

HALCON RESOURCES CORP

FORM 8-K (Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(D) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **February 28, 2017**

HALCÓN RESOURCES CORPORATION

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of
incorporation)

001-35467
(Commission File Number)

20-0700684
(IRS Employer
Identification No.)

1000 Louisiana St., Suite 6700
Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

Registrant's telephone number, including area code: **(832) 538-0300**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 Other Events

As previously disclosed on January 24, 2017, Halcón Energy Properties, Inc., a wholly owned subsidiary of Halcón Resources Corporation (“Halcón” or the “Company”), entered into a Purchase and Sale Agreement (the “Purchase Agreement”) with Samson Exploration, LLC (“Samson”), pursuant to which Halcón has agreed to acquire a total of 20,901 net acres and related assets in the Southern Delaware Basin located in Pecos and Reeves Counties, Texas (collectively, the “Acquired Properties”). On February 28, 2017, the Company completed the acquisition of the Acquired Properties for a total purchase price of \$705.0 million, subject to customary post-closing purchase price adjustments. A portion of the purchase price for the Acquired Properties was paid from the net proceeds from the sale of approximately 5,518 shares of 8% automatically convertible preferred stock, par value \$0.0001 per share, which closed on February 27, 2017 (the “Preferred Stock Offering”).

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired.

Statements of Revenues and Direct Operating Expenses of the Acquired Properties for the years ended December 31, 2016 and 2015 (audited), together with the accompanying Independent Auditor’s Report, are set forth in Exhibit 99.1.

(b) Pro Forma Financial Information.

The Unaudited Pro Forma Condensed Combined Financial Information of the Company as of December 31, 2016 and for the year ended December 31, 2016, is set forth in Exhibit 99.2 (the “Pro Forma Financial Information”). The Pro Forma Financial Information gives effect to (i) the acquisition of the Acquired Properties, (ii) the related Preferred Stock Offering, (iii) fresh-start accounting adjustments resulting from emerging from Chapter 11 bankruptcy, and (iv) the previously disclosed divestiture of all of the membership interests of HK TMS LLC, a prior subsidiary of the Company which held oil and gas properties in the Tuscaloosa Marine Shale in Louisiana and Mississippi. The Pro Forma Financial Information does not give effect to the pending disposition of the Company’s East Texas Eagle Ford assets, which was announced on January 24, 2017. As provided under Item 2.01 of Form 8-K, the Company expects to file pro forma financial information reflecting the disposition of such assets within four business days after the closing of the transaction, which is expected on or about March 9, 2017.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of BDO USA, LLP.
99.1	Statements of Revenues and Direct Operating Expenses of the Acquired Properties for the years ended December 31, 2016 and 2015 (audited).
99.2	Unaudited Pro Forma Condensed Combined Financial Information of the Company as of December 31, 2016 and for the year ended December 31, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HALCÓN RESOURCES CORPORATION

Date: March 1, 2017

By: /s/ Mark J. Mize
Mark J. Mize
Executive Vice President, Chief Financial
Officer and Treasurer

INDEX TO EXHIBITS

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99.2	Unaudited Pro Forma Condensed Combined Financial Information of the Company as of December 31, 2016 and for the year ended December 31, 2016.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-213565) of Halcón Resources Corporation of our report dated March 1, 2017, relating to the statements of revenues and direct operating expenses of the oil, natural gas and natural gas liquids producing properties and gathering systems acquired by Halcón Resources Corporation from Samson Exploration, LLC, for the years ended December 31, 2016 and 2015, which appears in Halcón Resources Corporation's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 1, 2017.

/s/ BDO USA, LLP
Houston, Texas
March 1, 2017

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Independent Auditor's Report

Halcón Management
Halcón Resources Corporation
Houston, Texas

We have audited the accompanying statements of revenues and direct operating expenses of the oil, natural gas and natural gas liquids producing properties and gathering systems (the "Acquired Properties"), as defined in Note 1, acquired on February 28, 2017 by Halcón Resources Corporation for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the statements of revenues and direct operating expenses in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statements of revenues and direct operating expenses that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statements of revenues and direct operating expenses based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of revenues and direct operating expenses are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statements of revenues and direct operating expenses. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statements of revenues and direct operating expenses, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statements of revenues and direct operating expenses in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statements of revenues and direct operating expenses.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statements of revenues and direct operating expenses referred to above present fairly, in all material respects, the revenues and direct operating expenses of the Acquired Properties for the years ended December 31, 2016 and 2015 in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the accompanying statements of revenues and direct operating expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Halcón Resources Corporation's Form 8-K and are not intended to be a complete presentation of the results of the operations of the Acquired Properties. Our opinion is not modified with respect to this matter.

