

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

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: 333-134748

Chaparral Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**701 Cedar Lake Boulevard
Oklahoma City, Oklahoma**
(Address of principal executive offices)

73-1590941
(I.R.S. Employer
Identification No.)

73114
(Zip code)

(405) 478-8770

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

(Explanatory Note: The registrant is a voluntary filer and is not subject to the filing requirements of the Securities Exchange Act of 1934.)

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 (§232.405 of this chapter) 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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

Number of shares outstanding of each of the issuer's classes of common stock as of November 7, 2016:

Class	Number of shares
Class A Common Stock, \$0.01 par value	333,686
Class B Common Stock, \$0.01 par value	344,859
Class C Common Stock, \$0.01 par value	209,882
Class E Common Stock, \$0.01 par value	504,276
Class F Common Stock, \$0.01 par value	1
Class G Common Stock, \$0.01 par value	2

CHAPARRAL ENERGY, INC.
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CAUTIONARY STATEMENT

REGARDING FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of the federal securities laws. These statements are subject to risks and uncertainties. These statements may relate to, but are not limited to, information or assumptions about us, our capital and other expenditures, our bankruptcy proceedings, dividends, financing plans, capital structure, cash flow, pending legal and regulatory proceedings and claims, including environmental matters, future economic performance, operating income, cost savings, and management's plans, strategies, goals and objectives for future operations and growth. These forward-looking statements generally are accompanied by words such as "intend," "anticipate," "believe," "estimate," "expect," "should," "seek," "project," "plan" or similar expressions. Any statement that is not a historical fact is a forward-looking statement. It should be understood that these forward-looking statements are necessarily estimates reflecting the best judgment of senior management, not guarantees of future performance. They are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements in this report may include, for example, statements about:

- fluctuations in demand or the prices received for oil and natural gas;
- the amount, nature and timing of capital expenditures;
- drilling, completion and performance of wells;
- competition and government regulations;
- timing and amount of future production of oil and natural gas;
- costs of exploiting and developing properties and conducting other operations, in the aggregate and on a per-unit equivalent basis;
- changes in proved reserves;
- operating costs and other expenses;
- our future financial condition, results of operations, revenue, cash flows and anticipated expenses;
- estimates of proved reserves;
- exploitation of property acquisitions; and
- marketing of oil and natural gas.

These forward-looking statements represent intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. These risks and uncertainties include those factors described in Item 1A of this report and under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. Specifically, some factors that could cause actual results to differ include:

- risks and uncertainties associated with our Chapter 11 Cases (as defined herein), including our ability to develop, confirm and consummate a plan under Chapter 11;
- the significant amount of our debt;
- worldwide supply of and demand for oil and natural gas;
- volatility and declines in oil and natural gas prices;
- drilling plans (including scheduled and budgeted wells);
- the number, timing or results of any wells;
- changes in wells operated and in reserve estimates;
- supply of CO₂ ;
- future growth and expansion;
- future exploration;
- integration of existing and new technologies into operations;

- future capital expenditures (or funding thereof) and working capital;
- borrowings and capital resources and liquidity;
- changes in strategy and business discipline;
- future tax matters;
- any loss of key personnel;
- future seismic data (including timing and results);
- the plans for timing, interpretation and results of new or existing seismic surveys or seismic data;
- geopolitical events affecting oil and natural gas prices;
- outcome, effects or timing of legal proceedings;
- the effect of litigation and contingencies;
- the ability to generate additional prospects; and
- the ability to successfully complete merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements contained herein. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

GLOSSARY OF CERTAIN DEFINED TERMS

The terms defined in this section are used throughout this Form 10-Q:

- *Basin*. A low region or natural depression in the earth's crust where sedimentary deposits accumulate.
- *Bankruptcy Court*. United State Bankruptcy Court for the District of Delaware
- *Bbl*. One stock tank barrel of 42 U.S. gallons liquid volume used herein in reference to crude oil, condensate, or natural gas liquids.
- *BBtu*. One billion British thermal units.
- *Boe*. Barrels of oil equivalent using the ratio of six thousand cubic feet of natural gas to one barrel of oil.
- *Boe/d*. Barrels of oil equivalent per day.
- *Btu*. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.
- *Completion*. The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas, or in the case of a dry well, the reporting to the appropriate authority that the well has been abandoned.
- *CO₂*. Carbon dioxide.
- *Credit Facility*. Eighth Restated Credit Agreement, dated April 12, 2010, by and among us, Chaparral Energy, L.L.C., in its capacity as Borrower Representative for the Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent and each of the Lenders named therein, as amended.
- *E&P Areas*. Areas where we engage in exploration and production activities including the following plays: the STACK, Mississippi Lime, Panhandle Marmaton and Legacy Production Areas.
- *Enhanced oil recovery (EOR)*. The use of any improved recovery method, including injection of CO₂ or polymer, to remove additional oil after secondary recovery.

- *EOR Project Areas.* Areas where we are currently injecting, plan to inject or have potential for injection of CO₂ as a means of additional oil recovery. These Areas include our active EOR Project Areas and potential EOR Project Areas.
- *Exclusive Filing Period.* The exclusive period to file a Chapter 11 plan of reorganization.
- *Field.* An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.
- *Legacy Production Areas.* Includes mature producing properties with low production decline curves and reserves, which include most of our vertical production and horizontal production outside the STACK, Mississippi Lime and Panhandle Marmaton, including the Cleveland Sand and Granite Wash. For prior year comparative purposes the areas also include Ark-La-Tex, Permian Basin and North Texas properties that we have sold.
- *MBbls.* One thousand barrels of crude oil, condensate, or natural gas liquids.
- *MBoe.* One thousand barrels of crude oil equivalent.
- *Mcf.* One thousand cubic feet of natural gas.
- *MMBtu.* One million British thermal units.
- *MMcf.* One million cubic feet of natural gas.
- *Natural gas liquids (NGLs).* Those hydrocarbons in natural gas that are separated from the gas as liquids through the process of absorption, condensation, adsorption or other methods in gas processing or cycling plants. Natural gas liquids primarily include propane, butane, isobutane, pentane, hexane and natural gasoline.
- *NYMEX.* The New York Mercantile Exchange.
- *Play.* A term describing an area of land following the identification by geologists and geophysicists of reservoirs with potential oil and natural gas reserves.
- *Proved reserves.* The quantities of oil and natural gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain.
- *Proved undeveloped reserves.* Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.
- *PV-10 value.* When used with respect to oil and natural gas reserves, PV-10 value means the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, excluding escalations of prices and costs based upon future conditions, before income taxes, and without giving effect to non-property-related expenses, discounted to a present value using an annual discount rate of 10%.
- *SEC.* The Securities and Exchange Commission.
- *Secondary recovery.* The recovery of oil and natural gas through the injection of liquids or gases into the reservoir, supplementing its natural energy. Secondary recovery methods are often applied when production slows due to depletion of the natural pressure.
- *STACK.* An acronym standing for Sooner Trend Anadarko Canadian Kingfisher. A play in the Anadarko Basin of Oklahoma in which we operate.
- *Senior Notes.* Collectively, our 9.875% senior notes due 2020, 8.25% senior notes due 2021 and 7.625% senior notes due 2022.
- *Undeveloped acreage.* Lease acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Consolidated balance sheets

(dollars in thousands, except share data)	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 189,361	\$ 17,065
Accounts receivable, net	41,273	79,000
Inventories, net	8,121	12,329
Prepaid expenses	2,945	3,700
Derivative instruments	—	143,737
Total current assets	241,700	255,831
Property and equipment—at cost, net	43,179	48,962
Oil and natural gas properties, using the full cost method:		
Proved	4,279,179	4,128,193
Unevaluated (excluded from the amortization base)	17,115	66,905
Accumulated depreciation, depletion, amortization and impairment	(3,763,423)	(3,396,261)
Total oil and natural gas properties	532,871	798,837
Derivative instruments	—	19,501
Deferred income taxes	—	53,914
Other assets	8,253	27,694
Total assets	<u>\$ 826,003</u>	<u>\$ 1,204,739</u>

The accompanying notes are an integral part of these consolidated financial statements.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Consolidated balance sheets—continued

(dollars in thousands, except share data)	September 30, 2016 (unaudited)	December 31, 2015
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 32,003	\$ 66,222
Accrued payroll and benefits payable	2,553	15,305
Accrued interest payable	107	23,303
Revenue distribution payable	8,874	12,391
Long-term debt and capital leases, classified as current	472,435	1,607,127
Deferred income taxes	—	53,914
Total current liabilities	515,972	1,778,262
Stock-based compensation	—	400
Asset retirement obligations	50,211	46,434
Liabilities subject to compromise	1,286,828	—
Commitments and contingencies (Note 9)		
Stockholders' deficit:		
Preferred stock, 600,000 shares authorized, none issued and outstanding	—	—
Class A Common stock, \$0.01 par value, 10,000,000 shares authorized and 334,545 and 345,289 shares issued and outstanding as of September 30, 2016, and December 31, 2015, respectively	4	4
Class B Common stock, \$0.01 par value, 10,000,000 shares authorized and 344,859 shares issued and outstanding	3	3
Class C Common stock, \$0.01 par value, 10,000,000 shares authorized and 209,882 shares issued and outstanding	2	2
Class E Common stock, \$0.01 par value, 10,000,000 shares authorized and 504,276 shares issued and outstanding	5	5
Class F Common stock, \$0.01 par value, 1 share authorized, issued, and outstanding	—	—
Class G Common stock, \$0.01 par value, 3 shares authorized and 2 shares issued and outstanding	—	—
Additional paid in capital	425,207	431,307
Accumulated deficit	(1,452,229)	(1,051,678)
Total stockholders' deficit	(1,027,008)	(620,357)
Total liabilities and stockholders' deficit	\$ 826,003	\$ 1,204,739

The accompanying notes are an integral part of these consolidated financial statements.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Consolidated statements of operations

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)			
Revenues - commodity sales	\$ 65,847	\$ 74,512	\$ 180,076	\$ 261,801
Costs and expenses:				
Lease operating	22,291	24,881	68,462	83,921
Transportation and processing	2,429	1,902	6,493	6,246
Production taxes	2,174	2,795	6,812	11,123
Depreciation, depletion and amortization	29,624	52,027	94,396	173,694
Loss on impairment of oil and gas assets	—	737,758	281,079	955,320
Loss on impairment of other assets	202	—	1,461	13,311
General and administrative	1,519	7,389	14,812	25,843
Liability management	—	—	9,396	—
Cost reduction initiatives	89	603	3,228	9,739
Total costs and expenses	58,328	827,355	486,139	1,279,197
Operating income (loss)	7,519	(752,843)	(306,063)	(1,017,396)
Non-operating income (expense):				
Interest expense	(7,436)	(28,598)	(57,243)	(83,202)
Non-hedge derivative gains (losses)	—	85,415	(9,468)	105,266
Write-off of Senior Note issuance costs, discount and premium	—	—	(16,970)	—
Other (expense) income, net	(129)	108	217	2,088
Net non-operating (expense) income	(7,565)	56,925	(83,464)	24,152
Reorganization items, net	(5,504)	—	(10,859)	—
Loss before income taxes	(5,550)	(695,918)	(400,386)	(993,244)
Income tax (benefit) expense	(59)	(48,776)	165	(161,314)
Net loss	\$ (5,491)	\$ (647,142)	\$ (400,551)	\$ (831,930)

The accompanying notes are an integral part of these consolidated financial statements.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Consolidated statements of cash flows

(in thousands)	Nine months ended September 30,	
	2016	2015
	(unaudited)	
Cash flows from operating activities		
Net loss	\$ (400,551)	\$ (831,930)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion and amortization	94,396	173,694
Loss on impairment of assets	282,540	968,631
Write-off of Senior Note issuance costs, discount and premium	16,970	—
Deferred income taxes	—	(161,480)
Non-hedge derivative losses (gains)	9,468	(105,266)
Loss (gain) on sale of assets	128	(1,448)
Other	2,832	4,013
Change in assets and liabilities		
Accounts receivable	(4,866)	16,625
Inventories	2,758	(3,642)
Prepaid expenses and other assets	(370)	2,258
Accounts payable and accrued liabilities	24,026	(15,012)
Revenue distribution payable	1,173	(12,444)
Stock-based compensation	(5,384)	(4,355)
Net cash provided by operating activities	23,120	29,644
Cash flows from investing activities		
Expenditures for property, plant, and equipment and oil and natural gas properties	(119,994)	(267,203)
Proceeds from asset dispositions	954	29,251
Proceeds from non-hedge derivative instruments	90,590	173,149
Cash in escrow	49	—
Net cash used in investing activities	(28,401)	(64,803)
Cash flows from financing activities		
Proceeds from long-term debt	181,000	120,000
Repayment of long-term debt	(1,563)	(75,354)
Principal payments under capital lease obligations	(1,860)	(1,792)
Payment of other financing fees	—	(1,404)
Net cash provided by financing activities	177,577	41,450
Net increase in cash and cash equivalents	172,296	6,291
Cash and cash equivalents at beginning of period	17,065	31,492
Cash and cash equivalents at end of period	\$ 189,361	\$ 37,783

The accompanying notes are an integral part of these consolidated financial statements.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Condensed notes to consolidated financial statements (unaudited)
(dollars in thousands, unless otherwise noted)

Note 1: Nature of operations and summary of significant accounting policies

Nature of operations

Chaparral Energy, Inc. and its subsidiaries, (collectively, “we”, “our”, “us”, or the “Company”) are involved in the acquisition, exploration, development, production and operation of oil and natural gas properties. Our properties are located primarily in Oklahoma and Texas. As discussed in “Note 2—Chapter 11 filing,” we are currently operating our business as debtor in possession in accordance with the applicable provisions of the Bankruptcy Code.

Interim financial statements

The accompanying unaudited consolidated interim financial statements of the Company have been prepared in accordance with the rules and regulations of the SEC and do not include all of the financial information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These financial statements and the notes thereto should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015.

The financial information as of September 30, 2016, and for the three and nine months ended September 30, 2016, and 2015, respectively, is unaudited. The financial information as of December 31, 2015, has been derived from the audited financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015. In management’s opinion, such information contains all adjustments considered necessary for a fair presentation of the results of the interim periods. The results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of the results of operations that will be realized for the year ended December 31, 2016.

Cash and cash equivalents

We maintain cash and cash equivalents in bank deposit accounts and money market funds which may not be federally insured. As of September 30, 2016, cash with a recorded balance totaling \$37,535 and \$49,852 was held at JP Morgan Chase Bank, N.A and Arvest Bank, respectively. In addition, we also held cash equivalents in the form of treasury securities with a recorded balance of \$101,095 at Arvest Wealth Management. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on such accounts. We are not party to any valid blocked account agreements with respect to any material amount of cash.

Accounts receivable

We have receivables from joint interest owners and oil and natural gas purchasers which are generally uncollateralized. Accounts receivable consisted of the following at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
Joint interests	\$ 10,471	\$ 14,149
Accrued commodity sales	26,628	21,645
Derivative settlements	—	40,380
Other	4,669	3,329
Allowance for doubtful accounts	(495)	(503)
	<u>\$ 41,273</u>	<u>\$ 79,000</u>

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Condensed notes to consolidated financial statements (unaudited) – continued
(dollars in thousands, unless otherwise noted)

Inventories

Inventories consisted of the following at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
Equipment inventory	\$ 9,066	\$ 11,470
Commodities	1,355	1,698
Inventory valuation allowance	(2,300)	(839)
	<u>\$ 8,121</u>	<u>\$ 12,329</u>

We recorded lower of cost or market adjustments for the periods disclosed below due to depressed industry conditions which resulted in lower demand for such equipment and hence lower market prices. These adjustments are reflected in “Loss on impairment of other assets” in our consolidated statements of operations.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Inventory - lower of cost or market adjustment	\$ 202	\$ —	\$ 1,461	\$ 7,296

Oil and natural gas properties

The costs of unevaluated oil and natural gas properties, which are excluded from amortization until the properties are evaluated, consisted of the following at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
Undeveloped acreage	\$ 13,864	\$ 60,031
Wells and facilities in progress pending determination	3,251	6,874
Total unevaluated oil and natural gas properties excluded from amortization	<u>\$ 17,115</u>	<u>\$ 66,905</u>

Ceiling Test. In accordance with the full cost method of accounting, the net capitalized costs of oil and natural gas properties are not to exceed their related PV-10 value, net of tax considerations, plus the cost of unproved properties not being amortized.

Our estimates of oil and natural gas reserves as of September 30, 2016, were prepared using an average price for oil and natural gas on the first day of each month for the prior twelve months as required by the SEC.

Due to the substantial decline of commodity prices that began in mid-2014 and which continue to remain low, the cost center ceiling exceeded the net capitalized cost of our oil and natural gas properties at the end of each quarter beginning with the second quarter of 2015 through the second quarter of 2016, resulting in ceiling test write-downs in those periods. The amount of any future impairment is generally difficult to predict, and will depend on the average oil and natural gas prices during each period, the incremental proved reserves added during each period, and additional capital spent

Impairment of long-lived assets

We recorded impairment losses of \$6,015 related to four drilling rigs not currently in use for the nine months ended September 30, 2015. One of the rigs was last deployed in January 2015 while the remaining three have been stacked for three to four years. The loss was recorded as a result of the deterioration in commodity prices and drilling activity whereby the value of such equipment had declined while utilizing third party equipment had become more cost effective, resulting in us impairing the value of the rigs to their estimated fair value. These losses are reflected in “Loss on impairment of other assets” in our consolidated statements of operations.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Condensed notes to consolidated financial statements (unaudited) – continued
(dollars in thousands, unless otherwise noted)

Our bankruptcy filing on May 9, 2016, (see “Note 2—Chapter 11 filing”) was an event that required an assessment whether the carrying amounts of our long-lived assets would be recoverable. Our evaluation indicated that no additional impairment was necessary as a direct result of the bankruptcy.

