining six months of 2017 beginning July 1, 2017.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and Liabilities Measured on a Recurring Basis

We use a market approach fair value methodology to value our outstanding derivative contracts. The fair value of a financial instrument depends on a number of factors, including the availability of observable market data over the contractual term of the underlying instrument. We separate the fair value of our financial instruments into the three level hierarchy (Levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine fair value. As of June 30, 2017 and December 31, 2016, all of our derivative financial instruments were classified as Level 2.

Information for financial instruments measured at fair value were as follows (in thousands):

Derivatives, Fair Value, as of June 30, 2017	Level 1	Level 2	Level 3	Total
Assets, gross				
Commodity swaps	$ —	$6,111	$ —	$6,111
Total derivative assets, gross	—	6,111	—	6,111
Liabilities, gross				

Commodity swaps	—	(4,871)	—	(4,871)
Total derivative liabilities, gross	—			