/s/ BDO USA, LLP

March 1, 2017
Houston, Texas

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

<u>Year Ended December 31,</u>	<u>2016</u>	<u>2015</u>
Revenues:		
Oil, natural gas and natural gas liquids sales	\$ 33,938,187	\$ 11,477,794
Transportation services	<u>1,257,268</u>	<u>50,115</u>
Total revenues	<u>35,195,455</u>	<u>11,527,909</u>
Direct operating expenses:		
Lease operating expenses	3,743,002	1,691,898
Workover expenses	230,440	—
Transportation expenses	1,222,623	21,985
Production taxes	1,886,241	614,112
Marketing expenses	<u>435,849</u>	<u>116,539</u>
Total direct operating expenses	<u>7,518,155</u>	<u>2,444,534</u>
Revenues in excess of direct operating expenses	<u>\$ 27,677,300</u>	<u>\$ 9,083,375</u>

See accompanying Notes to the Statements of Revenues and Direct Operating Expenses.

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

On January 18, 2017, Halcón Energy Properties, Inc., a wholly owned subsidiary of Halcón Resources Corporation (“Halcón” or the “Company”), entered into a Purchase and Sale Agreement (the “Purchase Agreement”) with Samson Exploration, LLC (“Seller”), pursuant to which Halcón has agreed to acquire oil, natural gas and natural gas liquids properties and gathering assets in the Southern Delaware Basin located in Pecos and Reeves Counties, Texas (collectively, the “Acquired Properties”) for a total purchase price of \$705.0 million. The effective date of the acquisition is November 1, 2016, and the transaction closed on February 28, 2017.

The Acquired Properties were not accounted for as a separate subsidiary or division during the periods presented. Accordingly, complete financial statements under U.S. generally accepted accounting principles (“GAAP”) are not available or practicable to obtain for the Acquired Properties. The Statement of Revenues and Direct Operating Expenses is not intended to be a complete presentation of the results of operations of the Acquired Properties and may not be representative of future operations as they do not include general and administrative expenses, effects of derivative transactions, interest income or expense, depreciation, depletion and amortization, provision for income taxes and other income and expense items not directly associated with revenues from natural gas, natural gas liquids (“NGLs”) and crude oil and transportation services. The accompanying Statements of Revenues and Direct Operating Expenses are presented in lieu of the full financial statements required under Rule 3-05 of the Securities and Exchange Commission’s Regulation S-X.

Revenue Recognition

Natural gas sales, NGLs, and Crude Oil Sales. The Acquired Properties oil, natural gas and natural gas liquids production is sold, title is passed and revenue is recognized at or near the Acquired Properties wells under short-term purchase contracts at prevailing prices in accordance with arrangements which are customary in the oil, natural gas and natural gas liquids industry. Sales of natural gas applicable to the Acquired Properties interest in producing natural gas leases are recorded using the sales method. The sales method requires revenue recognition when the natural gas is metered and title transferred pursuant to the natural gas sales contracts covering the Acquired Properties interests in natural gas reserves. Revenues related to the sales of hydrocarbons totaled approximately \$33.9 million and \$11.5 million for the years ended December 31, 2016 and 2015, respectively. The Acquired Properties had no significant imbalances during the periods presented.

Transportation services. Revenue is recognized under fee arrangements. The gathering systems receive a fee for gathering and transportation of natural gas and gathering and recycling of water. The fees under these arrangements are based on actual volumes and rates. Revenues associated with these fees are recognized in the month to which the fee applies. Revenues related to transportation services totaled \$1,257,268 and \$50,115 for the years ended December 31, 2016 and 2015, respectively.

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Notes to the Financial Statements

Direct Operating Expenses

Direct operating expenses are recognized when incurred and consist of direct expenses of the Acquired Properties. The direct operating expenses include lease operating, production taxes, and transportation expenses. Lease operating expenses include lifting costs, well repair expenses, facility maintenance expenses, well workover costs, and other field-related expenses. Lease operating expenses also include expenses directly associated with support personnel, support services, equipment, and facilities directly related to oil and gas production activities. Transportation expenses include costs to gather, transport, treat and store natural gas and water.