In October 2016, the Company entered into an agreement for the sale of our four drilling rigs for a price of \$2,000. We anticipate the sale to close in January, 2017.

Income taxes

Although we recorded a net loss for the nine months ended September 30, 2016, we did not record any corresponding tax benefit as any deferred tax asset arising from the loss is currently not believed to be realizable and is therefore reduced by a valuation allowance. At September 30, 2016, our valuation allowance is \$580,280 which reduces our net deferred tax assets to zero value as we continue to believe that it is more likely than not that we will not realize the deferred tax assets primarily related to our cumulative net operating losses. Income tax recognized for the nine months ended September 30, 2016, is a result of current Texas margin tax on gross revenues less certain deductions. See “Note 10—Income Taxes” in Item 8. Financial Statement and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2015, for additional information about our income taxes.

As described in “Note 2—Chapter 11 filing”, in conjunction with our efforts to restructure our indebtedness, on May 9, 2016, we filed voluntary petitions seeking relief under Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware commencing cases for relief under Chapter 11 of the Bankruptcy Code. Our negotiations to restructure our debt include a proposal for the holders of our Senior Notes to convert those notes into equity of the reorganized Company, effectuated through a plan of reorganization in bankruptcy. Absent an exception, a debtor recognizes cancellation of indebtedness income (“CODI”) upon discharge of its outstanding indebtedness for an amount of consideration that is less than its adjusted issue price. The Internal Revenue Code of 1986, as amended (“IRC”), provides that a debtor in a Chapter 11 bankruptcy case may exclude CODI from taxable income but must reduce certain of its tax attributes by the amount of any CODI realized as a result of the consummation of a plan of reorganization. The amount of CODI realized by a taxpayer is determined based on the fair market value of the consideration received by the creditors in settlement of outstanding indebtedness. Upon emergence from Chapter 11 bankruptcy proceedings, the CODI may reduce some or the entire amount of prior tax attributes, which can include net operating losses, capital losses, alternative minimum tax credits and tax basis in assets. The actual reduction in tax attributes does not occur until the first day of the Company’s tax year ending subsequent to the date of emergence.

The IRC provides an annual limitation with respect to the ability of a corporation to utilize its tax attributes, as well as certain built-in-losses, against future taxable income in the event of a change in ownership. Emergence from Chapter 11 bankruptcy proceedings may result in a change in ownership for purposes of the IRC. However, the IRC provides alternatives for taxpayers in Chapter 11 bankruptcy proceedings that may or may not result in an annual limitation. We are in the process of determining which alternatives are most beneficial to us in conjunction with our ongoing negotiations with our debtholders.

Liability management

Liability management expense includes third party legal and professional service fees incurred from our activities to restructure our debt and in preparation for our bankruptcy petition. As a result of our Chapter 11 petition, such expenses, to the extent that they are incremental and directly related to our bankruptcy reorganization, are reflected in “Reorganization items” in our consolidated statements of operations.

Chaparral Energy, Inc. and subsidiaries
(Debtor in possession)
Condensed notes to consolidated financial statements (unaudited) – continued
(dollars in thousands, unless otherwise noted)

Cost reduction initiatives

Cost reduction initiatives include expenses related to our efforts to reduce our capital, operating and administrative costs in response to the depressed commodity pricing environment. The expense consists of costs for one-time severance and termination benefits in connection with our reductions in force and third party legal and professional services we have engaged to assist in our cost savings initiatives as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
One-time severance and termination benefits	\$ 89	\$ 596	\$ 3,125	\$ 7,467
Professional fees	—	7	103	2,272
Total cost reduction initiatives expense	<u>\$ 89</u>	<u>\$ 603</u>	<u>\$ 3,228</u>	<u>\$ 9,739</u>

Recently adopted accounting pronouncements

In November 2015, the FASB issued authoritative guidance aimed at simplifying the accounting for deferred taxes. To simplify presentation, the new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. Importantly, the guidance does not change the existing requirement that only permits offsetting within a jurisdiction – that is, companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. This guidance was early adopted on a prospective basis during the second quarter of 2016 and allowed us to offset our noncurrent deferred income tax asset with our current deferred income tax liability. Other than the preceding balance sheet change, the adoption did not have a material impact on our financial statements and results of operations.

Recently issued accounting pronouncements

In May 2014, the FASB issued authoritative guidance that supersedes previous revenue recognition requirements and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB recently approved a delay which will make the updated guidance effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only for fiscal years beginning after December 31, 2016, and interim periods thereafter. We are currently evaluating the effect the new standard will have on our financial statements and results of operations.

In January 2016, the FASB issued authoritative guidance that amends existing requirements on the classification and measurement of financial instruments. The standard principally affects accounting for equity investments and financial liabilities where the fair value option has been elected. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. Early adoption of certain provisions is permitted. We do not expect this guidance to materially impact our financial statements or results of operations.

In February 2016, the FASB issued authoritative guidance significantly amending the current accounting for leases. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. Furthermore, all leases will fall into one of two categories: (i) a financing lease or (ii) an operating lease. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, a sale will only be recognized if the criteria in the new revenue recognition standard are met. For public business entities, this guidance is effective for fiscal periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. We are currently evaluating the effect the new guidance will have on our financial statements and results of operations.

In March 2016, the FASB issued authoritative guidance with the objective to simplify several aspects of the accounting for share-based payments, including accounting for income taxes when awards vest or are settled, statutory withholdings and accounting for forfeitures. Classification of these aspects on the statement of cash flows is also addressed. For public business entities, this guidance is effective for fiscal periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted.

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We do not expect this guidance to materially impact our financial statements or results of operations in connection with our outstanding awards.

In March 2016, the FASB issued authoritative guidance that clarifies that the assessment of whether an embedded contingent put or call option in a financial instrument is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence described in ASC 815. The guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim period for which financial statements have not been issued, but would be retroactively applied to the beginning of the year that includes the interim period. We do not expect this guidance to materially impact our financial statements or results of operations.

In June 2016, the FASB issued authoritative guidance which modifies the measurement of expected credit losses of certain financial instruments. The guidance is effective for fiscal years beginning after December 15, 2020, however early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the effect the new guidance will have on our financial statements and results of operations.

Note 2: Chapter 11 filing

Background. The severe and sustained decline in oil and natural gas prices since mid-2014 has negatively impacted revenues, earnings and cash flows, and our liquidity. As a result of our deteriorating liquidity, there was uncertainty regarding our ability to repay our outstanding debt obligations as they became due, especially in the event of any acceleration of indebtedness, and hence substantial doubt about our ability to continue as a going concern. This doubt was expressed in the audit opinion of our annual consolidated financial statements for the year ended December 31, 2015, and constituted an event of default under our Credit Facility since the covenants under the facility require us to deliver our annual financial statements without a going concern explanatory paragraph.

On March 1 and April 1, 2016, we elected not to make interest payments on our 8.25% Senior Notes and 9.875% Senior Notes, respectively. Under the indenture governing these Senior Notes, the failure to make the interest payments was subject to a 30-day grace period before constituting an event of default. We did not make either interest payment on the Senior Notes within their respective 30-day grace periods and as a result, are currently in default under the indentures governing these Senior Notes. While in default, the outstanding principal and any accrued interest may be called upon which would cause it to be immediately due and payable. Our failure to make such interest payments within the 30-day grace period also resulted in a cross default under our Credit Facility, capital leases and mortgage note.

The defaults discussed above result in cross defaults on our remaining indebtedness and therefore subjected all our debt to potential acceleration in the event that the outstanding amounts are called by our lenders.

Faced with these defaults, we entered into agreements (the “Forbearance Agreements”) with the lenders under our Credit Facility (the “Lenders”) and an ad hoc committee (the “Ad Hoc Committee”) of noteholders collectively holding more than 50% of the Senior Notes outstanding to forbear from exercising remedies on account of the missed interest payments and certain other alleged defaults specified in the Forbearance Agreements through and including May 1, 2016. While the Forbearance Agreements were in effect, we continued to engage in good-faith arm’s-length negotiations regarding a potential restructuring of the Credit Facility and the Senior Notes that would materially delever the Company’s balance sheet and allow us to retain sufficient liquidity to continue to operate our business going forward. In the course of these negotiations, the Company, the Lenders, and the Ad Hoc Committee exchanged and considered, with the assistance of their respective advisors, numerous restructuring proposals.

On May 9, 2016 (the “Petition Date”), Chaparral Energy, Inc. and its subsidiaries including Chaparral Energy, L.L.C., Chaparral Resources, L.L.C., Chaparral Real Estate, L.L.C., Chaparral CO2, L.L.C., CEI Pipeline, L.L.C., CEI Acquisition, L.L.C., Green Country Supply, Inc., Chaparral Biofuels, L.L.C., Chaparral Exploration, L.L.C., Roadrunner Drilling, L.L.C. (collectively, the “Chapter 11 Subsidiaries” and, together with Chaparral Energy, Inc., the “Debtors”) filed voluntary petitions seeking relief under Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) commencing cases for relief under chapter 11 of the Bankruptcy Code (the “Chapter 11 Cases”). Our filing of the Chapter 11 Cases constitutes an additional event of default under our Credit Facility, Senior Notes, capital leases and mortgage note.

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Debtor-In-Possession. We are currently operating our business as debtors in possession in accordance with the applicable provisions of the Bankruptcy Code. We have filed a variety of first day motions with the Bankruptcy Court that will allow us to continue to operate our business without interruption. These motions are designed primarily to minimize the impact of our bankruptcy filing on our operations, creditors and employees. The Bankruptcy Court has granted all first day motions filed by us and our Chapter 11 Subsidiaries. As a result, we are able to conduct normal business activities and pay the associated obligations for the period following our bankruptcy filing and are also authorized to pay (subject to caps applicable to payments of certain pre-petition obligations) pre-petition employee wages and benefits, pre-petition amounts owed to certain lienholders and critical vendors and funds belonging to third parties, including royalty interest holders and partners. During the pendency of the Chapter 11 Cases, all transactions outside the ordinary course of our business require the prior approval of the Bankruptcy Court. Final orders on the motions to satisfy our obligations to certain third parties and to forward funds held by us that belong to third parties were granted on June 7, 2016.

Automatic Stay. Subject to certain exceptions, under the Bankruptcy Code, the filing of the bankruptcy petitions automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or the filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Creditors are stayed from taking any actions against us as a result of debt defaults, subject to certain limited exceptions permitted by the Bankruptcy Code.

Risks Associated with Chapter 11 Proceedings. For the duration of our Chapter 11 Cases, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process. As a result of these risks and uncertainties, the number of our outstanding shares of common stock and stockholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 Cases, and the description of our operations, properties and capital plans included in this quarterly report may not accurately reflect our operations, properties and capital plans following our emergence from bankruptcy.

Executory Contracts. In particular, subject to certain exceptions, under the Bankruptcy Code, we may assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves us of performing future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases may assert unsecured claims in the Bankruptcy Court against the applicable Debtors' estate for such damages. Generally, the assumption of an executory contract or unexpired lease requires us to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease involving us in these financial statements, including where applicable, a quantification of our obligations under any such executory contract or unexpired lease with us is qualified by our rights to reject such executory contract or unexpired lease under the Bankruptcy Code.

Magnitude of Potential Claims. On June 29, 2016, we filed with the Bankruptcy Court schedules and statements setting forth, among other things, our assets and liabilities, subject to the assumptions filed in connection therewith (as amended on August 9 and August 18, 2016, the "Schedules and Statements"). We may subsequently decide to further amend or modify our Schedules and Statements.

On June 13, 2016, we filed a motion to set a bar date to assist with the claims reconciliation process. The Bankruptcy Court approved such motion on July 1, 2016, setting the bar date on August 19, 2016, for all potential claimants other than governmental authorities whose bar date is on November 7, 2016. Through the claims resolution process, differences in amounts scheduled by the Debtors and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate. In light of the potential number and amount of claims filed, the claims resolution process may take considerable time to complete, and we expect that it will continue after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

Effect of Filing on Creditors and Shareholders. Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full or consensual agreement reached between parties before the holders of our existing common stock are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation and implementation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the

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Chapter 11 proceedings to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. As discussed below, if certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by the holders of our common stock and notwithstanding the fact that such holders do not receive or retain any property on account of their equity interests under the plan. Because of such possibilities, the value of our securities is highly speculative.

Process for Plan of Reorganization. In order to successfully exit bankruptcy, we will need to propose, and obtain confirmation by the Bankruptcy Court of, a plan (or plans) of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to exit from bankruptcy.

We have the exclusive right for 120 days after the Petition Date to file a plan of reorganization subject to extension for cause. If the Exclusive Filing Period lapses, any party in interest may file a plan of reorganization for any of the Debtors. On October 13, 2016, the Bankruptcy Court approved our motion to extend the Exclusive Filing Period to November 9, 2016, and we expect to request a further extension.

In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be confirmed, by the Bankruptcy Court in order to become effective. A plan of reorganization would be accepted by holders of claims against and equity interests in us if (i) more than one-half in number and at least two-thirds in dollar amount of allowed claims actually voting in each class of claims impaired by the plan have voted to accept the plan and (ii) at least two-thirds in amount of allowed equity interests actually voting in each class of equity interests impaired by the plan has voted to accept the plan. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan.

Under certain circumstances set forth in Section 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. The precise requirements and evidentiary showing for confirming a plan notwithstanding its rejection by one or more impaired classes of claims or equity interests depends upon a number of factors, including the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock). Generally, with respect to common stock interests, a plan may be “crammed down” even if the shareholders receive no recovery if the proponent of the plan demonstrates that (1) no class junior to the common stock is receiving or retaining property under the plan and (2) no class of claims or interests senior to the common stock is being paid more than in full.

Our timing of filing a plan of reorganization will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 Cases. Although we expect to file a plan of reorganization that provides for emergence from bankruptcy as a going concern, there can be no assurance at this time that we will be able to successfully develop, confirm and consummate one or more plans of reorganization or other alternative restructuring transactions, that satisfies the conditions of the Bankruptcy Code and is confirmed by the Bankruptcy Court, or that any such plan will be implemented successfully.

Basis of Accounting. As noted above, the uncertainty regarding our ability to meet our debt obligations and the resultant filing of the Chapter 11 Cases raises substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The accompanying consolidated financial statements do not purport to reflect or provide for the consequences of our Chapter 11 Cases, other than as set forth under “Liabilities subject to compromise” and “Reorganization items” on the accompanying consolidated financial statements. In particular, the financial statements do not purport to show (i) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (ii) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (iii) as to stockholders’ equity accounts, the effect of any changes that may be made in our capitalization; or (iv) as to operations, the effect of any changes that may be made to our business. We have accounted for the bankruptcy in accordance with Accounting Standards Codification 852, *Reorganizations*.

Liabilities Subject to Compromise. Our financial statements include amounts classified as liabilities subject to compromise which represent estimates of pre-petition obligations that we anticipate will be allowed as claims in our bankruptcy case. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

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The amounts currently classified as liabilities subject to compromise may be subject to future adjustments depending on the Bankruptcy Court actions, further development with respect to disputed claims, and other events. Additional amounts may be included in liabilities subject to compromise in future periods if executory contracts and unexpired leases are rejected. Conversely, to the extent that such executory contracts or unexpired leases are not rejected and are instead assumed, certain liabilities characterized as subject to compromise may be converted to post-petition liabilities. Because of the uncertain nature of many of the potential claims, the magnitude of such claims is not reasonably estimable at this time. We will continue to evaluate these liabilities during the pendency of the Chapter 11 Cases and adjust amounts as necessary. The magnitude of claims and or the adjustments to such claims may be material. Nothing herein constitutes an admission or waiver of any rights.

The following table summarizes the components of “Liabilities subject to compromise” included on our Consolidated Balance Sheet as of September 30, 2016:

	September 30, 2016
Accounts payable and accrued liabilities	\$ 9,740
Accrued payroll and benefits payable	5,133
Revenue distribution payable	4,690
Senior Notes and associated accrued interest	1,267,265
Liabilities subject to compromise	<u>\$ 1,286,828</u>

Reorganization Items. We use this category to reflect, where applicable, post-petition revenues, expenses, gains and losses that are direct and incremental as a result of the reorganization of the business. We have incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations. Reorganization items for the three and nine months ended September 30, 2016, are as follows:

	Three months ended	Nine months ended
	September 30, 2016	
Professional fees	\$ 4,268	\$ 9,623
Claims for non-performance of executory contract	1,236	1,236
Total reorganization items	<u>\$ 5,504</u>	<u>\$ 10,859</u>

Note 3: Supplemental disclosures to the consolidated statements of cash flows

Supplemental disclosures to the consolidated statements of cash flows are presented below:

	Nine months ended September 30,	
	2016	2015
Net cash provided by operating activities included:		
Cash payments for interest	\$ 19,899	\$ 77,437
Interest capitalized	(1,741)	(8,115)
Cash payments for interest, net of amounts capitalized	<u>\$ 18,158</u>	<u>\$ 69,322</u>
Cash payments for income taxes	\$ 250	\$ 639
Cash payments for reorganization items	\$ 4,255	\$ —
Non-cash financing activities included:		
Repayment of Credit Facility with proceeds from early termination of derivative contracts (See Note 4)	\$ 103,560	\$ —
Non-cash investing activities included:		
Asset retirement obligation additions and revisions	\$ 4,015	\$ 3,637
Change in accrued oil and gas capital expenditures	\$ (22,543)	\$ (116,237)

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Note 4: Debt

As of the dates indicated, debt consisted of the following:

	September 30, 2016	December 31, 2015
9.875% Senior Notes due 2020, net of discount of \$0 and \$4,185, respectively (1)	\$ —	\$ 293,815
8.25% Senior Notes due 2021 (1)	—	384,045
7.625% Senior Notes due 2022, including premium of \$0 and \$4,939, respectively (1)	—	530,849
Credit Facility (2)	444,440	367,000
Real estate mortgage notes, principal and interest payable monthly, bearing interest at rates ranging from 3.16% to 5.46%, due August 2021 through December 2028; collateralized by real property (2)	9,735	10,182
Installment notes payable, principal and interest payable monthly, bearing interest at rates ranging from 2.85% to 5.00%, due October 2016 through February 2018; collateralized by automobiles, machinery and equipment (2)	683	1,799
Capital lease obligations (2)	17,577	19,437
Total debt, net	472,435	1,607,127
Less current portion	472,435	1,607,127
Total long-term debt, net	\$ —	\$ —

(1) These unsecured obligations have been classified as “Liabilities subject to compromise” as of September 30, 2016.