Concentration of Credit Risk

Arrangements for oil, natural gas and natural gas liquids sales are evidenced by signed contracts with determinable market prices, and revenues are recorded when production is delivered. A significant majority of the purchasers of these products have investment grade credit rating and material credit losses have been rare.

The Acquired Properties had revenues from four purchasers, which accounted for 100% of total oil, natural gas and natural gas liquids revenues for the year ended December 31, 2016 and 2015. This concentration of customers may impact the Acquired Properties' overall business risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. The Sellers believe this risk is mitigated by the size, reputation and nature of its purchasers. All of the Acquired Properties' revenues are from oil and gas production in Texas. These concentrations may also impact the Acquired Properties by changes in the Texas region.

2. Subsequent Events

The Company has evaluated subsequent events through March 1, 2017, the date the accompanying Statements of Revenues and Direct Operating Expenses were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the accompanying Statements of Revenues and Direct Operating Expenses.

3. Contingencies

Pursuant to the terms of the Purchase and Sale Agreement between the Company and the Seller of the Acquired Properties, any obligations relating to claims, litigation or disputes pending as of the effective date (November 1, 2016) or any matters arising in connection with ownership of the Acquired Properties prior to the effective date are retained by the Seller.

The activities of the Acquired Properties' working interest may become subject to potential claims and litigation in the normal course of operations. The Company is not aware of any legal, environmental or other contingencies that would have a material effect on the Statements of Revenues and Direct Operating Expenses.

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Supplemental Oil and Natural Gas Information (Unaudited)

Oil and Natural Gas Reserves Information

The following tables summarize the net ownership interest in the proved oil and gas reserves and the standardized measure of discounted future net cash flows related to the proved oil, natural gas and natural gas liquids for the Acquired Properties.

Proved reserves were estimated by qualified petroleum engineers of the Company using historical data and other information from the records of the Seller.

Numerous uncertainties are inherent in establishing quantities of proved reserves. The following reserve data represents estimates only, and should not be deemed exact. In addition, the standardized measure of discounted future net cash flows should not be construed as the current market value of the Acquired Properties or the cost that would be incurred to obtain equivalent reserves.

All information set forth herein relating to the proved reserves, including the estimated future net cash flows and present values, from those dates, is taken or derived from the records of the Sellers of the Acquired Properties. The estimates of reserves attributable to the Acquisition may include development plans for those properties which are different from those that the Company will ultimately implement. These estimates were based upon review of historical production data and other geological, economic, ownership, and engineering data provided related to the reserves. No reports on these reserves have been filed with any federal agency. In accordance with the SEC's guidelines, estimates of proved reserves and the future net revenues from which present values are derived were based on an unweighted 12-month average of the first-day-of-the-month price for the period, and held constant throughout the life of the Acquired Properties. Operating costs, development costs, and certain production-related taxes, which are based on current information and held constant, were deducted in arriving at estimated future net revenues.

The proved reserves of the Acquired Properties, all held within the United States, together with the changes therein are as follows:

	<u>Oil (MBbls)</u>	<u>Natural Gas and NGL (MMcf)</u>	<u>Total (Mboe)</u>
Balance as of January 1, 2015	278,756	1,091,566	460,684
Revisions to previous estimates	131,363	(85,845)	117,056
Extensions and discoveries	1,174,557	1,907,736	1,492,512
Production	<u>(240,181)</u>	<u>(313,856)</u>	<u>(292,490)</u>
Balance as of December 31, 2015	1,344,495	2,599,600	1,777,762
Revisions to previous estimates	437,234	612,192	539,266
Extensions and discoveries	14,154,731	31,857,305	19,464,282
Production	<u>(722,651)</u>	<u>(1,118,084)</u>	<u>(908,998)</u>
Balance as of December 31, 2016	<u>15,213,810</u>	<u>33,951,014</u>	<u>20,872,312</u>

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Supplemental Oil and Natural Gas Information (Unaudited)

Proved Developed	Oil (MBbls)	Natural Gas and NGL (MMcf)	Total (Mboe)
Balance as of January 1, 2015	278,756	1,091,566	460,684
Balance as of December 31, 2015	1,344,495	2,599,600	1,777,762
Balance as of December 31, 2016	3,231,278	7,484,011	4,478,613
Proved Undeveloped			
Balance as of January 1, 2015	—	—	—
Balance as of December 31, 2015	—	—	—
Balance as of December 31, 2016	11,982,532	26,467,003	16,393,699

Natural gas and natural gas liquids have been combined as these products have not been tracked independently and it is not practicable to obtain and disclose such information separately.