(2) These secured obligations have not been classified as “Liabilities subject to compromise” as we believe the values of the underlying assets provide sufficient collateral to satisfy such obligations.

We are currently in default on all our indebtedness. The defaults stem from, among others, our commencement of the Chapter 11 Cases, direct defaults as a result of nonpayment of interest, violations of financial covenants and the inclusion of a going concern explanatory paragraph in the audit opinion of our annual financial statements. Moreover, due to our commencement of the Chapter 11 Cases, all of our indebtedness has been accelerated by operation of law.

Senior Notes

The Senior Notes are our senior unsecured obligations and rank equally in right of payment with all our existing and future senior debt, and rank senior to all of our existing and future subordinated debt. Pursuant to accounting guidance while in bankruptcy, our Senior Notes and the associated accrued interest have been classified as “Liabilities subject to compromise” on our consolidated balance sheets as of September 30, 2016. We will not accrue interest expense on our Senior Notes during the pendency of the Chapter 11 Cases as we do not expect to pay such interest. As a result, reported interest expense is \$25,303 and \$39,641 lower than contractual interest for the three and nine month periods ending September 30, 2016.

In March 2016 we wrote off the remaining unamortized issuance costs, premium and discount related to our Senior Notes for a net charge of \$16,970. These deferred items are typically amortized over the life of the corresponding bond. However, as a result of not paying the interest due on our 2021 Senior Notes by the end of our 30-day grace period on March 31, 2016, as discussed in “Note 2—Chapter 11 filing,” we triggered an Event of Default on our Senior Notes. While uncured, the Event of Default effectively allows the lender to demand immediate repayment, thus shortening the life of our Senior Notes to the current period. As a result, we wrote off the remaining balance of unamortized issuance costs, premium and discount on March 31, 2016, as follows:

Non-cash expense for write-off of debt issuance costs on Senior Notes	\$ 17,756
Non-cash expense for write-off of debt discount costs on Senior Notes	4,014
Non-cash gain for write-off of debt premium on Senior Notes	(4,800)
Total	\$ 16,970

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Credit Facility

In April 2010, we entered into an Eighth Restated Credit Agreement (our “Credit Facility”), which is collateralized by our oil and natural gas properties and, as amended, matures on November 1, 2017. During the nine months ended September 30, 2016, we had additional borrowings of \$181,000 and repayments of \$103,560 on our Credit Facility. As discussed in “Note 5—Derivative instruments,” our repayment of \$103,560 was effectuated by directly offsetting proceeds payable to us from the termination of our derivative contracts against outstanding borrowings under the Credit Facility during the third quarter of 2016. The ability to offset was possible as the previous counterparties to our derivative contracts are also Lenders. As of September 30, 2016, the weighted average interest rate was 5.0% on outstanding borrowings under Credit Facility. This rate represents the Alternate Base Rate (as defined under the Credit Facility) plus the applicable margin. The Company has not recorded the additional 2.0% default margin interest as the Lenders have agreed to waive that amount upon our exit from bankruptcy pursuant to a non-binding agreement between the Lenders and the Ad Hoc Committee.

Availability under our Credit Facility was subject to a borrowing base which is set by the banks semiannually on May 1 and November 1 of each year. In addition, the lenders may request a borrowing base redetermination once between each scheduled redetermination and in the event of early termination of our derivative contracts. We are currently in negotiations, as part of our reorganization, regarding the structure of our exit financing upon emergence from bankruptcy where we believe such financing will include a revolving credit facility subject to a borrowing base.

Subject to certain exceptions, under the Bankruptcy Code, the commencement of the Chapter 11 Cases automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or the filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Creditors are stayed from taking any actions against us as a result of debt defaults, subject to certain limited exceptions permitted by the Bankruptcy Code. There can be no assurances that the agent and lenders will consensually agree to a restructuring of the Credit Facility. Any proposed non-consensual restructuring of the Credit Facility could result in substantial delay in emergence from bankruptcy and there can be no assurances that the Bankruptcy Court would approve such proposed non-consensual restructuring. During the Chapter 11 Cases, we expect to remain current on our interest payments under the Credit Facility to the extent required by order of the Bankruptcy Court.

Capital Leases

During 2013, we entered into lease financing agreements with U.S. Bank National Association for \$24,500 through the sale and subsequent leaseback of existing compressors owned by us. The carrying value of these compressors is included in our oil and natural gas full cost pool. The lease financing obligations are for 84 -month terms and include the option to purchase the equipment for a specified price at 72 months as well as an option to purchase the equipment at the end of the lease term for its then-current fair market value. Lease payments related to the equipment are recognized as principal and interest expense based on a weighted average implicit interest rate of 3.8%. Minimum lease payments are approximately \$3,181 annually. As discussed previously, our debt defaults and the commencement of the Chapter 11 Cases are events of default under our capital leases.

Note 5: Derivative instruments

Overview

Our results of operations, financial condition and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil, natural gas and natural gas liquids. These commodity prices are subject to wide fluctuations and market uncertainties. To mitigate a portion of this exposure, we previously entered into various types of derivative instruments, including commodity price swaps, enhanced price swaps, collars, put options, and basis protection swaps. We also previously entered into crude oil derivative contracts to hedge a portion of our natural gas liquids production.

Due to defaults under the master agreements governing our derivative contracts, our outstanding derivative positions were terminated in May 2016 and we have no outstanding derivative contracts as of September 30, 2016. As discussed in “Note 6—Fair value measurements” all the counterparties to our derivative transactions are also financial institutions within the lender group under our Credit Facility. The derivative master agreements with these counterparties generally specify that a default under any of our indebtedness, as well as any bankruptcy filing, is an event of default which may result in early termination of the derivative contracts. Proceeds from the early terminations, inclusive of amounts receivable at the time of termination for previous settlements, totaled \$119,303. Of this amount, in the third quarter of 2016, \$103,560 was utilized to offset outstanding borrowings under our Credit Facility and the remainder was remitted to the Company.

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While we are in default on our indebtedness and have a bankruptcy filing, we will no longer be able to represent that we can comply with the credit default or bankruptcy covenants under any prospective derivative master agreements and thus may not be able to enter into new hedging transactions. We are currently negotiating with the Lenders, most of which were previously counterparties to our derivative contracts, regarding the resumption of hedging activity prior to our potential emergence from bankruptcy. However, there can be no assurance that we will be able to enter into new derivative transactions on terms that are acceptable to us.

Effect of derivative instruments on the consolidated balance sheets

All derivative financial instruments are recorded on the balance sheet at fair value. See “Note 6—Fair value measurements” for additional information regarding fair value measurements. The estimated fair values of derivative instruments are provided below. The carrying amounts of these instruments are equal to the estimated fair values.

	As of December 31, 2015		
	Assets	Liabilities	Net value
Natural gas derivative contracts	\$ 41,328	\$ (1,158)	\$ 40,170
Crude oil derivative contracts	123,068	—	123,068
Total derivative instruments	164,396	(1,158)	163,238
Less:			
Netting adjustments (1)	1,158	(1,158)	—
Derivative instruments - current	143,737	—	143,737
Derivative instruments - long-term	\$ 19,501	\$ —	\$ 19,501

- (1) Amounts represent the impact of master netting agreements that allow us to net settle positive and negative positions with the same counterparty. Positive and negative positions with counterparties are netted only to the extent that they relate to the same current versus noncurrent classification on the balance sheet.

Effect of derivative instruments on the consolidated statements of operations

We do not apply hedge accounting to any of our derivative instruments. As a result, all gains and losses associated with our derivative contracts are recognized immediately as non-hedge derivative gains in the consolidated statements of operations.

Non-hedge derivative gains in the consolidated statements of operations are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Change in fair value of commodity price derivatives	\$ —	\$ 30,941	\$ (163,238)	\$ (67,883)
Settlement gains on commodity price derivatives	—	54,474	62,626	157,754
Settlement gains on early terminations of commodity price derivatives	—	—	91,144	15,395
Total non-hedge derivative gains (losses)	\$ —	\$ 85,415	\$ (9,468)	\$ 105,266

Note 6: Fair value measurements

Fair value is defined by the FASB as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.

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Fair value measurements are categorized according to the fair value hierarchy defined by the FASB. The hierarchical levels are based upon the level of judgment associated with the inputs used to measure the fair value of the assets and liabilities as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs include quoted prices for identical or similar instruments in markets that are not active and inputs other than quoted prices that are observable for the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

Recurring fair value measurements

Our financial instruments recorded at fair value on a recurring basis consist of commodity derivative contracts (see “Note 5—Derivative instruments”). Our derivative contracts classified as Level 2 consisted of commodity price swaps and basis protection swaps, which are valued using an income approach. Future cash flows from the derivatives are estimated based on the difference between the fixed contract price and the underlying published forward market price, and are discounted at the LIBOR swap rate. Our derivative contracts classified as Level 3 consisted of three-way collars, enhanced swaps, and purchased puts. The fair value of these contracts is developed by a third-party pricing service using a proprietary valuation model, which we believe incorporates the assumptions that market participants would have made at the end of each period. Observable inputs include contractual terms, published forward pricing curves, and yield curves. Significant unobservable inputs are implied volatilities. Significant increases (decreases) in implied volatilities in isolation would result in a significantly higher (lower) fair value measurement. We review these valuations and the changes in the fair value measurements for reasonableness. All derivative instruments are recorded at fair value and include a measure of our own nonperformance risk for derivative liabilities or that of our counterparties for derivative assets. As discussed in “Note 5—Derivative instruments,” due to defaults under the master agreements governing our derivative contracts, all our outstanding derivative positions were terminated in May 2016 and we have no outstanding derivative contracts as of September 30, 2016.

The fair value hierarchy for our financial assets and liabilities is shown by the following table:

	As of December 31, 2015		
	Derivative assets	Derivative liabilities	Net assets (liabilities)
Significant other observable inputs (Level 2)	\$ 41,328	\$ (1,158)	\$ 40,170
Significant unobservable inputs (Level 3)	123,068	—	123,068
Netting adjustments (1)	(1,158)	1,158	—
	<u>\$ 163,238</u>	<u>\$ —</u>	<u>\$ 163,238</u>

- (1) Amounts represent the impact of master netting agreements that allow us to net settle positive and negative positions with the same counterparty. Positive and negative positions with counterparties are netted on the balance sheet only to the extent that they relate to the same current versus noncurrent classification.

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Changes in the fair value of our derivative instruments classified as Level 3 in the fair value hierarchy during the nine months ended September 30, 2016 and 2015 were:

Net derivative assets (liabilities)	Nine months ended September 30,	
	2016	2015
Beginning balance	\$ 123,068	\$ 195,167
Realized and unrealized (losses) gains included in non-hedge derivative gains	(9,216)	4,660
Settlements received	(113,852)	(62,127)
Ending balance	<u>\$ —</u>	<u>\$ 137,700</u>
Losses relating to instruments still held at the reporting date included in non-hedge derivative gains for the period	<u>\$ —</u>	<u>\$ 45,835</u>

Nonrecurring fair value measurements

Asset retirement obligations. Additions to the asset and liability associated with our asset retirement obligations are measured at fair value on a nonrecurring basis. Our asset retirement obligations consist of the estimated present value of future costs to plug and abandon or otherwise dispose of our oil and natural gas properties and related facilities. Significant inputs used in determining such obligations include estimates of plugging and abandonment costs, inflation rates, discount rates, and well life, all of which are Level 3 inputs according to the fair value hierarchy. The estimated future costs to dispose of properties added during the first nine months of 2016 and 2015 were escalated using an annual inflation rate of 2.42% and 2.91%, respectively, and discounted using our weighted average credit-adjusted risk-free interest rate of 20.00% and 13.45%, respectively. These estimates may change based upon future inflation rates and changes in statutory remediation rules. See “Note 7—Asset retirement obligations” for additional information regarding our asset retirement obligations.

Fair value of other financial instruments

Our significant financial instruments, other than derivatives, consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and debt. We believe the carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate fair values due to the short-term maturities of these instruments.

The carrying value and estimated fair value of our debt at September 30, 2016, and December 31, 2015, were as follows:

Level 2	September 30, 2016		December 31, 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.875% Senior Notes due 2020	\$ 298,000	\$ 203,385	\$ 293,815	\$ 75,750
8.25% Senior Notes due 2021	384,045	248,746	384,045	96,956
7.625% Senior Notes due 2022	525,910	352,360	530,849	120,478
Other secured debt	10,418	10,418	11,981	11,981

The fair value of our Senior Notes was estimated based on quoted market prices. We have not disclosed the fair value of outstanding amounts under our Credit Facility as it is not practicable to obtain a reasonable estimate of such value while the Company is in bankruptcy and the terms of the facility are being negotiated in conjunction with its reorganization.

Counterparty credit risk

Our derivative contracts are executed with institutions, or affiliates of institutions, that are parties to our Credit Facility at the time of execution, and we believe the credit risks associated with all of these institutions are acceptable. We do not require collateral or other security from counterparties to support derivative instruments. Master agreements are in place with each of our derivative counterparties which provide for net settlement in the event of default or termination of the contracts under each respective agreement. As a result of the netting provisions, our maximum amount of loss under derivative transactions due to credit risk is limited to the net amounts due from the counterparties under the derivatives. Our loss is further limited as any amounts due from a defaulting counterparty that is a Lender, or an affiliate of a Lender, under our senior secured revolving credit facility can be offset against amounts owed to such counterparty Lender. As of December 31, 2015, the counterparties to our open derivative contracts consisted of seven financial institutions, of which all were subject to our rights of offset under our Credit Facility.

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The following table summarizes our derivative assets and liabilities which are offset in the consolidated balance sheets under our master netting agreements. It also reflects the amounts outstanding under our senior secured revolving credit facility that are available to offset our net derivative assets due from counterparties that are Lenders.

	<u>Offset in the consolidated balance sheets</u>			<u>Gross amounts not offset in the consolidated balance sheets</u>		
	<u>Gross assets (liabilities)</u>	<u>Offsetting assets (liabilities)</u>	<u>Net assets (liabilities)</u>	<u>Derivatives(1)</u>	<u>Amounts outstanding under senior secured revolving credit facility</u>	<u>Net amount</u>
As of December 31, 2015						
Derivative assets	\$ 164,396	\$ (1,158)	\$ 163,238	\$ —	\$ (103,618)	\$ 59,620
Derivative liabilities	(1,158)	1,158	—	—	—	—
	<u>\$ 163,238</u>	<u>\$ —</u>	<u>\$ 163,238</u>	<u>\$ —</u>	<u>\$ (103,618)</u>	<u>\$ 59,620</u>

(1) Since positive and negative positions with a counterparty are netted on the balance sheet only to the extent that they relate to the same current versus noncurrent classification, these represent remaining amounts that could have been offset under our master netting agreements.

We did not post additional collateral under any of these contracts as all of our counterparties are secured by the collateral under our senior secured revolving credit facility. Payment on our derivative contracts would have been accelerated in the event of a default on our senior secured revolving credit facility. The aggregate fair value of our derivative liabilities subject to acceleration in the event of default was \$1,158 at December 31, 2015. As discussed previously, the defaults of our derivative master agreements resulted in the termination of all our contracts in May 2016 and resulted in amounts payable to us by our counterparties.

Note 7: Asset retirement obligations

The following table provides a summary of our asset retirement obligation activity during the nine months ended September 30, 2016 and 2015.

	<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 48,612	\$ 47,424
Liabilities incurred in current period	2,554	1,852
Liabilities settled and disposed in current period	(1,380)	(4,886)
Revisions in estimated cash flows	1,461	1,785
Accretion expense	2,859	2,727
Ending balance	54,106	48,902
Less current portion included in accounts payable and accrued liabilities	3,895	2,384
	<u>\$ 50,211</u>	<u>\$ 46,518</u>

See “Note 6—Fair value measurements” for additional information regarding fair value assumptions associated with our asset retirement obligations.

Note 8: Deferred compensation

Phantom Stock Plan and Restricted Stock Unit Plan

Effective January 1, 2004, we implemented a Phantom Unit Plan, which was revised on December 31, 2008 as the Second Amended and Restated Phantom Stock Plan (the “Phantom Plan”), to provide deferred compensation to certain key employees (the “Participants”). Under the Phantom Plan, awards vest at the end of five years, but may also vest on a pro-rata basis following a Participant’s termination of employment with us due to death, disability, retirement or termination by us without cause. Also, phantom stock will vest if a change of control event occurs. Phantom shares are cash-settled within 120 days of the vesting date.

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Effective March 1, 2012, we implemented a Non-Officer Restricted Stock Unit Plan (the “RSU Plan”) to create incentives to motivate Participants to put forth maximum effort toward the success and growth of the Company and to enable us to attract and retain experienced individuals who by their position, ability and diligence are able to make important contributions to the Company’s success. The RSU Plan is intended to replace the Phantom Plan. There are no outstanding Phantom Plan awards remaining and we do not expect to make any further awards under the Phantom Plan.

Under the RSU Plan, restricted stock units may be awarded to Participants in an aggregate amount of up to 2% of the fair market value of the Company. Under the RSU Plan, awards generally vest in equal annual increments over a three-year period. RSU awards may also vest following a Participant’s termination of employment in combination with the occurrence of a change of control event, as specified in the RSU Plan. RSU awards are cash-settled, generally within 120 days of the vesting date.

A summary of our phantom stock and RSU activity during the nine months ended September 30, 2016, is presented in the following table:

	Phantom Plan			RSU Plan		
	Weighted average grant date fair value (\$ per share)	Phantom shares	Vest date fair value	Weighted average grant date fair value (\$ per share)	Restricted Stock Units	Vest date fair value
Unvested and outstanding at January 1, 2016	\$ 18.62	10,619		\$ 10.53	269,886	
Granted	\$ —	—		\$ —	—	
Vested	\$ 18.39	(9,729)	\$ —	\$ 9.01	(140,818)	\$ —
Forfeited	\$ 21.09	(890)		\$ 8.24	(28,769)	
Unvested and outstanding at September 30, 2016	\$ —	—		\$ 7.20	100,299	

Due to the severe decline in commodity pricing, which has resulted in a steep decline in our estimated proved reserves, the estimated fair value per RSU as of September 30, 2016, is \$0.00. The weighted average period until all remaining RSUs vest is 0.6 years.

2015 Cash Incentive Plan

We adopted the Long-Term Cash Incentive Plan (the “2015 Cash LTIP”) on August 7, 2015. The 2015 Cash LTIP provides additional cash compensation to certain employees of the Company in the form of awards that generally vest in equal annual increments over a four -year period. Since the awards do not vary according to the value of the Company’s equity, the awards are not considered “stock-based compensation” under accounting guidance. We accrue for the cost of each annual increment over the period service is required to vest. A summary of compensation expense for the 2015 Cash LTIP is presented below:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
2015 Cash LTIP expense	\$ 281	\$ 187	\$ 849	\$ 187

2010 Equity Incentive Plan

We adopted the Chaparral Energy, Inc. 2010 Equity Incentive Plan (the “2010 Plan”) on April 12, 2010. The 2010 Plan reserves a total of 86,301 shares of our class A common stock for awards issued under the 2010 Plan. All of our or our affiliates’ employees, officers, directors, and consultants, as defined in the 2010 Plan, are eligible to participate in the 2010 Plan.

The awards granted under the 2010 Plan consist of shares that are subject to service vesting conditions (the “Time Vested” awards) and shares that are subject to market and performance vested conditions (the “Performance Vested” awards).

The Time Vested awards vest in equal annual installments over the five -year vesting period, but may also vest on an accelerated basis in the event of a transaction whereby CCMP Capital Investors II (AV-2), L.P., CCMP Energy ILTD., and CCMP Capital Investors (Cayman) II, L.P. (collectively “CCMP”) receive cash upon the sale of its class E common stock (a “Transaction” as defined

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in the restricted stock agreements). The Performance Vested awards vest in the event of a Transaction that achieves certain market targets as defined in the 2010 Plan. Any shares of Performance Vested awards not vested on a Separation Date (as defined in the 2010 Plan) will be forfeited as of the Separation Date.

Our 2010 Plan allows participants to elect, upon vesting of their Time Vested awards, to have us withhold shares having a fair market value greater than the minimum statutory withholding amounts for income and payroll taxes that would be due with respect to such vested shares. As a result of this provision, the Time Vested awards are classified as liability awards under accounting guidance and remeasured to fair value at the end of each reporting period. The Performance Vested awards are classified as equity awards and are not remeasured to fair value at the end of each reporting period subsequent to grant date.

We have previously modified the vesting conditions of awards granted under the 2010 Plan. Please see “Note 11—Stock-based compensation” in Item 8. Financial Statement and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2015, for a discussion of the modifications.

A summary of our restricted stock activity during the nine months ended September 30, 2016, is presented below:

	Time Vested			Performance Vested	
	Weighted average grant date fair value (\$ per share)	Restricted shares	Vest date fair value	Weighted average grant date fair value (\$ per share)	Restricted shares
Unvested and outstanding at January 1, 2016	\$ 795.13	13,979		\$ 278.97	28,448
Granted	\$ —	—		\$ —	—
Vested	\$ 798.85	(5,279)	\$ 93	\$ —	—
Forfeited	\$ 810.01	(1,773)		\$ 293.62	(6,374)
Unvested and outstanding at September 30, 2016	\$ 788.48	<u>6,927</u>		\$ 274.74	<u>22,074</u>

During the nine months ended September 30, 2016 and 2015, we repurchased and canceled 2,597 and 5,678 vested shares, respectively. As a result of our bankruptcy, the estimated fair value of our Time Vested restricted awards was \$0.00 per share, resulting in an aggregate intrinsic value of all outstanding unvested Time Vested restricted shares of \$0 as of September 30, 2016. Furthermore, during the third quarter of 2016, we recorded a cumulative catch up adjustment of \$5,985 to reverse the aggregate compensation cost associated with our Performance Vested in order to reflect a decrease in the probability that requisite service would be achieved for these awards. We anticipate that our reorganization under Chapter 11 of the Bankruptcy Code will ultimately result in the cancellation of all outstanding restricted shares and therefore we do not expect any future repurchases of these shares.

Stock-based compensation cost

Compensation cost is calculated net of forfeitures, which are estimated based on our historical and expected turnover rates. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation cost could be different from what we have recorded in the current period.

A portion of stock-based compensation cost associated with employees involved in our acquisition, exploration, and development activities has been capitalized as part of our oil and natural gas properties. The remaining cost is reflected in lease operating and general and administrative expenses in the consolidated statements of operations. We recognized stock-based compensation expense as follows for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Stock-based compensation cost (credit)	\$ (5,705)	\$ (581)	\$ (6,220)	\$ (143)
Less: stock-based compensation cost capitalized	1,167	(49)	965	(352)
Stock-based compensation expense (credit)	<u>\$ (4,538)</u>	<u>\$ (630)</u>	<u>\$ (5,255)</u>	<u>\$ (495)</u>
Payments for stock-based compensation	\$ —	\$ 333	\$ 49	\$ 3,977

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Our stock-based compensation expense for periods disclosed includes credits due to forfeitures from our workforce reductions in January 2016 and February 2015, lower valuations of our liability-based awards and the cumulative adjustment on our Performance Vested awards discussed previously. As of September 30, 2016, and December 31, 2015, accrued payroll and benefits payable included \$0 and \$81, respectively, for stock-based compensation costs expected to be settled within the next twelve months. Unrecognized compensation cost is approximately \$244 all of which relates to our Time Vested awards.

Note 9: Commitments and contingencies

Standby letters of credit (“Letters”) available under our Credit Facility are used in lieu of surety bonds with various organizations for liabilities relating to the operation of oil and natural gas properties. We had Letters outstanding totaling \$828 as of September 30, 2016, and December 31, 2015. When amounts under the Letters are paid by the lenders, interest accrues on the amount paid at the same interest rate applicable to borrowings under the Credit Facility. No amounts were paid by the lenders under the Letters; therefore, we paid no interest on the Letters during the nine months ended September 30, 2016, or 2015.

Litigation and Claims

Commencement of the Chapter 11 Cases automatically stayed many of the proceedings and actions against us noted below as well as other claims and actions that were or could have been brought prior to May 9, 2016. In connection with the proofs of claim asserted during bankruptcy from the proceedings or actions below, we are unable to estimate the amounts that will be allowed by the Bankruptcy Court due to the complexity and number of legal and factual issues presented by the matters and uncertainties with respect to, amongst other things, the nature of the claims and defenses, the potential size of the class, the scope and types of the properties and agreements involved, and the ultimate potential outcomes of the matters. As a result, no reserves have been established within our liabilities subject to compromise in connection with the proceedings and actions described below.

Naylor Farms, Inc., individually and as class representative on behalf of all similarly situated persons v. Chaparral Energy, L.L.C. On June 7, 2011, an alleged class action was filed against us in the United States District Court for the Western District of Oklahoma (“Naylor Farms Case”) alleging that we improperly deducted post-production costs from royalties paid to plaintiffs and other royalty interest owners as categorized in the petition from crude oil and natural gas wells located in Oklahoma. The purported class includes non-governmental royalty interest owners in oil and natural gas wells we operate in Oklahoma. The plaintiffs have alleged a number of claims, including breach of contract, fraud, breach of fiduciary duty, unjust enrichment, and other claims and seek termination of leases, recovery of compensatory damages, interest, punitive damages and attorney fees on behalf of the alleged class. We have responded to the Naylor Farms petition, denied the allegations and raised arguments and defenses. Plaintiffs filed a motion for class certification in October 2015. In addition, the plaintiffs filed a motion for summary judgment asking the court to determine as a matter of law that natural gas is not marketable until it is in the condition and location to enter an interstate pipeline. Responsive briefs to both motions were filed in the fourth quarter of 2015. The court has not ruled on the motions, and no hearing has been scheduled. On May 20, 2016, we filed a Notice of Suggestion of Bankruptcy, informing the court that we had filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. In response, on May 23, 2016, the court issued an order administratively closing the case, subject to reopening depending on the disposition of the bankruptcy proceedings. On July 22, 2016, attorneys for the putative class filed a motion in the Bankruptcy Court asking the court to lift the automatic stay and allow the case to proceed in the United States District Court for the Western District of Oklahoma. We did not object to lifting the automatic stay with regard to this case for the limited purpose of allowing the District Court to rule on the pending motion for class certification, and the class certification issue is under consideration by the trial judge in the United States District Court for the Western District of Oklahoma. The plaintiffs’ motion to lift the automatic stay regarding the pending motion for summary judgment is pending in the Bankruptcy Court and is scheduled for a hearing on November 22, 2016. The plaintiffs have indicated, if the class is certified, they seek damages in excess of \$5,000 which may increase with the passage of time, a majority of which would be comprised of interest. In addition to filing claims on behalf of the named plaintiffs and associated parties, plaintiffs’ attorneys filed a proof of claim on behalf of the putative class claiming in excess of \$150,000 in our Chapter 11 Cases. We dispute the plaintiffs’ allegations, dispute the case meets the requirements for class certification, and anticipate objecting to the claims.

Amanda Dodson, individually and as class representative on behalf of all similarly situated persons v. Chaparral Energy, L.L.C. On May 10, 2013, Amanda Dodson, filed a complaint against us in the District Court of Mayes County, Oklahoma, (“Dodson Case”) with an allegation similar to those asserted in the Naylor Farms case related to post-production deductions, and include claims for breach of contract, fraud, breach of fiduciary duty, unjust enrichment, and other claims and seek termination of leases, recovery of compensatory damages, interest, punitive damages and attorney fees on behalf of the alleged class. The alleged class includes non-governmental royalty interest owners in oil and natural gas wells we operate in Oklahoma. We have responded to the Dodson petition,

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denied the allegations and raised a number of affirmative defenses. At the time we filed our Bankruptcy Petitions, a class had not been certified and discovery had not yet commenced. As the plaintiffs in the Dodson case did not file proofs of claim either for the putative class or the putative class representative, we anticipate any liability related to this claim will be discharged.

Martha Donelson and John Friend, on behalf of themselves and on behalf of all similarly situated persons v. Chaparral Energy, L.L.C. On August 11, 2014, an alleged class action was filed against us, as well as several other operators in Osage County, in the United States District Court for the Northern District of Oklahoma, alleging claims on behalf of the named plaintiffs and all similarly situated Osage County land owners and surface lessees. The plaintiffs challenged leases and drilling permits approved by the Bureau of Indian Affairs without the environmental studies required under the National Environmental Protection (NEPA). The plaintiffs assert claims seeking recovery for trespass, nuisance, negligence and unjust enrichment. Relief sought includes declaring oil and natural gas leases and drilling permits obtained in Osage County without a prior NEPA study void *ab initio*, removing us from all properties owned by the class members, disgorgement of profits, and compensatory and punitive damages. On March 31, 2016, the Court dismissed the case against the federal agencies named as defendants, and therefore against all defendants, as an improper challenge under NEPA and the Administrative Procedures Act. On April 29, 2016, the plaintiffs filed a motion to alter or amend the court's opinion and vacate the judgment, arguing the court does have jurisdiction to hear the claims and dismissal of the federal defendants does not require dismissal of the oil company defendants. The plaintiffs also filed a motion to file an amended complaint to cure the deficiencies which the court found in the dismissed complaint. Several defendants have filed briefs objecting to plaintiffs' motions. On May 20, 2016, the Company filed a Notice of Suggestion of Bankruptcy, informing the court that we had filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code, and has not responded to the plaintiffs' motions. The court has not yet ruled. As the plaintiffs in the Donelson case did not file proofs of claim either for the putative class or the putative class representatives, we anticipate any monetary liability related to this claim will be discharged. We dispute plaintiffs' allegations and dispute that the case meets the requirements for a class action.

Lisa West and Stormy Hopson, individually and as class representatives on behalf of all similarly situated persons v. Chaparral Energy, L.L.C. On February 18, 2016, an alleged class action was filed against us, as well as several other operators in the District Court of Pottawatomie County, State of Oklahoma ("West Case"), alleging claims on behalf of named plaintiffs and all similarly situated persons having an insurable real property interest in Cleveland, Lincoln, McClain, Okfuskee, Oklahoma, Pontotoc, Pottawatomie and Seminole Counties, Oklahoma (the "Class Area"). The plaintiffs allege the oil and gas operations conducted by us and the other defendants have induced or triggered earthquakes in the Class Area. The plaintiffs are asking the court to require the defendants to reimburse plaintiffs and class members for earthquake insurance premiums from 2011 through a future date defined as the time at which the court determines there is no longer a risk that our activities induce or trigger earthquakes, as well as attorney fees and costs and other relief. The plaintiffs have not asked for damages related to actual property damage which may have occurred. We have responded to the petition, denied the allegations and raised a number of affirmative defenses. At this time, a class has not been certified and discovery has not yet commenced. On March 18, 2016, the case was removed to the United States District Court for the Western District of Oklahoma under the Class Action Fairness Act ("CAFA"). On May 20, 2016, we filed a Notice of Suggestion of Bankruptcy, informing the court that we had filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. On October 14, 2016, the plaintiffs filed an Amended Complaint adding additional defendants and increasing the Class Area to 25 Central Oklahoma counties. Although we are named as a defendant, the Amended Complaint expressly limits its claims against us to those asserted in the original petition unless and until the automatic stay is lifted. Plaintiffs' attorneys filed a proof of claim on behalf of the putative class claiming in excess of \$75,000 in our Chapter 11 Cases. We dispute the plaintiffs' claims, dispute that the case meets the requirements for a class action, dispute the remedies requested are available under Oklahoma law, and are vigorously defending the case.

We are involved in various other legal proceedings including, but not limited to, commercial disputes, claims from royalty and surface owners, property damage claims, personal injury claims, employment claims, and other matters which arise in the ordinary course of business. In addition, other proofs of claim have been filed in our bankruptcy case which we anticipate repudiating. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect any of them individually to have a material effect on our financial condition, results of operations or cash flows.

We have numerous contractual commitments in the ordinary course of business including debt service requirements, operating leases, capital leases and purchase obligations. Our operating leases primarily relate to CO₂ recycle compressors at our EOR facilities and office equipment while our capital leases are related to the sale and subsequent leaseback of compressors. Our purchase obligations primarily relate to contracts for the purchase of CO₂ and drilling rig services. In May 2016, we took delivery of an additional CO₂ compressor for which we have entered into an 84 month lease with monthly payments of \$23. Other than additional

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debt borrowings during the year and our new compressor lease discussed above, there were no material changes to our contractual commitments since December 31, 2015.

ITEM 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this report.

Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors could cause future production, revenues and expenses to differ materially from our expectations.

Overview

Founded in 1988 and headquartered in Oklahoma City, we are a pure play Mid-Continent independent oil and natural gas exploration and production company. We have capitalized on our sustained success in the Mid-Continent area in recent years by expanding our holdings to become a leading player in the liquids-rich STACK play, which is home to multiple oil-rich reservoirs including the Oswego, Meramec, Osage and Woodford formations. In addition, we have significant holdings in the Mississippi Lime play and a leadership position in CO₂ EOR where we are the third largest CO₂ EOR operator in the United States based on the number of active projects. This position is underscored by our activity in the North Burbank Unit in Osage County, Oklahoma, which is the single largest oil recovery unit in the state. We are currently operating our business as debtors in possession in accordance with the applicable provisions of the Bankruptcy Code.

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas and on our ability to find, develop and acquire oil and natural gas reserves that are economically recoverable. The preparation of our financial statements in conformity with generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions that affect our reported results of operations and the amount of our reported assets, liabilities and proved oil and natural gas reserves. We use the full cost method of accounting for our oil and natural gas activities.

Generally, our producing properties have declining production rates. Our December 31, 2015, reserve estimates reflect that our production rate on current proved developed producing reserve properties will decline at annual rates of approximately 18%, 15%, and 10% for the next three years. To grow our production and cash flow, we must find, develop and acquire new oil and natural gas reserves to replace those being depleted by production. Substantial capital expenditures are required to find, develop and acquire oil and natural gas reserves.