Future cash inflows are computed by applying a 12-month average of the first day of the month commodity price adjusted for location and quality differentials to year-end quantities of proved reserves. Future development costs include future asset retirement costs. Future production costs do not include any general and administrative expenses. A discount factor of 10% was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair value of the Acquired Properties.

The discounted future cash flow estimates do not include the effects of derivative instruments. The average price used per commodity follows:

Year Ended December 31,	2016	2015
Average 12-month price, net of differentials, per Mcf of natural gas	\$ 2.48	\$ 2.59
Average 12-month price, net of differentials, per barrel of oil	\$ 42.75	\$ 50.28

Standardized measure of discounted future net cash flows relating to proved reserves was as follows:

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Supplemental Oil and Natural Gas Information (Unaudited)

Year Ended December 31,	2016	2015
Future cash inflows	\$ 695,655,800	\$ 70,852,300
Future costs -		
Production	(200,606,800)	(23,137,900)
Development and net abandonment	(200,997,400)	—
Future net inflows before income taxes	294,051,600	47,714,400
Future income taxes	(102,918,060)	(16,700,040)
Future net cash flows	191,133,540	31,014,360
10% discount factor	(121,449,640)	(11,144,640)
Standardized measure of discounted future net cash flows	<u>\$ 69,683,900</u>	<u>\$ 19,869,720</u>

STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE ACQUIRED PROPERTIES

Supplemental Oil and Natural Gas Information (Unaudited)

The principal changes in standardized measure of discounted future net cash flows were as follows:

<u>Year Ended December 31,</u>	<u>2016</u>	<u>2015</u>
Standardized measure at the beginning of the year	\$ 19,869,720	\$ 7,237,295
Sales, net of production costs	(26,843,670)	(9,044,056)
Net change in prices, net of production costs	709,093	(2,563,020)
Extension, discoveries, and improved recovery, net of future production and development costs	95,030,547	25,663,910
Revision of quantity estimates	4,663,119	2,012,783
Accretion of discount	1,493,848	406,508
Net change in income taxes	(26,823,020)	(6,802,075)
Changes in production rates and timing	<u>1,584,262</u>	<u>2,958,375</u>
Standardized measure at the end of the year	<u>\$ 69,683,900</u>	<u>\$ 19,869,720</u>

Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined financial information (the “Pro Forma Financial Information”) sets forth selected historical consolidated financial information for Halcón Resources Corporation (the “Company” or “Halcón”) and gives effect to the Acquired Properties and related automatically convertible preferred stock financing, fresh-start accounting adjustments resulting from emerging from Chapter 11 bankruptcy, and the HK TMS Divestiture, all as described below. The historical data provided for the year ended December 31, 2016 is derived from the audited annual consolidated financial statements included in Halcón’s Annual Report on Form 10-K for the year ended December 31, 2016.

The unaudited pro forma condensed combined statement of operations is presented for the fiscal year ended December 31, 2016. The unaudited pro forma condensed combined balance sheet is presented as of December 31, 2016. The Pro Forma Financial Information is provided for informational and illustrative purposes only and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes in Halcón’s Annual Report on Form 10-K for the year ended December 31, 2016, in addition to the Acquired Properties’ statements of revenues and direct operating expenses as of and for the years ended December 31, 2016 and 2015 contained herein. Additionally, refer to the Current Report on Form 8-K filed on October 5, 2016 for Pro Forma Financial Information presented in connection with the HK TMS Divestiture.

The pro forma adjustments, as described in the notes to the Pro Forma Financial Information, are based on currently available information. Management believes such adjustments are reasonable, factually supportable and directly attributable to the events and transactions described below. The unaudited pro forma condensed combined balance sheet reflects the impact of the Acquired Properties and the related equity financing as if they had been completed on December 31, 2016. The unaudited pro forma condensed combined statement of operations gives effect to the fresh-start accounting adjustments arising from Chapter 11 bankruptcy emergence, the HK TMS Divestiture, the Acquired Properties and related equity financing as if they had been completed on January 1, 2016, and only includes adjustments which have an ongoing impact. The Pro Forma Financial Information does not purport to represent what the Company’s actual consolidated results of operations or financial position would have been had the events and transactions occurred on the dates assumed, nor is it necessarily indicative of the Company’s future financial condition or consolidated results of operations.