Oil and natural gas prices fluctuate widely. We generally hedge a substantial portion of our expected future oil and natural gas production to reduce our exposure to commodity price decreases. The prices we receive for our oil and natural gas production affect our:

- cash flow available for capital expenditures;
- ability to borrow and raise additional capital;
- ability to service debt;
- quantity of oil and natural gas we can produce;
- quantity of oil and natural gas reserves; and
- operating results for oil and natural gas activities.

Chapter 11 Filings

The severe and sustained decline in oil and natural gas prices since mid-2014 has negatively impacted revenues, earnings and cash flows, and our liquidity. As a result of our deteriorating liquidity, there was and continues to be uncertainty regarding our ability to repay our outstanding debt obligations as they became due, especially in the event of any acceleration of indebtedness, and hence substantial doubt about our ability to continue as a going concern. This doubt was expressed in the audit opinion of our annual consolidated financial statements for the year ended December 31, 2015, and constituted an event of default under our Credit Facility since the covenants under the facility require us to deliver our annual financial statements without a going concern explanatory paragraph.

On March 1 and April 1, 2016, we elected not to make interest payments on our 8.25% Senior Notes and 9.875% Senior Notes, respectively. Under the indenture governing these Senior Notes, the failure to make the interest payments was subject to a 30-day grace period before constituting an event of default. We did not make either interest payment on the Senior Notes within their respective 30-day grace periods and as a result, are currently in default under the indentures governing these Senior Notes.

The defaults discussed above resulted in cross defaults on our remaining indebtedness and therefore subjected all our debt to potential acceleration in the event that the outstanding amounts are called by our lenders.

Faced with these defaults, we entered into agreements (the "Forbearance Agreements") with the lenders under our Credit Facility (the "Lenders") and an ad hoc committee (the "Ad Hoc Committee") of noteholders collectively holding more than 50% of the Senior Notes outstanding to forbear from exercising remedies on account of the missed interest payments and certain other alleged defaults specified in the Forbearance Agreements through and including May 1, 2016. While the Forbearance Agreements were in effect, we continued to engage in good-faith arm's-length negotiations regarding a potential restructuring of the Credit Facility and the Senior Notes that would improve our liquidity. In the course of these negotiations, the Company, the Lenders, and the Ad Hoc Committee exchanged and considered, with the assistance of their respective advisors, numerous restructuring proposals.

On May 9, 2016 (the "Petition Date"), Chaparral Energy, Inc. and its subsidiaries including Chaparral Energy, L.L.C., Chaparral Resources, L.L.C., Chaparral Real Estate, L.L.C., Chaparral CO2, L.L.C., CEI Pipeline, L.L.C., CEI Acquisition, L.L.C., Green Country Supply, Inc., Chaparral Biofuels, L.L.C., Chaparral Exploration, L.L.C., Roadrunner Drilling, L.L.C. (collectively, the "Chapter 11 Subsidiaries" and, together with Chaparral Energy, Inc., the "Debtors") filed voluntary petitions seeking relief under Title 11 of the United States Code (the "Bankruptcy Code") in the Bankruptcy Court commencing cases for relief under chapter 11 of the Bankruptcy Code (the "Chapter 11 Cases"). Our filing of the Chapter 11 Cases constitutes an additional event of default under our Credit Facility, Senior Notes, capital leases and mortgage note.

We are currently operating our business as debtors in possession in accordance with the applicable provisions of the Bankruptcy Code. We have filed a variety of first day motions with the Bankruptcy Court that will allow us to continue to operate our business without interruption. These motions are designed primarily to minimize the impact of our bankruptcy filing on our operations, creditors and employees. The Bankruptcy Court has granted all first day motions filed by us and our Chapter 11 Subsidiaries. As a result, we not only are able to conduct normal business activities and pay the associated obligations for the period following our bankruptcy filing, we are also authorized to pay (subject to caps applicable to payments of certain pre-petition obligations) pre-petition employee wages and benefits, pre-petition amounts owed to certain lienholders and critical vendors and funds belonging to third parties, including royalty interest holders and partners. During the pendency of the Chapter 11 Cases, all transactions outside the ordinary course of our business require the prior approval of the Bankruptcy Court. Final orders on the motions to satisfy our obligations to certain third parties and to forward funds held by us that belong to third parties were granted on June 7, 2016.

Subject to certain exceptions, under the Bankruptcy Code, the filing of the bankruptcy petitions automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or the filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Creditors are stayed from taking any actions against us as a result of debt defaults, subject to certain limited exceptions permitted by the Bankruptcy Code.

For the duration of our Chapter 11 Cases, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process, as described in Item 1A, "Risk Factors." As a result of these risks and uncertainties, the number of our outstanding shares of common stock and stockholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 Cases, and the description of our operations, properties and capital plans included in this quarterly report may not accurately reflect our operations, properties and capital plans following our emergence from bankruptcy.

In particular, subject to certain exceptions, under the Bankruptcy Code, we may assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves us of performing future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases may assert unsecured claims in the Bankruptcy Court against the applicable Debtors' estate for such damages. Generally, the assumption of an executory contract or unexpired lease requires us to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease involving us in these financial statements, including where applicable, a quantification of our obligations under any such executory contract or unexpired lease with us is qualified by our rights to reject such executory contract or unexpired lease under the Bankruptcy Code.

On June 13, 2016, we filed a motion to set a bar date to assist with the claims reconciliation process. The Bankruptcy Court approved such motion on July 1, 2016, setting the bar date on August 19, 2016, for all potential claimants other than governmental authorities whose bar date is on November 7, 2016. Through the claims resolution process, differences in amounts scheduled by us and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate. In light of the potential number and amount of claims filed, the claims resolution process may take considerable time to complete, and we expect that it will continue after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

On September 30, 2016, the Company, certain members of a steering committee of the Lenders and the Ad Hoc Committee reached a non-binding agreement in principle regarding a potential restructuring of the Company's debt (a "Restructuring") in conjunction with the Company's plan to reorganize through a plan of reorganization, which are further disclosed in our Current Report on Form 8-K filed on September 30, 2016. Provisions of the potential Restructuring include that the plan of reorganization will provide for, among other things, the full equitization of the Debtors' approximately \$1.2 billion of outstanding unsecured notes for 100% of the new ownership interests in the reorganized debtors, subject to dilution from (i) a \$50 million rights offering to be backstopped by certain of the Company's noteholders, (ii) an incentive plan for the benefit of new management of the reorganized debtors, and (iii) additional terms acceptable to the Lenders and the Ad Hoc Committee. The potential Restructuring also contemplates that the Lenders' claims against the Company will be partially paid down on the effective date of the Debtors' plan of reorganization, with the remaining \$375 million outstanding to be restructured into a four-year, \$225 million first-out revolving loan and \$150 million second-out term loan. The exit financing will require us to enter into derivative contracts to hedge our future estimated production volumes from proved developed producing reserves at a minimum level of 80% in the first year, 60% in the second year and 40% in the third year. The potential Restructuring is subject to execution and delivery of definitive documentation, and there can be no assurances that such definitive documentation will be finalized or that the terms and conditions thereof will not differ materially from the terms and conditions of the potential Restructuring.

In order to successfully exit bankruptcy, we will need to propose, and obtain confirmation by the Bankruptcy Court of, a plan (or plans) of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to exit from bankruptcy.

We have the exclusive right for 120 days after the Petition Date to file a plan of reorganization subject to extension for cause. If the Exclusive Filing Period lapses, any party in interest may file a plan of reorganization for any of the Debtors. On October 13, 2016, the Bankruptcy Court approved our motion to extend the Exclusive Filing Period to November 9, 2016, and we expect to request a further extension.

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 Cases. Although we expect to file a plan of reorganization that provides for emergence from bankruptcy as a going concern, there can be no assurance at this time that we will be able to successfully develop, confirm and consummate one or more plans of reorganization or other alternative restructuring transactions, that satisfies the conditions of the Bankruptcy Code and is confirmed by the Bankruptcy Court, or that any such plan will be implemented successfully.

We have accounted for the bankruptcy in accordance with Accounting Standards Codification 852, *Reorganizations* ("ASC 852"), in preparing our financial statements. The financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and satisfaction of liabilities and commitments in the normal course of business. In accordance with ASC 852, our financial statements include amounts classified as liabilities subject to compromise which represent pre-petition obligations that we anticipate will be allowed as claims in our bankruptcy case. Our financial statements also reflect "Reorganization items, net" comprising of any post-petition revenues, expenses, gains and losses that are the result of the reorganization of the business. We have incurred and will continue to incur significant costs associated with the reorganization.

Price Uncertainty and the Full-Cost Ceiling Impairment

We deal with volatility in commodity prices primarily by maintaining flexibility in our capital investment program with a diversified drilling portfolio and limited long-term commitments, which enables us to respond quickly to industry price volatility, as well as by aggressively pursuing cost reductions in a market downturn. In the past, we have also dealt with price volatility by hedging a substantial portion of our expected future oil and natural gas production to reduce our exposure to commodity price decreases. As a result of our bankruptcy, all our commodity price derivatives have been terminated and we do not have outstanding hedges at this time.

Price volatility also impacts our business through the full cost ceiling test calculation. The ceiling test calculation dictates that we use the unweighted arithmetic average price of crude oil and natural gas as of the first day of each month for the 12-month period ending

on the balance sheet date. As a result of the recent industry downturn, the average price utilized in our ceiling test calculation over the past 12 months has generally followed a pattern of decline as follows:

	Year-end 2015	First quarter 2016	Second quarter 2016	Third quarter 2016
Crude oil (\$ per barrel)	\$ 50.28	\$ 46.26	\$ 43.12	\$ 41.68
Natural gas (\$ per Mmbtu)	\$ 2.58	\$ 2.39	\$ 2.23	\$ 2.28
Natural gas liquids (\$ per barrel)	\$ 15.84	\$ 14.86	\$ 13.92	\$ 14.03

As the decline in average crude oil prices has slowed in the recent quarter coupled with a minor increase in the average natural gas price, we did not incur any ceiling test impairment during the third quarter of 2016, in contrast to the ceiling test impairments previously recorded during the first and second quarter of 2016 totaling \$281.1 million.

Since the prices used in the cost ceiling are based on a trailing 12-month period, the full impact of a sudden price decline is not recognized immediately. As prices decline, the economic performance of certain properties in the reserve estimate may deteriorate to the point that they are removed from the proved reserve category, thus reducing the quantity and value of proved reserves. The use of a 12-month average will tend to spread the impact of the price change on the financial statements over several reporting periods.

In addition to commodity prices, our production rates, levels of proved reserves, estimated future operating expenses, estimated future development costs, transfers of unevaluated properties and other factors will determine our actual ceiling test calculation and impairment analyses in future periods.

Financial and Operating Highlights

Our financial and operating performance in the third quarter of 2016 includes the following highlights:

- In connection with our bankruptcy, our balance sheet as of September 30, 2016, includes \$1.3 billion in liabilities subject to compromise and we have incurred \$5.5 million and \$10.9 million in reorganization expenses for the three and nine month periods ending September 30, 2016, respectively.
- We recorded ceiling test impairments on our oil and natural gas properties during the first and second quarter of 2016 totaling \$281.1 million but did not record any impairment during third quarter of 2016.
- We paid down \$103.6 million of the outstanding amount on our Credit Facility with proceeds from early terminations and previously accrued settlements of our derivatives. All our outstanding derivative contracts were early-terminated in May 2016 due to defaults under the master agreements governing those contracts. We also received \$15.7 million in cash in conjunction with the early terminations.
- As a result of decreased capital spending for the drilling and completion of wells as well as natural decline, our total net production declined 11% and 5%, respectively, from the prior year quarter and prior quarter, to 2,194 MBoe for the quarter ended September 30, 2016.
- Our commodity sales of \$65.8 million for the three months ended September 30, 2016, were 12% lower than the prior year quarter primarily as a result of the production decline discussed above.
- As a result of our continuing efforts to reduce costs and improve operational efficiencies, our lease operating expense declined 10% from the prior year quarter to \$22.3 million for the quarter ended September 30, 2016.

Capital development

During the nine months ended September 30, 2016, we incurred capital expenditures of \$101 million. We currently anticipate exceeding our 2016 total capital budget by approximately \$18 million or 17% primarily due to increased spending on outside operated drilling and STACK acreage acquisitions as described below, partially offset by reduced spending within our EOR Project Areas. Our operated and outside-operated drilling activity within our E&P Areas was predominantly focused within our STACK play and included drilling and completing 10 operated wells as well as completing 5 operated wells that were drilled in the prior year. Upon completion of our planned drilling activity, we discontinued utilization of our rig in June 2016 although we plan to recommence drilling in December 2016. We expect to exceed our drilling budget for 2016 by approximately \$7 million primarily due to increased spending to drill and complete outside-operated wells in our STACK play. Meanwhile, we have incurred \$12 million in acquisitions of leasehold acreage in the STACK with further acquisitions planned during the fourth quarter of 2016. We anticipate exceeding our annual budget for leasehold acquisition as the additional acquisitions were undertaken to add or extend acreage in areas of the STACK

where we have experienced encouraging drilling results. Capital activity within our EOR Project Areas for 2016 has been primarily focused on our North Burbank Unit for infrastructure build out, development of a limited number of additional patterns, continuing CO2 injection and field maintenance, and to a lesser extent on CO2 purchases for our other Active EOR units.

Results of operations

Production

Production volumes by area were as follows:

Production volume (Mboe)	Three months ended September 30,		Percent change	Nine months ended September 30,		Percent change
	2016	2015		2016	2015	
E&P Areas:						
Mississippi Lime	304	501	(39.3)%	1,023	1,688	(39.4)%
STACK - Meramec	196	26	653.8%	408	102	300.0%
STACK - Osage	188	120	56.7%	577	416	38.7%
STACK - Oswego	101	113	(10.6)%	333	317	5.0%
STACK - Woodford	123	101	21.8%	431	334	29.0%
Panhandle Marmaton	81	122	(33.6)%	266	497	(46.5)%
Legacy Production Areas	446	612	(27.1)%	1,385	1,917	(27.8)%
Total E&P Areas	1,439	1,595	(9.8)%	4,423	5,271	(16.1)%
EOR Project Areas:						
Active EOR Projects	511	562	(9.1)%	1,602	1,669	(4.0)%
Potential EOR Projects	244	295	(17.3)%	761	918	(17.1)%
Total EOR Project Areas	755	857	(11.9)%	2,363	2,587	(8.7)%
Total	2,194	2,452	(10.5)%	6,786	7,858	(13.6)%

We have recently realigned the plays within our E&P Areas to better highlight those areas where we are focusing our operations and where our current and future capital will be spent. E&P Areas include the following plays: the STACK, Mississippi Lime, Panhandle Marmaton and Legacy Production Areas. Please see Items 1. and 2. Business and Properties of our Annual Report on Form 10-K for the year ended December 31, 2015, for a discussion of our plays.

Production in our E&P Areas decreased for the three and nine months ended September 30, 2016, compared to the prior year periods primarily due to the natural decline of our wells and the overall decrease in our drilling activity due to the current low price environment. The production decline was most pronounced in our Mississippi Lime and Panhandle Marmaton plays and in our Legacy Production Areas for which we have not allocated significant drilling capital in the past year. Meanwhile, production across most our STACK play has increased as a result of our recent focus to drill and develop the area.

Our EOR Project Areas include both currently Active EOR Projects and Potential EOR Projects. Potential EOR Projects have no current EOR production or reserves while Active EOR Project areas include properties that have proved EOR reserves or ongoing EOR operations. There were slight production declines in our Active EOR Projects for the three and nine months ended September 30, 2016, compared to the prior year periods as increases from our North Burbank Unit as a result of continued development and response were more than offset by production declines in our other units. Production decreases in our Potential EOR Projects were due to natural decline and a lack of development due to the current low pricing environment.

Revenues

Our commodity sales are derived from the production and sale of oil, natural gas and natural gas liquids. These revenues do not include the effects of derivative instruments and may vary significantly from period to period as a result of changes in volumes of production sold or changes in commodity prices.

The following table presents information about our production and commodity sales before the effects of commodity derivative settlements:

	Three months ended		Increase / (Decrease)	Percent change	Nine months ended		Increase / (Decrease)	Percent change
	September 30,				September 30,			
	2016	2015			2016	2015		
Commodity sales (in thousands):								
Oil	\$ 50,391	\$ 58,353	\$ (7,962)	(13.6)%	\$ 141,170	\$ 206,948	\$ (65,778)	(31.8)%
Natural gas	10,018	11,402	(1,384)	(12.1)%	24,141	36,534	(12,393)	(33.9)%
Natural gas liquids	5,438	4,757	681	14.3%	14,765	18,319	(3,554)	(19.4)%
Total commodity sales	<u>\$ 65,847</u>	<u>\$ 74,512</u>	<u>\$ (8,665)</u>	(11.6)%	<u>\$ 180,076</u>	<u>\$ 261,801</u>	<u>\$ (81,725)</u>	(31.2)%
Production:								
Oil (MBbls)	1,177	1,328	(151)	(11.4)%	3,693	4,283	(590)	(13.8)%
Natural gas (MMcf)	3,912	4,624	(712)	(15.4)%	12,053	14,386	(2,333)	(16.2)%
Natural gas liquids (MBbls)	365	353	12	3.4%	1,084	1,177	(93)	(7.9)%
MBoe	2,194	2,452	(258)	(10.5)%	6,786	7,858	(1,072)	(13.6)%
Average daily production (Boe/d)	23,848	26,652	(2,804)	(10.5)%	24,766	28,784	(4,018)	(14.0)%
Average sales prices (excluding derivative settlements):								
Oil per Bbl	\$ 42.81	\$ 43.94	\$ (1.13)	(2.6)%	\$ 38.23	\$ 48.32	\$ (10.09)	(20.9)%
Natural gas per Mcf	\$ 2.56	\$ 2.47	\$ 0.09	3.6%	\$ 2.00	\$ 2.54	\$ (0.54)	(21.3)%
NGLs per Bbl	\$ 14.90	\$ 13.48	\$ 1.42	10.5%	\$ 13.62	\$ 15.56	\$ (1.94)	(12.5)%
Average sales price per Boe	<u>\$ 30.01</u>	<u>\$ 30.39</u>	<u>\$ (0.38)</u>	(1.3)%	<u>\$ 26.54</u>	<u>\$ 33.32</u>	<u>\$ (6.78)</u>	(20.3)%

Our total commodity sales decreased during the three month period ended September 30, 2016, compared to the prior year quarter primarily as a result of a decrease in the average price and production volume sold of crude oil. A decline in production volume sold of natural gas also contributed to the decrease. These decreases were partially offset by increases in the average price and production volume sold of natural gas liquids as well as a slight increase in the price of natural gas.

Our total commodity sales decreased during the nine month period ended September 30, 2016, compared to the prior year period as a result of decreases in the average prices and production volumes sold of all commodities. Changes in our production compared to the prior year periods are discussed in the preceding section above while the impact of price and production volume changes on our commodity sales is disclosed in the table below.

(in thousands)	Three months ended September 30, 2016 vs. 2015		Nine months ended September 30, 2016 vs. 2015	
	Sales change	Percentage change in sales	Sales change	Percentage change in sales
Change in oil sales due to:				
Prices	\$ (1,327)	(2.2)%	\$ (37,270)	(18.0)%
Production	\$ (6,635)	(11.4)%	\$ (28,508)	(13.8)%
Total change in oil sales	<u>\$ (7,962)</u>	<u>(13.6)%</u>	<u>\$ (65,778)</u>	<u>(31.8)%</u>
Change in natural gas sales due to:				
Prices	\$ 372	3.3%	\$ (6,468)	(17.7)%
Production	\$ (1,756)	(15.4)%	\$ (5,925)	(16.2)%
Total change in natural gas sales	<u>\$ (1,384)</u>	<u>(12.1)%</u>	<u>\$ (12,393)</u>	<u>(33.9)%</u>
Change in natural gas liquids sales due to:				
Prices	\$ 519	10.9%	\$ (2,107)	(11.5)%
Production	\$ 162	3.4%	\$ (1,447)	(7.9)%
Total change in natural gas liquids sales	<u>\$ 681</u>	<u>14.3%</u>	<u>\$ (3,554)</u>	<u>(19.4)%</u>

Derivative activities

Our results of operations, financial condition and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties. To mitigate a portion of this exposure, in the past we have entered into various types of derivative instruments, including commodity price swaps, costless collars, put options, and basis protection swaps.

Due to defaults under the master agreements governing our derivative contracts, all our outstanding derivative positions were early-terminated in May 2016 and we have no outstanding derivative contracts as of September 30, 2016. The master agreement defaults were the result of our debt defaults and our bankruptcy petition. Proceeds from the early terminations, inclusive of amounts receivable for previous settlements, totaled \$119.3 million of which \$103.6 million were utilized to offset outstanding borrowings under our Credit Facility and the remainder was remitted to the Company during the third quarter of 2016.

While we are in default on our indebtedness and have a bankruptcy filing, we will no longer be able to represent that we can comply with the credit default or bankruptcy covenants under any prospective derivative master agreements and thus may not be able to enter into new hedging transactions. We are currently negotiating with the Lenders, most of which were previously counterparties to our derivative contracts, regarding the resumption of hedging activity prior to our potential emergence from bankruptcy. However, subsequent to the initial hedges that are required under our potential Restructuring, there can be no assurance that we will be able to enter into new derivative transactions on terms that are acceptable to us.

The estimated fair values of our oil and natural gas derivative instruments are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

(in thousands)	December 31, 2015
Derivative assets:	
Crude oil derivatives	\$ 123,068
Natural gas derivatives	40,170
Net derivative assets	<u>\$ 163,238</u>

The effects of derivative activities on our results of operations and cash flows were as follows for the periods indicated:

(in thousands)	Three months ended September 30,					
	2016			2015		
	Non-cash fair value adjustment	Settlement gains	Total gain (loss)	Non-cash fair value adjustment	Settlement gains	Total gain (loss)
Non-hedge derivative gains:						
Crude oil derivatives	\$ —	\$ —	\$ —	\$ 22,728	\$ 49,040	\$ 71,768
Natural gas derivatives	—	—	—	8,213	5,434	13,647
Non-hedge derivative gains	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30,941</u>	<u>\$ 54,474</u>	<u>\$ 85,415</u>

(in thousands)	Nine months ended September 30,					
	2016			2015		
	Non-cash fair value adjustment	Settlement gains	Total gain (loss)	Non-cash fair value adjustment	Settlement gains	Total gain (loss)
Non-hedge derivative (losses) gains:						
Crude oil derivatives	\$ (123,068)	\$ 113,852	\$ (9,216)	\$ (73,357)	\$ 149,871	\$ 76,514
Natural gas derivatives	(40,170)	39,918	(252)	5,474	23,278	28,752
Non-hedge derivative (losses) gains	<u>\$ (163,238)</u>	<u>\$ 153,770</u>	<u>\$ (9,468)</u>	<u>\$ (67,883)</u>	<u>\$ 173,149</u>	<u>\$ 105,266</u>

We do not apply hedge accounting to any of our derivative instruments. As a result, all gains and losses associated with our derivative contracts are recognized immediately as "Non-hedge derivative gains (losses)" in our consolidated statements of operations. The fluctuation in non-hedge derivative gains (losses) from period to period is due primarily to the significant volatility of oil and natural gas prices and to changes in our outstanding derivative contracts during these periods.

Lease operating expenses

	Three months ended September 30,		Increase / (Decrease)	Percent change	Nine months ended September 30,		Increase / (Decrease)	Percent change
	2016	2015			2016	2015		
Lease operating expenses (in thousands, except per Boe data):								
E&P Areas	\$ 8,642	\$ 10,461	\$ (1,819)	(17.4)%	\$ 26,986	\$ 37,370	\$ (10,384)	(27.8)%
EOR Project Areas	\$ 13,649	\$ 14,420	\$ (771)	(5.3)%	41,476	46,551	\$ (5,075)	(10.9)%
Total lease operating expense	\$ 22,291	\$ 24,881	\$ (2,590)	(10.4)%	\$ 68,462	\$ 83,921	\$ (15,459)	(18.4)%
Lease operating expenses per Boe:								
E&P Areas	\$ 6.01	\$ 6.56	\$ (0.55)	(8.4)%	\$ 6.10	\$ 7.09	\$ (0.99)	(14.0)%
EOR Project Areas	\$ 18.08	\$ 16.83	\$ 1.25	7.4%	\$ 17.55	\$ 17.99	\$ (0.44)	(2.4)%
Lease operating expenses per Boe	\$ 10.16	\$ 10.15	\$ 0.01	0.1%	\$ 10.09	\$ 10.68	\$ (0.59)	(5.5)%

Lease operating costs are sensitive to changes in demand for field equipment, services, and qualified operational personnel, which is driven by demand for oil and natural gas. However, the timing of changes in operating costs may lag behind changes in commodity prices. Our EOR projects are more expensive to operate than traditional industry operations due to the nature of operations along with the costs of recovery and recycling of CO₂.

Lease operating expenses at both our E&P Areas and EOR Project Areas decreased on an absolute dollar basis during the three months and nine months ended September 30, 2016, compared to the prior year periods primarily as a result of cost reductions from third party service providers and improved operational efficiencies which included temporary shut-in of marginal wells due to the current low price environment and limiting workovers to wells that meet a minimum payout threshold. Lower production volumes during the current year period also contributed to the decrease in expense.

Transportation and processing expenses

	Three months ended September 30,		Increase / (Decrease)	Percent change	Nine months ended September 30,		Increase / (Decrease)	Percent change
	2016	2015			2016	2015		
Transportation and processing expenses (in thousands)	\$ 2,429	\$ 1,902	\$ 527	27.7%	\$ 6,493	\$ 6,246	\$ 247	4.0%
Transportation and processing expenses per Boe	\$ 1.11	\$ 0.78	\$ 0.33	42.3%	\$ 0.96	\$ 0.79	\$ 0.17	21.5%

Transportation and processing expenses principally consist of expenditures to prepare and transport production from the wellhead to a specified sales point and processing costs of gas into natural gas liquids. Our transportation and processing costs increased during the three and nine months ended September 30, 2016, compared to the same period in 2015 primarily due to higher fees on our new STACK operated wells coming online.

Production taxes (which include severance and valorem taxes)

	Three months ended September 30,		Increase / (Decrease)	Percent change	Nine months ended September 30,		Increase / (Decrease)	Percent change
	2016	2015			2016	2015		
Production taxes (in thousands)	\$ 2,174	\$ 2,795	\$ (621)	(22.2)%	\$ 6,812	\$ 11,123	\$ (4,311)	(38.8)%
Production taxes per Boe	\$ 0.99	\$ 1.14	\$ (0.15)	(13.2)%	\$ 1.00	\$ 1.42	\$ (0.42)	(29.6)%

Production taxes decreased for the nine months ended September 30, 2016, compared to the prior year period due to lower severance taxes attributable to lower revenues combined with a decrease in ad valorem taxes attributable to lower valuation of our oil and gas properties. We expect ad valorem taxes, which are based on the value of reserves and production equipment and vary by location, to fluctuate throughout the year as valuations and county tax rates are finalized, with an overall decrease when comparing full-year 2016 to full-year 2015 primarily due to lower estimated valuations on our oil and gas properties.

Depreciation, depletion and amortization (“DD&A”)

	Three months ended		Increase / (Decrease)	Percent change	Nine months ended		Increase / (Decrease)	Percent change
	September 30,				September 30,			
	2016	2015			2016	2015		
DD&A (in thousands):								
Oil and natural gas properties	\$ 26,839	\$ 49,522	\$ (22,683)	(45.8)%	\$ 86,083	\$ 164,694	\$ (78,611)	(47.7)%
Property and equipment	1,772	1,580	192	12.2%	5,454	6,273	(819)	(13.1)%
Accretion of asset retirement obligation	1,013	925	88	9.5%	2,859	2,727	132	4.8%
Total DD&A	<u>\$ 29,624</u>	<u>\$ 52,027</u>	<u>\$ (22,403)</u>	(43.1)%	<u>\$ 94,396</u>	<u>\$ 173,694</u>	<u>\$ (79,298)</u>	(45.7)%
DD&A per Boe:								
Oil and natural gas properties	\$ 12.23	\$ 20.20	\$ (7.97)	(39.5)%	\$ 12.69	\$ 20.96	\$ (8.27)	(39.5)%
Other fixed assets	\$ 1.27	\$ 1.02	\$ 0.25	24.5%	\$ 1.23	\$ 1.15	\$ 0.08	7.0%
Total DD&A per Boe	<u>\$ 13.50</u>	<u>\$ 21.22</u>	<u>\$ (7.72)</u>	(36.4)%	<u>\$ 13.92</u>	<u>\$ 22.11</u>	<u>\$ (8.19)</u>	(37.0)%

We adjust our DD&A rate on oil and natural gas properties each quarter for significant changes in our estimates of oil and natural gas reserves and costs. Thus, our DD&A rate could change significantly in the future.

DD&A on oil and natural gas properties decreased for the three months ended September 30, 2016, compared to the prior year quarter of which \$5.2 million was due to a decrease in production and \$17.5 million was due to a lower rate per equivalent unit of production. DD&A on oil and natural gas properties decreased for the nine months ended September 30, 2016, compared to the prior year period of which \$22.5 million was due to a decrease in production and \$56.1 million was due to a lower rate per equivalent unit of production. Our DD&A rate per equivalent unit of production was lower as the full cost amortization base, which consists of future development costs plus the carrying value of oil and natural gas properties, is substantially lower in 2016 following \$1.5 billion in ceiling-test impairments that were recorded in 2015 and \$281.1 million recorded during the first half of 2016.

Asset impairments

	Three months ended		Increase / (Decrease)	Nine months ended		Increase / (Decrease)
	September 30,			September 30,		
	2016	2015		2016	2015	
Asset impairments (in thousands):						
Loss on impairment of oil and natural gas assets	\$ —	\$ 737,758	\$ (737,758)	\$ 281,079	\$ 955,320	\$ (674,241)
Loss on impairment of other assets	202	—	202	1,461	13,311	(11,850)

Oil and natural gas asset impairments. The ceiling test calculation for our oil and natural gas properties dictates that we use the unweighted arithmetic average price of crude oil and natural gas as of the first day of each month for the 12-month period ending on the balance sheet date. The average price utilized in our ceiling test calculation over the past 12 months has generally followed a pattern of decline reflective of the industry downturn as follows:

	Year-end 2015	First quarter 2016	Second quarter 2016	Third quarter 2016
Crude oil (\$ per barrel)	\$ 50.28	\$ 46.26	\$ 43.12	\$ 41.68
Natural gas (\$ per Mmbtu)	\$ 2.58	\$ 2.39	\$ 2.23	\$ 2.28
Natural gas liquids (\$ per barrel)	\$ 15.84	\$ 14.86	\$ 13.92	\$ 14.03

As the decline in average crude oil prices has slowed in the recent quarter coupled with a minor increase in the average natural gas price, we did not incur any ceiling test impairment during the third quarter of 2016, in contrast to the ceiling test impairments previously recorded during the first and second quarter of 2016 totaling \$281.1 million. The ceiling test impairments for the three and nine months ended September 30, 2015, were largely the result of price decline.

The magnitude of our ceiling test write-downs were also impacted by impairments of unevaluated non-producing leasehold, which resulted in a transfer of amounts from unevaluated oil and natural gas properties to the full cost amortization base. Impairments of non-producing leasehold of \$54.7 million were recorded during the first nine months of 2016 compared to \$108.4 million during the first nine months of 2015. The impairments in 2016 and 2015 were recorded as a result of changes in our drilling plans due to the low pricing environment and lower than expected results for certain exploratory activities which resulted in certain undeveloped properties not expected to be developed before lease expiration.

Impairment of other assets. Our impairment losses for the nine months ended September 30, 2015, consists of write-downs of \$6.0 million related to impairments of our stacked drilling rigs and \$7.3 million related to a lower of cost or market adjustment on our equipment inventory. Our impairment losses for the three and nine months ended September 30, 2016, were due to lower of cost or market adjustments on our equipment inventory.

We own four stacked drilling rigs of which one was last utilized in January 2015 while the remaining three have been stacked for three to four years. The deterioration in commodity prices that began in mid-2014 resulted in reduced drilling activity causing the value of such equipment to decline while utilizing third party equipment became more cost effective. This led to the Company impairing the value of the rigs to their estimated fair value. In October 2016, we entered into an agreement for the sale of our four drilling rigs for an aggregate price of \$2.0 million with a scheduled closing in January 2017.

The industry conditions described above also have also led to lower demand for our inventory equipment resulting in obsolescence and lower market prices. These factors resulted in the lower of cost or market adjustments we have recorded on our equipment inventory.

General and administrative expenses (“G&A”)

	Three months ended		Increase / (Decrease)	Percent change	Nine months ended		Increase / (Decrease)	Percent change
	September 30,				September 30,			
	2016	2015			2016	2015		
G&A and cost reduction initiatives (in thousands):								
Gross G&A expenses before Performance Vested stock adjustment	\$ 7,836	\$ 10,144	\$ (2,308)	(22.8)%	\$ 24,695	\$ 34,668	\$ (9,973)	(28.8)%
Performance Vested stock adjustment (1)	(4,761)	—	(4,761)	—	(4,761)	—	(4,761)	—
Capitalized exploration and development costs	(1,556)	(2,755)	1,199	(43.5)%	(5,122)	(8,825)	3,703	(42.0)%
Net G&A expenses	1,519	7,389	(5,870)	(79.4)%	14,812	25,843	(11,031)	(42.7)%
Cost reduction initiatives	89	603	(514)	(85.2)%	3,228	9,739	(6,511)	(66.9)%
Liability management expenses	—	—	—	—	9,396	—	9,396	—
Net G&A, cost reduction initiatives and liability management expenses	\$ 1,608	\$ 7,992	\$ (6,384)	(79.9)%	\$ 27,436	\$ 35,582	\$ (8,146)	(22.9)%
Average G&A expense per Boe	\$ 0.69	\$ 3.01	\$ (2.32)	(77.1)%	\$ 2.18	\$ 3.29	\$ (1.11)	(33.7)%
Average G&A, cost reduction initiatives and liability management expense per Boe	\$ 0.73	\$ 3.26	\$ (2.53)	(77.6)%	\$ 4.04	\$ 4.53	\$ (0.49)	(10.8)%

- (1) A cumulative catch up adjustment was recorded during the third quarter of 2016 to reverse the aggregate compensation cost associated with our Performance Vested restricted stock awards in order to reflect a decrease in the probability that that requisite service would be achieved for these awards. The amount disclosed above is net of any capitalization related to the adjustment.