The Pro Forma Financial Information gives effect to the following:

- **Fresh-Start Accounting.** Halcón adopted fresh-start accounting as of September 9, 2016, the effective date of its emergence from Chapter 11 bankruptcy proceedings, resulting in the Company becoming a new entity for financial reporting purposes. Upon the adoption of fresh-start accounting, Halcón’s assets and liabilities were recorded at their fair values as of the fresh-start reporting date and liabilities subject to compromise of the predecessor entity
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were either reinstated or forgiven as part of the bankruptcy through an exchange of equity or equity-linked instruments.

- **HK TMS Divestiture.** On September 30, 2016 (“the Effective Time”), certain wholly owned subsidiaries (“the Sellers”) of Halcón executed an Assignment and Assumption Agreement (the “Assignment Agreement”) with an affiliate of Apollo Global Management (the “Buyer”) pursuant to which the Sellers assigned to Buyer, as of the Effective Time, one hundred percent (100%) of the common shares (the “Membership Interests”) of HK TMS LLC (“HK TMS”), which transaction is referred to as the “HK TMS Divestiture.” In exchange for the assignment of the Membership Interests, the Buyer assumed all obligations relating to the Membership Interests of HK TMS from and after the Effective Time.
- **The Acquired Properties .** On January 18, 2017, Halcón Energy Properties, Inc. (“Buyer”) entered into a purchase and sale agreement with Samson Exploration, LLC (“Seller”) to acquire 20,901 net acres in the Southern Delaware Basin (the “Acquired Properties”) for \$705 million. The transaction closed on February 28, 2017.
- **Equity Financing of Preferred Stock.** To fund a portion of the purchase price for the Acquired Properties, the Company sold 5,518 shares to investors of 8% automatically convertible preferred stock, par value \$0.0001 per share. The preferred stock is expected to convert in April 2017 at a conversion ratio of 10,000 common shares for each share of preferred stock.

The Pro Forma Financial Information has been prepared using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States, whereby the Company is required to record the assets acquired and liabilities assumed in the acquisition at their estimated fair values as of the closing date. The fair value adjustments associated with the assets and liabilities used in the preparation of the unaudited pro forma condensed combined financial statements included herein should be considered preliminary. Actual results could vary materially from the Pro Forma Financial Information. In addition, the adjustments related to the Acquired Properties do not reflect any of the synergies and cost reductions that may result.

Halcón Resources Corporation
Unaudited Pro Forma Condensed Combined Balance Sheet

As of December 31, 2016
(in thousands, except share and per share data)

	Successor Consolidated Halcón Resources Historical	Equity Financing	Acquired Properties	Halcón Resources Pro Forma
Current assets:				
Cash	\$ 24	\$ 400,055(1)	\$ (400,055) (2)	\$ 24
Accounts receivable	147,762	—	—	147,762
Receivables from derivative contracts	5,923	—	—	5,923
Restricted cash	182	—	—	182
Prepays and other	6,758	—	—	6,758
Total current assets	<u>160,649</u>	<u>400,055</u>	<u>(400,055)</u>	<u>160,649</u>
Oil and natural gas properties (full cost method):				
Evaluated	1,269,034	—	76,350(3)(4)	1,345,384
Unevaluated	316,439	—	598,180(3)	914,619
Gross oil and natural gas properties	1,585,473	—	674,530	2,260,003
Less - accumulated depletion	(465,849)	—	—	(465,849)
Net oil and natural gas properties	<u>1,119,624</u>	<u>—</u>	<u>674,530</u>	<u>1,794,154</u>
Other operating property and equipment:				
Gas gathering and other operating assets	38,617	—	31,820(3)(4)	70,437
Less - accumulated depreciation	(1,107)	—	—	(1,107)
Net other operating property and equipment	<u>37,510</u>	<u>—</u>	<u>31,820</u>	<u>69,330</u>
Other noncurrent assets:				
Funds in escrow and other	1,887	—	—	1,887
Total assets	<u>\$ 1,319,670</u>	<u>\$ 400,055</u>	<u>\$ 306,295</u>	<u>\$ 2,026,020</u>
Current liabilities:				
Accounts payable and accrued liabilities	\$ 186,184	\$ —	\$ —	186,184
Liabilities from derivative contracts	16,434	—	—	16,434
Other	4,935	—	—	4,935
Total current liabilities	<u>207,553</u>	<u>—</u>	<u>—</u>	<u>207,553</u>
Long-term debt, net	<u>964,653</u>	<u>—</u>	<u>304,945(2)</u>	<u>1,269,598</u>
Other noncurrent liabilities:				
Liabilities from derivative contracts	486	—	—	486
Asset retirement obligations	31,985	—	1,350(4)	33,335
Other	2,305	—	—	2,305
Commitments and contingencies				
Stockholders' equity (deficit):				
Preferred Stock: 1,000,000 shares of \$0.0001 par value authorized	—	—(1)	—	—
Common stock: 1,000,000,000 shares of \$0.0001 par value authorized	9	6(1)	—	15
Additional paid-in capital	592,663	448,056(1)	—	1,040,719
Accumulated deficit	(479,984)	(48,007)(1)	—	(527,991)
Total stockholders' equity (deficit)	<u>112,688</u>	<u>400,055</u>	<u>—</u>	<u>512,743</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 1,319,670</u>	<u>\$ 400,055</u>	<u>\$ 306,295</u>	<u>\$ 2,026,020</u>