Gross G&A expenses decreased during the three months and nine months ended September 30, 2016, compared to prior year periods, primarily due to reductions in payroll costs and professional fees. Payroll related costs were lower primarily as a result of lower headcount subsequent to our workforce reductions in the current and prior year. As disclosed in the table above, our net G&A expense was impacted by a catch up adjustment associated with our Performance Vested restricted stock that led to a reduction in expense.

Capitalized exploration and development costs decreased between periods primarily due to the overall decrease in G&A as well as a lower proportion of costs subject to capitalization as we have reduced our exploration, acquisition and development activities in this low commodity price environment.

Cost reduction initiatives include expenses related to our efforts to reduce our capital, operating and administrative costs in response to the deterioration of commodity prices. We implemented workforce reductions during both the current year and prior year periods and therefore recorded one-time severance and termination benefits in connection with the layoffs. The remaining cost reduction expense is a result of third party legal and professional services we have engaged to assist in these initiatives as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(in thousands)				
One-time severance and termination benefits	\$ 89	\$ 596	\$ 3,125	\$ 7,467
Professional fees	—	7	103	2,272
Total cost reduction initiatives expense	\$ 89	\$ 603	\$ 3,228	\$ 9,739

Liability management expenses include third party legal and professional service fees incurred from our activities to restructure our debt and in preparation for our bankruptcy petition.

Income Taxes

Although we recorded net losses for the three and nine months ended September 30, 2016, we did not record any corresponding tax benefit as any deferred tax asset arising from the loss is currently not believed to be realizable and is therefore reduced by a valuation allowance. At September 30, 2016, our valuation allowance is \$580.3 million which reduces our net deferred tax assets to zero value as we continue to believe that it is more likely than not that we will not realize the deferred tax assets primarily related to our cumulative net operating losses. Income tax recognized for the three and nine months ended September 30, 2016, is a result of current Texas margin tax at a rate on gross revenues less certain deductions. Please see “Note 10—Income Taxes” in Item 8. Financial Statement and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2015, which contains additional information about our income taxes.

Other income and expenses

Interest expense. The following table presents interest expense for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(in thousands)				
Senior Notes	\$ —	\$ 26,734	\$ 36,902	\$ 80,149
Credit Facility	5,705	2,435	18,034	7,378
Bank fees and other interest	1,773	1,272	4,048	3,790
Capitalized interest	(42)	(1,843)	(1,741)	(8,115)
Total interest expense	\$ 7,436	\$ 28,598	\$ 57,243	\$ 83,202
Average borrowings (including amounts subject to compromise)	\$ 1,680,976	\$ 1,686,974	\$ 1,729,923	\$ 1,702,818

Total interest expense for the three and nine months ended September 30, 2016, was lower than the prior year periods as a result of lower interest expense on our Senior Notes as we ceased accruing interest upon the filing of our bankruptcy petition. This reduction in expense was partially offset by an increase in interest on our Credit Facility due to increased levels of borrowing and higher interest rates. We also had a reduction in capitalized interest as a result of a lower carrying amount of unevaluated non-producing leasehold subsequent to the leasehold impairments recorded in 2015 and 2016.

Senior Note issuance costs, discount and premium. In March 2016, we wrote off the remaining unamortized issuance costs, premium and discount related to our Senior Notes for a net charge of approximately \$17.0 million. These deferred items are typically amortized over the life of the corresponding bond. However, as a result of not paying the interest due on our 2021 Senior Notes by the end of our 30-day grace period on March 31, 2016, we triggered an Event of Default on our Senior Notes. While uncured, the Event of Default effectively allowed the lender to demand immediate repayment, thus shortening the life of our Senior Notes to the current period. As a result, we wrote off the remaining balance of unamortized issuance costs, premium and discount.

Reorganization Items

Reorganization items reflect, where applicable, post-petition revenues, expenses, gains and losses incurred that are incremental and a direct result of the reorganization of the business. We have incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations.

	Three months ended	Nine months ended
	September 30, 2016	
Professional fees	\$ 4,268	\$ 9,623
Claims for non-performance of executory contract	1,236	1,236
Total reorganization items	<u>\$ 5,504</u>	<u>\$ 10,859</u>

Liquidity and capital resources

Historically, our primary sources of liquidity have been cash generated from our operations, debt, private equity sales and proceeds from asset dispositions. On February 11, 2016, we borrowed \$141.0 million under our Credit Facility which represented substantially all the remaining undrawn amount that was available under the Credit Facility at that time. Since the Petition Date, our principal sources of liquidity have been limited to cash flow from operations and cash on hand. During the pendency of our Chapter 11 Cases, the Lenders have consented to the use of cash collateral, subject to certain terms and conditions. In addition to the cash requirements necessary to fund ongoing operations, we have incurred and will continue to incur significant professional fees and other costs in connection with the preparation and administration of the Chapter 11 Cases.

Our liquidity is greatly impacted by commodity prices for which we have no control over. Beginning in mid 2014 and continuing into the present, oil, natural gas and NGL prices declined significantly and are expected to fluctuate in the future. Historically, we dealt with volatility in commodity prices primarily through the use of derivative contracts as part of our commodity price risk management program. However, our debt defaults and our commencement of the Chapter 11 Cases were events of default under our derivative master agreements thereby providing our derivative counterparties the right to terminate all our derivative positions. As discussed previously, all our outstanding derivative contracts were terminated in May 2016 and we currently do not have any future production hedged. Proceeds from the early terminations, inclusive of amounts receivable for previous settlements, totaled \$119.3 million of which \$103.6 million were utilized to offset outstanding borrowings under our Credit Facility and the remainder was remitted to us during the third quarter of 2016.

While we are in default on our indebtedness and have a bankruptcy filing, we will no longer be able to represent that we can comply with the credit default or bankruptcy covenants under any prospective derivative master agreements and thus may not be able to enter into new hedging transactions. We are currently negotiating with the Lenders, most of which were previously counterparties to our derivative contracts, regarding the resumption of hedging activity prior to our potential emergence from bankruptcy. However, subsequent to the initial hedges that are required under our potential Restructuring, there can be no assurance that we will be able to enter into new derivative transactions on terms that are acceptable to us.

As of September 30, 2016, we held cash and cash equivalents of \$189.4 million and our outstanding debt was \$1.7 billion, which included \$1.2 billion of Senior Notes classified as liabilities subject to compromise and \$444 million under our Credit Facility. Our cash and cash equivalents as of November 4, 2016, was approximately \$180.6 million with no significant change in debt. Although we believe that our cash flow from operations and cash on hand will be adequate to meet the operating cost of our existing business, there are no assurances that our cash flow from operations and cash on hand will be sufficient to continue to fund our operations or to allow us to continue as a going concern until a Chapter 11 plan is confirmed by the Bankruptcy Court or another alternative restructuring transaction is approved by the Bankruptcy Court and consummated. Our long-term liquidity requirements, the adequacy of our capital resources and our ability to continue as a going concern are difficult to predict at this time and ultimately cannot be determined until a Chapter 11 plan has been confirmed, if at all, by the Bankruptcy Court. If our future sources of liquidity are insufficient, we could face substantial liquidity constraints and be unable to continue as a going concern and will likely be required to significantly reduce, delay or eliminate capital expenditures, implement further cost reductions, seek other financing alternatives or seek the sale of some or all of our assets. If we are unsuccessful in developing reserves and adding production through our capital program or our cost-cutting efforts are too overreaching, the value of our oil and natural gas properties and our financial condition and results of operations could be adversely affected.

There can be no assurances regarding our ability to successfully develop, confirm and consummate one or more plans of reorganization or other alternative restructuring transactions that satisfies the conditions of the Bankruptcy Code and, is approved by the Bankruptcy Court.

Sources and uses of cash

Our net change in cash is summarized as follows:

(in thousands)	Nine months ended September 30,		Increase / (Decrease)	Percent change
	2016	2015		
Cash flows (used in) provided by operating activities	\$ 23,120	\$ 29,644	\$ (6,524)	(22.0)%
Cash flows used in investing activities	(28,401)	(64,803)	36,402	(56.2)%
Cash flows provided by financing activities	177,577	41,450	136,127	328.4%
Net increase (decrease) in cash during the period	\$ 172,296	\$ 6,291	\$ 166,005	*

* Not meaningful

Our cash flows from operating activities is derived substantially from the production and sale of oil and natural gas. Our cash flows from operating activities was lower in the current period as a result of lower revenues from price and production declines coupled with restructuring costs we incurred in connection with our bankruptcy. These decreases were partially offset by a \$57.5 million reduction of interest paid from foregoing certain interest payments on our Senior Notes coupled with decreases in our cash operating expenses.

When available, we use the net cash provided by operations to partially fund our acquisition, exploration and development activities. With limited cash flows from operating activities due to low commodity prices and constraints imposed on us while in bankruptcy, our capital expenditures for the nine months ended September 30, 2016, were also funded by settlement proceeds from our derivative instruments.

Our cash flows from investing activities is comprised primarily of cash inflows from asset dispositions and derivative settlement receipts offset by cash outflows for capital expenditures and derivative settlement payments.

Our actual costs incurred, including costs that we have accrued for during the nine months ended September 30, 2016, and our budgeted 2016 capital expenditures for oil and natural gas properties are summarized in the table below.

(in thousands)	EOR Project		Total	2016 Capital Expenditures Budget (1) (2)	
	E&P Areas	Areas		(1)	(2)
Acquisitions	\$ 11,991	\$ —	\$ 11,991	7,427	
Drilling	51,107	—	51,107	50,710	
Enhancements	6,041	18,180	24,221	25,711	
Pipeline and field infrastructure	—	4,502	4,502	12,476	
CO2 purchases	—	9,570	9,570	13,116	
Total	\$ 69,139	\$ 32,252	\$ 101,391	\$ 109,440	

- (1) Approximately 75% of our budgeted amount for enhancements and all of our budgeted amounts for pipeline and field infrastructure and CO2 purchases are allocated to our EOR project areas.
- (2) Budget categories presented include allocations of capitalized interest and general and administrative expenses.

Net cash used in investing activities during the nine months ended September 30, 2016, was comprised of cash outflows for capital expenditure of \$120.0 million and was partially offset by cash inflows from derivative settlement receipts of \$90.6 million and asset dispositions of \$1.0 million. Our cash outflows for capital expenditure is greater than our actual costs incurred for the period, disclosed in the table above, as a result of payments in the current period for expenditures accrued at the end of the prior year. Net cash used in investing activities during the nine months ended September 30, 2015, was comprised primarily of cash outflows for capital expenditure of \$267.2 million partially offset by derivative settlement receipts of \$173.1 million and proceeds from asset dispositions of \$29.3 million. Cash outlays for capital expenditures were significantly higher than costs incurred in the 2015 period as it included a significant paydown of accounts payable for expenditures accrued at the end 2014.

Cash flows from financing activities is comprised primarily of cash inflows from debt borrowings, offset by cash outflows from repayments of debt and capital leases. During the nine months ended September 30, 2016, we borrowed \$181.0 million on our debt and made repayments of \$1.6 million on our debt and \$1.9 million on our capital leases. The cash repayments for debt during the nine months ended September 30, 2016, do not reflect a repayment of \$103.6 million that was effectuated by directly offsetting proceeds from the early termination of our derivative contracts against the outstanding balance on our Credit Facility. During the nine months

ended September 30, 2015, we borrowed \$120.0 million on our debt and made repayments of \$75.4 million on our debt and \$1.8 million on our capital leases.

Indebtedness

Debt consists of the following as of the dates indicated:

(in thousands)	September 30, 2016	December 31, 2015
9.875% Senior Notes due 2020, net of discount of \$0 and \$4,185, respectively (1)	\$ —	\$ 293,815
8.25% Senior Notes due 2021 (1)	—	384,045
7.625% Senior Notes due 2022, including premium of \$0 and \$4,939, respectively (1)	—	530,849
Credit Facility (2)	444,440	367,000
Real estate mortgage notes (2)	9,735	10,182
Installment notes (2)	683	1,799
Capital lease obligations (2)	17,577	19,437
	<u>\$ 472,435</u>	<u>\$ 1,607,127</u>

(1) These unsecured obligations have been classified as “Liabilities subject to compromise” as of September 30, 2016.

(2) These secured obligations have not been classified as “Liabilities subject to compromise” as we believe the values of the underlying assets provide sufficient collateral to satisfy such obligations.

Substantially all of our indebtedness is currently in default as a result of: (i) our commencement of the Chapter 11 Cases, (ii) our nonpayment of interest on the Senior Notes, (iii) the going concern audit opinion in our recent annual financial statements and (iv) violation of certain financial covenants. Moreover, due to our commencement of the Chapter 11 Cases, all of our indebtedness has been accelerated by operation of law. Please see “Note 6—Debt” in Item 8. Financial Statement and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2015, for a discussion of material terms governing our Senior Notes and Credit Facility.

Liabilities Subject to Compromise

Our financial statements include amounts classified as liabilities subject to compromise which represent our estimates of pre-petition obligations that will be allowed as claims in our bankruptcy case. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts. Because the uncertain nature of many of the potential claims has not been determined at this time, the magnitude of such claims is not reasonably estimable at this time. We will continue to evaluate these liabilities during the pendency of the Chapter 11 Cases and adjust amounts as necessary. The magnitude of claims and or the adjustments to such claims may be material. Nothing herein constitutes an admission or waiver of any rights.

The following table summarizes the components of “Liabilities subject to compromise” included on our Consolidated Balance Sheet as of September 30, 2016:

(in thousands)	September 30, 2016
Accounts payable and accrued liabilities	\$ 9,740
Accrued payroll and benefits payable	5,133
Revenue distribution payable	4,690
Senior Notes and associated accrued interest	1,267,265
Liabilities subject to compromise	<u>\$ 1,286,828</u>

Credit Facility

Our Credit Facility, which matures on November 1, 2017, had an outstanding balance of \$444.4 million as of September 30, 2016. The balance as of September 30, 2016, reflects a partial repayment of \$103.6 million during the third quarter of 2016 utilizing proceeds from the early termination of all our outstanding derivative contracts. As a result of defaults, there is currently no availability under this facility.

As discussed earlier, our current negotiations regarding the structure of our exit financing upon emergence from bankruptcy contemplates a four-year revolving credit facility with an initial borrowing base of \$225.0 million augmented by a four-year \$150.0 million term loan.

Subject to certain exceptions, under the Bankruptcy Code, the commencement of the Chapter 11 Cases automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or the filing of other actions against us or our property to recover, collect or secure a claim arising prior to the Petition Date. Creditors are stayed from taking any actions against us as a result of debt defaults, subject to certain limited exceptions permitted by the Bankruptcy Code. There can be no assurances that the agent and the Lenders will consensually agree to the potential Restructuring or other restructuring of the Credit Facility. Should we be unable to reach an agreement with the agent and the Lenders, any proposed non-consensual restructuring of the Credit Facility could result in substantial delay in emergence from bankruptcy and there can be no assurances that the Bankruptcy Court would approve such proposed non-consensual restructuring. During the Chapter 11 Cases, we expect to remain current on our interest payments under the Credit Facility to the extent required by order of the Bankruptcy Court.

Capital Leases

During 2013, we entered into lease financing agreements with U.S. Bank National Association for \$24.5 million through the sale and subsequent leaseback of existing compressors owned by us. The carrying value of these compressors is included in our oil and natural gas full cost pool. The lease financing obligations are for 84 -month terms and include the option to purchase the equipment for a specified price at 72 months as well as an option to purchase the equipment at the end of the lease term for its then-current fair market value. Lease payments related to the equipment are recognized as principal payments and interest expense. As discussed previously, our debt defaults and the commencement of the Chapter 11 Cases are events of default under our capital leases.

Contractual Obligations

We have numerous contractual commitments in the ordinary course of business including debt service requirements, operating leases, capital leases and purchase obligations. Our operating leases primarily relate to CO2 recycle compressors at our EOR facilities and office equipment while our capital leases are related to the sale and subsequent leaseback of compressors. Our purchase obligations primarily relate to contracts for the purchase of CO2 and drilling rig services. In May 2016, we took delivery of an additional CO2 compressor for which we have entered into an 84 month lease with monthly payments of \$23,000.

Other than additional debt borrowings during the year and our new compressor lease discussed above, there were no material changes to our contractual commitments since December 31, 2015.

Financial position

The following were material changes in our balance sheet:

(in thousands)	September 30, 2016	December 31, 2015	Change
Assets			
Cash and cash equivalents	\$ 189,361	\$ 17,065	\$ 172,296
Accounts receivable	41,273	79,000	(37,727)
Derivative instruments	—	163,238	(163,238)
Total oil and natural gas properties	532,871	798,837	(265,966)
Deferred income taxes—noncurrent	—	53,914	(53,914)
Other assets	8,253	27,694	(19,441)
Liabilities			
Accounts payable and accrued liabilities	32,003	66,222	(34,219)
Long-term debt and capital leases, classified as current	472,435	1,607,127	(1,134,692)
Deferred income taxes—current	—	53,914	(53,914)
Liabilities subject to compromise	1,286,828	—	1,286,828

- The increase in cash was primarily due to the \$181.0 million drawing under our Credit Facility during the first quarter of 2016 which represented substantially all the remaining undrawn amount that was available under the Credit Facility at that time.
- The decreases in our accounts receivable (which at December 31, 2015, included \$40.4 million of receivables from derivative settlements) and derivative assets were the result of the early termination of all outstanding derivatives in May 2016 due to default under the master agreements governing those derivatives. During the third quarter of 2016, proceeds from the early terminations and all outstanding receivables from earlier settlements were utilized to offset outstanding borrowings under our Credit Facility in the amount of \$103.6 million with any remainder remitted to us.
- The decline in oil and natural gas properties was a result of the ceiling test impairments and depreciation recorded during the year partially offset by our capital development.
- Both our asset and liability balances on deferred income taxes were reduced as part of an offset allowed with our early adoption of Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17). The accounting update allows all deferred taxes within a single jurisdiction to be aggregated and netted within noncurrent assets or noncurrent liabilities, which in the Company's case results in zero deferred taxes on our balance sheet.
- Other assets decreased due to our write-off of debt issuance costs in conjunction with the defaults on our Senior Notes.
- Accounts payable and accrued liabilities decreased due to a decrease in our drilling and development activity and a reclassification of certain balances to liabilities subject to compromise.
- Long-term debt and capital leases, classified as current decreased due to the reclassification of our Senior Notes to liabilities subject to compromise as well as the \$103.6 million repayment on our Credit Facility described above.
- Liabilities subject to compromise represent our estimate of pre-petition obligations that will be allowed as claims in our bankruptcy case.