Halcón Resources Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
(in thousands, except per share data)

	Period from January 1, 2016 through September 9, 2016	Period from September 10, 2016 through December 31, 2016					
	Predecessor	Successor	Fresh- Start Accounting Adjustments	HK TMS, LLC Divestiture	Equity Financing	Acquired Properties	Halcón Resources Pro Forma
Operating revenues	\$ 266,843	\$ 153,362	\$ —	\$ (5,754)(5)	\$ —	\$ 35,195(12)	\$ 449,646
Operating expenses							
Production							
Lease operating	50,032	22,382	—	(1,222)(6)	—	3,743(13)	74,935
Workover and other	22,507	10,510	—	(25)(6)	—	230(13)	33,222
Taxes other than income	24,453	12,364	—	(141)(6)	—	1,886(13)	38,562
Gathering and other	29,279	14,677	—	(7)(6)	—	1,658(13)	45,607
Restructuring	5,168	—	—	—	—	—	5,168
General and administrative	83,641	41,395	—	(90)(6)	—	—	124,946
Depletion, depreciation and accretion	120,555	46,899	(1,943)(1)	(4,539)(7)	—	13,598(14)	174,570
Full cost ceiling impairment	754,769	420,934	—	(83,941)(7)	—	—	1,091,762
Other operating property and equipment impairment	28,056	—	—	—	—	—	28,056
Total operating expenses	1,118,460	569,161	(1,943)	(89,965)	—	21,115	1,616,828
Income (loss) from operations	(851,617)	(415,799)	1,943	84,211	—	14,080	(1,167,182)
Net gain (loss) on derivative contracts	(17,998)	(27,740)	—	—	—	—	(45,738)
Interest expense and other, net	(122,249)	(28,861)	83,595(2)	(5,476)(8)	—	—	(72,991)
Reorganization items	913,722	(2,049)	(911,673)(3)	—	—	—	—
Gain (loss) on extinguishment of debt	81,434	—	—	—	—	—	81,434
Total other income (expenses)	854,909	(58,650)	(828,078)	(5,476)	—	—	(37,295)
Income (loss) before income taxes	3,292	(474,449)	(826,135)	78,735	—	14,080	(1,204,477)
Income tax benefit (provision)	8,666	(4,744)	(16,719)(4)	1,930(9)	—	(5,536)(15)	(16,403)
Net income (loss)	11,958	(479,193)	(842,854)	80,665	—	8,544	(1,220,880)
Series A preferred dividends	(8,847)	—	—	—	—	—	(8,847)
Preferred dividends and accretion on redeemable noncontrolling interest	(35,905)	(791)	—	36,696(10)	—	—	—
Non-cash preferred dividend	—	—	—	—	(48,007)(11)	—	(48,007)

Net income (loss) available to common stockholders	\$ (32,794)	\$ (479,984)	\$ (842,854)	\$ 117,361	\$ (48,007)	\$ 8,544	\$ (1,277,734)
Basic & Diluted	\$ (0.27)	\$ (5.26)					\$ (8.73)
Basic & Diluted Shares Outstanding	120,513	91,228			55,180		146,408

Adjustments to the Unaudited Pro Forma Condensed Combined Financial Statements

Balance sheet adjustments

- Equity Financing

1. Includes cash proceeds of \$400.1 million related to the issuance of 8% automatically convertible preferred stock. The Company used the proceeds to fund a portion of the Acquired Properties. The preferred stock is expected to convert in April 2017 at a conversion ratio of 10,000 common shares for each share of preferred stock. The adjustment reflects the expected preferred stock conversion to common stock. Additionally, at the date of the preferred stock commitment (January 24, 2017), the preferred stock was considered to have beneficial conversion feature, as defined by accounting principles generally accepted in the United States, because the proceeds of \$7.25 per converted common share was less than the fair value of common stock of \$8.12 per share. The
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beneficial conversion feature is reflected through a non-cash preferred stock dividend which reduces net income (loss) available to common stockholders with a corresponding increase to common stock and additional paid-in capital.

- Acquired Properties

2. The Company used the proceeds of \$400.1 million of equity financing plus a draw of \$304.9 million on its revolving credit facility to fund the acquisition.
3. Reflects the preliminary fair value of the acquired assets.
4. Represents the estimated fair value of long-term asset retirement obligations on oil and natural gas properties related to the acquisition. No estimate can be made at this time with respect to the fair value of asset retirement obligations on any gas gathering assets acquired.

Statement of operations adjustments

- Fresh-Start Accounting Adjustments

1. Represents the reduction in depletion, depreciation, and accretion expense following the fair value measurement as part of applying fresh-start accounting upon emergence from Chapter 11 bankruptcy. The Company calculated a fresh-start depletion rate using proved reserves and the actual production for 2016 as well as applied a weighted-average useful life for depreciation of the Company's other operating property and equipment. Accretion expense was calculated as if applied on a full year basis. The Company did not adjust any full cost ceiling impairments as a result of these adjustments.
2. Reflects the elimination of \$88.5 million of interest expense accrued on creditor notes forgiven as part of the plan of reorganization. This amount is offset by \$4.9 million of amortization of the consent payment paid on the Company's surviving second lien notes and the fair value discount applied on such notes as part of fresh-start accounting.
3. Represents the elimination of reorganization items that were directly attributable to the Chapter 11 reorganization.
4. Reflects the additional income tax provision of alternative minimum tax generated by the reduction of interest expense from the above fresh-start accounting pro forma adjustments.

- HK TMS Divestiture

5. Reflects the elimination of operating revenues of HK TMS, LLC.
 6. Reflects the elimination of operating and administrative expenses of HK TMS, LLC.
 7. Represents the elimination of depletion expense and the full cost ceiling impairments incurred by HK TMS, LLC on its oil and gas properties.
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8. Reflects the elimination of the HK TMS embedded derivative and the gain recorded from deconsolidation.
9. Reflects the income tax benefit generated by a reduction in alternative minimum tax caused by reduced operating income resulting from the HK TMS Divestiture pro forma adjustments.
10. Reflects the elimination of the HK TMS preferred dividends to Apollo and the accretion of the preferred shares to the required redemption value.

- Equity Financing

11. The 5,518 shares of preferred stock are expected to convert in April 2017 at a conversion ratio of 10,000 common shares for each share of preferred stock. At the date of the preferred stock commitment (January 24, 2017), the preferred stock was considered to have beneficial conversion feature because the proceeds of \$7.25 per converted common share was less than the fair value of common stock of \$8.12 per share. This adjustment reflects the intrinsic value to the preferred stockholders through a non-cash preferred dividend which reduces net income (loss) available to common stockholders.

Acquired Properties

12. Reflects the operating revenues related to the Acquired Properties. The adjustment is necessary to record the operating revenues of the acquired properties that are not reflected in Halcón's historical results of operations.
 13. Reflects the adjustment related to lease operating, workover, taxes other than income, and gathering and other expenses related to the Acquired Properties. The adjustment is necessary to record the operating expenses of the Acquired Properties that are not reflected in Halcón's historical results of operations.
 14. Reflects depletion calculated using proved reserves and the actual production from the unaudited supplemental oil and natural gas information of the Acquired Properties statements of revenues and direct operating expenses for the year ended December 31, 2016. The adjustment also includes depreciation expense on other property and equipment using estimated remaining useful lives and accretion expense on asset retirement obligations was calculated as if applied on a full year basis.
 15. The additional income tax provision is due to the increase in alternative minimum tax generated by increased operating income resulting from the Acquired Properties pro forma adjustments.
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