Non-GAAP financial measure and reconciliation

Management uses adjusted EBITDA as a supplemental financial measurement to evaluate our operational trends. Items excluded generally represent non-cash adjustments, the timing and amount of which cannot be reasonably estimated and are not considered by management when measuring our overall operating performance. In addition, adjusted EBITDA is generally consistent with the Consolidated EBITDAX calculation that is used in the covenant ratio required under our Credit Facility described in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations. We consider compliance with this covenant to be material. Adjusted EBITDA is used as a supplemental financial measurement in the evaluation of our business and should not be considered as an alternative to net income, as an indicator of our operating performance, as an alternative to cash flows from operating activities, or as a measure of liquidity. Adjusted EBITDA is not defined under GAAP and, accordingly, it may not be a comparable measurement to those used by other companies.

We define adjusted EBITDA as net income, adjusted to exclude (1) asset impairments, (2) interest and other financing costs, net of capitalized interest, (3) income taxes, (4) depreciation, depletion and amortization, (5) non-cash change in fair value of non-hedge derivative instruments, (6) interest income, (7) stock-based compensation expense, (8) gain or loss on disposed assets, (9) upfront premiums paid on settled derivative contracts, (10) impairment charges, (11) expenses associated with our cost reduction initiatives, transition, business optimization and other restructuring charges not to exceed \$25.0 million on a cumulative basis, (12) other significant, unusual non-cash charges and (13) proceeds from any early monetization of derivative contracts with a scheduled maturity date more than 12 months following the date of such monetization—this exclusion is consistent with our prior treatment, for EBITDA reporting, of any large monetization of derivative contracts.

The following table provides a reconciliation of our net loss to adjusted EBITDA for the specified periods:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (5,491)	\$ (647,142)	\$ (400,551)	\$ (831,930)
Interest expense	7,436	28,598	57,243	83,202
Income tax expense (benefit)	(59)	(48,776)	165	(161,314)
Depreciation, depletion, and amortization	29,624	52,027	94,396	173,694
Non-cash change in fair value of non-hedge derivative instruments	—	(30,941)	163,238	67,883
Upfront premiums paid on settled derivative contracts	—	—	(20,608)	—
Proceeds from monetization of derivatives with a scheduled maturity date more than 12 months from the monetization date excluded from EBITDA	—	—	(12,810)	—
Interest income	(50)	(21)	(140)	(168)
Stock-based compensation expense	(4,538)	(20)	(5,254)	(32)
Loss (gain) on sale of assets	195	(77)	128	(1,448)
Loss on impairment of assets	202	737,758	282,540	968,631
Write-off of Senior Note issuance costs, discount and premium	—	—	16,970	—
Cost reduction initiatives expense	89	603	3,228	9,739
Adjusted EBITDA	<u>\$ 27,408</u>	<u>\$ 92,009</u>	<u>\$ 178,545</u>	<u>\$ 308,257</u>

Critical accounting policies

For a discussion of our critical accounting policies, which remain unchanged, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2015.

Also see the footnote disclosures included in “Note 1—Nature of operations and summary of significant accounting policies” in Item 1. Financial Statements of this report.

Recent accounting pronouncements

See recently adopted and issued accounting standards in “Note 1—Nature of operations and summary of significant accounting policies” in Item 1. Financial Statements of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity prices. Our financial condition, results of operations and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond our control. We cannot predict future oil and natural gas prices with any degree of certainty. Sustained declines in oil and natural gas prices may adversely affect our financial condition and results of operations, and may also reduce the amount of net oil and natural gas reserves that we can produce economically. Any reduction in reserves, including reductions due to price fluctuations, can reduce our borrowing base under our Credit Facility and adversely affect our liquidity and our ability to obtain capital for our acquisition, exploration and development activities. Based on our production for the nine months ended September 30, 2016, our gross revenues from oil and natural gas sales would change approximately \$4.8 million for each \$1.00 change in oil and natural gas liquid prices and \$1.2 million for each \$0.10 change in natural gas prices.

In the past, we have entered into various types of derivative instruments, including commodity price swaps, costless collars, put options, and basis protection swaps to mitigate a portion of our exposure to fluctuations in commodity prices. Our debt defaults and the commencement of our Chapter 11 Cases were events of default under our derivative master agreements thereby providing our derivative counterparties the right to terminate all our derivative positions. As a result, all derivative positions were terminated in May, 2016. While we are in default on our indebtedness and have a bankruptcy filing, we will no longer be able to represent that we can comply with the credit default or bankruptcy covenants under any prospective derivative master agreements and thus may not be able to enter into new hedging transactions. We are currently negotiating with the Lenders, most of which were previously counterparties to our derivative contracts, regarding the resumption of hedging activity prior to our potential emergence from bankruptcy. However, subsequent to the initial hedges that are required under our potential Restructuring, there can be no assurance that we will be able to enter into new derivative transactions on terms that are acceptable to us. Please see “Liquidity and capital resources” in Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion on the impact of our master agreement defaults on our derivative portfolio and our ability to hedge.

Interest rates. As of September 30, 2016, borrowings bear interest at the Alternate Base Rate, as defined under the Credit Facility, plus the applicable margin. Any increases in these rates can have an adverse impact on our results of operations and cash flow. Assuming a constant debt level under our Credit Facility of \$444.4 million, the cash flow impact for a 12-month period resulting from a 100 basis point change in interest rates would be \$4.4 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the board of directors. Based on their evaluation as of the end of the period covered by this quarterly report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and are effective to ensure that information required to be disclosed in such reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We may make changes in our internal control procedures from time to time.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please see "Note 9—Commitments and contingencies" in Item 1. Financial Statements of this report for a discussion of our material legal proceedings. In our opinion, there are no other material pending legal proceedings to which we are a party or of which any of our property is the subject. However, due to the nature of our business, certain legal or administrative proceedings may arise from time to time in the ordinary course of business. While the outcome of these legal matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

We are subject to the risks and uncertainties associated with Chapter 11 Cases.

For the duration of our Chapter 11 Cases, our operations and our ability to develop and execute our business plan, and our continuation as a going concern, are subject to the risks and uncertainties associated with bankruptcy. These risks include the following:

- our ability to develop, confirm and consummate a Chapter 11 plan or alternative restructuring transaction, including a sale of all or substantially all of our assets;
- our ability to obtain court approval with respect to motions filed in the Chapter 11 Cases from time to time;
- our ability to maintain our relationships with our suppliers, service providers, customers, employees, and other third parties;
- our ability to maintain contracts that are critical to our operations;
- our ability to fund and execute our business plan;
- the ability of third parties to seek and obtain court approval to terminate contracts and other agreements with us;
- the ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for us to propose and confirm a Chapter 11 plan, to appoint a Chapter 11 trustee, or to convert the Chapter 11 Cases to proceedings under Chapter 7 of the Bankruptcy Code; and

- the actions and decisions of our creditors and other third parties who have interests in our Chapter 11 Cases that may be inconsistent with our plans.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events associated with our Chapter 11 Cases could adversely affect our relationships with our suppliers, service providers, customers, employees, and other third parties, which in turn could adversely affect our operations and financial condition. Also, we need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit our ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with our Chapter 11 Cases, we cannot accurately predict or quantify the ultimate impact that events that occur during our Chapter 11 Cases will have on our business, financial condition and results of operations.

We believe it is highly likely that the shares of our existing common stock will be cancelled in our Chapter 11 Cases.

We have a significant amount of indebtedness that is senior to our existing common stock in our capital structure. As a result, we believe that it is highly likely that the shares of our existing common stock will be cancelled in our Chapter 11 Cases and investors will receive little to no recovery on account of such shares.

Operating under Bankruptcy Court protection for a long period of time may harm our business.

Our future results are dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on our business, financial condition, results of operations and liquidity. So long as the proceedings related to the Chapter 11 Cases continue, our senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on our business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and growth of our business. In addition, the longer the proceedings related to the Chapter 11 Cases continue, the more likely it is that our customers and suppliers will lose confidence in our ability to reorganize our businesses successfully and will seek to establish alternative commercial relationships.

Furthermore, so long as the proceedings related to the Chapter 11 Cases continue, we will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 proceeding. The Chapter 11 proceedings may also require us to seek debtor-in-possession financing to fund operations. If we are unable to obtain such financing on favorable terms or at all, our chances of successfully reorganizing our business may be seriously jeopardized, the likelihood that we instead will be required to liquidate our assets may be enhanced, and, as a result, any securities in the Debtor could become further devalued or become worthless.

Furthermore, we cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization. Even once a plan of reorganization is approved and implemented, our operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from Chapter 11 proceedings.

We may not be able to obtain confirmation of a Chapter 11 Plan of Reorganization.

To emerge successfully from Bankruptcy Court protection as a viable entity, we must meet certain statutory requirements with respect to adequacy of disclosure with respect to a Chapter 11 plan of reorganization ("Plan"), solicit and obtain the requisite acceptances of such a plan and fulfill other statutory conditions for confirmation of such a plan, which have not occurred to date. The confirmation process is subject to numerous, unanticipated potential delays, including a delay in the Bankruptcy Court's commencement of the confirmation hearing regarding our plan.

We may not receive the requisite acceptances of constituencies in the proceedings related to the Chapter 11 proceedings to confirm our Plan. Even if the requisite acceptances of our Plan are received, the Bankruptcy Court may not confirm such a plan. The precise requirements and evidentiary showing for confirming a plan, notwithstanding its rejection by one or more impaired classes of claims or equity interests, depends upon a number of factors including, without limitation, the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock).

If a Chapter 11 plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether we would be able to reorganize our business and what, if anything, holders of claims against us would ultimately receive with respect to their claims.

Even if a Chapter 11 Plan of Reorganization is consummated, we will continue to face risks.

Even if a Chapter 11 plan of reorganization is consummated, we will continue to face a number of risks, including certain risks that are beyond our control, such as further deterioration or other changes in economic conditions, changes in our industry, potential revaluing of our assets due to Chapter 11 proceedings, changes in consumer demand for, and acceptance of, our oil and gas and increasing expenses. Some of these concerns and effects typically become more acute when a case under the Bankruptcy Code continues for a protracted period without indication of how or when the case may be completed. As a result of these risks and others, there is no guaranty that a confirmed Chapter 11 plan of reorganization will achieve our stated goals.

In addition, at the outset of the Chapter 11 proceedings, the Bankruptcy Code gives the Debtor the exclusive right to propose the Plan and prohibits creditors, equity security holders and others from proposing a plan. We have currently retained the exclusive right to propose the Plan. If the Bankruptcy Court terminates that right, however, or the exclusivity period expires, there could be a material adverse effect on our ability to achieve confirmation of the Plan in order to achieve our stated goals.

Furthermore, even if our debts are reduced or discharged through the Plan, we may need to raise additional funds through public or private debt or equity financing or other various means to fund our business after the completion of the proceedings related to the Chapter 11 Cases. Adequate funds may not be available when needed or may not be available on favorable terms.

We have substantial liquidity needs and may be required to seek additional financing. If we are unable to obtain financing on satisfactory terms or maintain adequate liquidity, our ability to replace our proved reserves or to maintain current production levels and generate revenue will be limited.

Our principal sources of liquidity historically have been cash flow from operations, sales of oil and natural gas properties, borrowings under our Credit Facility, and issuances of debt securities. Our capital program will require additional financing above the level of cash generated by our operations to fund growth. If our cash flow from operations remains depressed or decreases as a result of lower commodity prices or otherwise, our ability to expend the capital necessary to replace our proved reserves, maintain our leasehold acreage or maintain current production may be limited, resulting in decreased production and proved reserves over time. In addition, drilling activity may be directed by our partners in certain areas and we may have to forfeit acreage if we do not have sufficient capital resources to fund our portion of expenses.

We face uncertainty regarding the adequacy of our liquidity and capital resources and have extremely limited, if any, access to additional financing. In addition to the cash requirement necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with preparation for the Chapter 11 proceedings and expect that we will continue to incur significant professional fees and costs throughout our Chapter 11 proceedings. We cannot assure you that cash on hand and cash flow from operations will be sufficient to continue to fund our operations and allow us to satisfy our obligations related to Chapter 11 Cases until we are able to emerge from our Chapter 11 proceedings.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things; (i) our ability to comply with the terms and conditions of any cash collateral order entered by the Bankruptcy Court in connection with the Chapter 11 proceedings, (ii) our ability to maintain adequate cash on hand, (iii) our ability to generate cash flow from operations, (iv) our ability to develop, confirm and consummate a Chapter 11 plan or other alternative restructuring transaction, and (v) the cost, duration and outcome of the Chapter 11 proceedings. Our ability to maintain adequate liquidity depends in part upon industry conditions and general economic, financial, competitive, regulatory and other factors beyond our control. In the event that cash on hand and cash flow from operation is not sufficient to meet our liquidity needs, we may be required to seek additional financing. We can provide no assurance that additional financing would be available or, if available, offered to us on acceptable terms. Our access to additional financing is, and for the foreseeable future will likely continue to be, extremely limited if it is available at all. Our long-term liquidity requirements and the adequacy of our capital resources are difficult to predict at this time.

In certain instances, a Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code.

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the Company, the Bankruptcy Court may convert our Chapter 11 bankruptcy case to a case under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. We believe that liquidation under Chapter 7 would result in significantly smaller distributions being made to our creditors than those provided for in a Chapter 11 plan because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing or selling in a controlled manner the Company's businesses as a going concern, (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with cessation of operations.

We may be subject to claims that will not be discharged in the Chapter 11 proceedings, which could have a material adverse effect on our financial condition and results or operations.

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to May 10, 2016, or before confirmation of the plan of reorganization (i) would be subject to compromise and/or treatment under the plan of reorganization and/or (ii) would be discharged in accordance with the terms of the plan of reorganization. Any claims not ultimately discharged through a plan of reorganization could be asserted against the reorganized entities and may have an adverse effect on our financial condition and results of operations on a post-reorganization basis.

Our financial results may be volatile and may not reflect historical trends.

During the Chapter 11 proceedings, we expect our financial results to continue to be volatile as asset impairments, asset dispositions, restructuring activities and expenses, contract terminations and rejections, and claims assessments significantly impact our consolidated financial statements. As a result, our historical financial performance is likely not indicative of our financial performance after the date of the bankruptcy filing.

In addition, if we emerge from Chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to our operating plans pursuant to a plan of reorganization. We also may be required to adopt fresh start accounting, in which case our assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on our consolidated balance sheets. Our financial results after the application of fresh start accounting also may be different from historical trends.

Transfers of our equity, or issuances of equity in connection with our Chapter 11 proceedings, may impair our ability to utilize our federal income tax net operating loss carryforwards in future years.

Under federal income tax law, a corporation is generally permitted to deduct from taxable income net operating losses carried forward from prior years. We have federal net operating loss carryforwards of approximately \$441 million as of December 31, 2015. Our ability to utilize our net operating loss carryforwards to offset future taxable income and to reduce federal income tax liability is subject to certain requirements and restrictions. If we experience an “ownership change,” as defined in section 382 of the Internal Revenue Code, then our ability to use our net operating loss carryforwards may be substantially limited, which could have a negative impact on our financial position and results of operations. Generally, there is an “ownership change” if one or more stockholders owning 5% or more of a corporation’s common stock have aggregate increases in their ownership of such stock of more than 50 percentage points over the prior three-year period. Following the implementation a plan of reorganization, it is possible that an “ownership change” may be deemed to occur. Under section 382 of the Internal Revenue Code, absent an applicable exception, if a corporation undergoes an “ownership change,” the amount of its net operating losses that may be utilized to offset future taxable income generally is subject to an annual limitation.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Please see “Note 2—Chapter 11 filing” in Item 1. Financial Statements of this report for a discussion of our default upon senior securities.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Second Amended and Restated Certificate of Incorporation of Chaparral Energy, Inc. (the "Company"), dated as of April 12, 2010. (Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on April 14, 2010)
3.2*	Second Amended and Restated Bylaws of the Company, dated as of April 12, 2010. (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on April 14, 2010)
31.1	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference

CERTIFICATION

I, Mark A. Fischer, Chief Executive Officer of Chaparral Energy, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chaparral Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

/s/ Mark A. Fischer
Mark A. Fischer
Chief Executive Officer

CERTIFICATION

I, Joseph O. Evans, Chief Financial Officer of Chaparral Energy, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chaparral Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

/s/ Joseph O. Evans
Joseph O. Evans
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, Mark A. Fischer, Chief Executive Officer of Chaparral Energy Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2016 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 7, 2016

/s/ Mark A. Fischer
Mark A. Fischer
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PERIODIC REPORT

I, Joseph O. Evans, Chief Financial Officer of Chaparral Energy Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the year ended September 30, 2016 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 7, 2016

/s/ Joseph O. Evans

Joseph O. Evans
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

