Resolute Energy Corp
Form 10-Q
August 11, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**Commission File No. 001-34464**

**RESOLUTE ENERGY CORPORATION**

**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other Jurisdiction of**<br><br>**Incorporation or Organization)** | **27-0659371**<br>**(I.R.S. Employer**<br><br>**Identification Number)** |
| **1700 Lincoln Street, Suite 2800 Denver, CO**<br>**(Address of Principal Executive Offices)** | **80203**<br>**(Zip Code)** |

**(303) 534-4600**

**(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x 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 | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

As of July 31, 2014, 77,893,499 shares of the Registrant s $0.0001 par value Common Stock were outstanding.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words anticipate, intend, believe, estimate, project, expect, plan, should or similar expressions are intended to identify such statements. Forward-l statements included in this report relate to, among other things, expected development opportunities; expectations regarding future production at Aneth Field and expectations regarding our development activities and drilling plans particularly with respect to our Permian Properties and Wyoming Properties (each as defined in this Quarterly Report); our negotiation of a new contract with Western; our hedging plans; our plans for capital expenditures and the sources of such funding. Although we believe that these statements are based upon reasonable current assumptions, no assurance can be given that the future results covered by the forward-looking statements will be achieved. Forward-looking statements can be subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. The forward-looking statements in this report are primarily located under the heading Risk Factors. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the Risk Factors section of this report, if any, in our Annual Report on Form 10-K for the year ended December 31, 2013, and such things as:

- risks associated with all of our Aneth Field oil production being purchased by a single customer and connected to such customer with a pipeline that we do not own or control;
- volatility of oil and gas prices, including reductions in prices that would adversely affect our revenue, income, cash flow from operations and liquidity and the discovery, estimation and development of, and our ability to replace oil and gas reserves;
- our future cash flow, liquidity and financial position;
- the success of our business and financial strategy, derivative strategies and plans;
- the amount, nature and timing of our capital expenditures, including future development costs;
- our relationship with the Navajo Nation, the local community in the area where we operate Aneth Field, and Navajo Nation Oil and Gas Company, as well certain purchase rights held by Navajo Nation Oil and Gas Company;
- potential delays in the upgrade of third-party electrical infrastructure serving Aneth Field and potential power supply limitations;

a lack of available capital and financing, including the capital needed to pursue our production and other plans for our properties, on acceptable terms, including as a result of a reduction in the borrowing base under our credit facility;

the effectiveness and results of our $CO_2$ flood program at Aneth Field;

the impact of any U.S. or global economic recession;

anticipated $CO_2$ supply, which is currently sourced exclusively from Kinder Morgan $CO_2$ Company, L.P.;

the success of the development plan for and production from our oil and gas properties;

the timing and amount of future production of oil and gas;

the completion, timing and success of exploratory drilling on our properties;

availability of, or delays related to, drilling, completion and production, personnel, supplies and equipment;

risks and uncertainties in the application of available horizontal drilling and completion techniques;

uncertainty surrounding occurrence and timing of identifying drilling locations and necessary capital to drill such locations;

our ability to fund and develop our estimated proved undeveloped reserves;

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- the effect of third party activities on our oil and gas operations, including our dependence on gas gathering and processing systems;
- inaccuracy in reserve estimates and expected production rates;
- our operating costs and other expenses;
- our success in marketing oil and gas;
- competition in the oil and gas industry;
- the concentration of our producing properties in a limited number of geographic areas;
- operational problems, or uninsured or underinsured losses affecting our operations or financial results;
- our relationships with the local communities in the areas where we operate;
- the impact and costs related to compliance with, or changes in, laws or regulations governing our oil and gas operations, including changes in Navajo Nation laws, and the potential for increased regulation of drilling and completion techniques, underground injection or fracing operations;
- the availability of water and our ability to adequately treat and dispose of water after drilling and completing wells;
- potential changes to regulations affecting derivatives instruments;
- the success of our derivatives program;
- the impact of weather and the occurrence of disasters, such as fires, explosions, floods and other events and natural disasters;
- environmental liabilities under existing or future laws and regulations;
- developments in oil and gas producing countries;

- loss of senior management or key technical personnel;
- timing of issuance of permits and rights of way, including the effects of any government shut-downs;
- timing of installation of gathering infrastructure in areas of new exploration and development;
- potential breakdown of equipment and machinery relating to the Aneth compression facility;
- our ability to achieve the growth and benefits we expect from our acquisitions;
- risks associated with unanticipated liabilities assumed, or title, environmental or other problems resulting from, our acquisitions;
- acquisitions and other business opportunities (or the lack thereof) that may be presented to and pursued by us, and the risk that any opportunity currently being pursued will fail to consummate or encounter material complications;
- risks related to our level of indebtedness;
- our ability to fulfill our obligations under the senior notes;
- constraints imposed on our business and operations by our credit agreement and our senior notes to generate sufficient cash flow to repay our debt obligations;
- losses possible from pending or future litigation;
- risk factors discussed or referenced in this report; and
- other factors, many of which are beyond our control.

Additionally, the SEC requires oil and gas companies, in filings made with the SEC, to disclose proved reserves, which are those quantities of oil and 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, under existing economic conditions, operating methods and governmental regulations. The SEC permits the optional disclosure of probable and possible reserves. From time to time, we may elect to disclose probable reserves and possible reserves, excluding their valuation, in our SEC filings, press releases and investor presentations. The SEC defines probable reserves as those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. The SEC defines possible reserves as those additional reserves that are less certain to be recovered than probable reserves. The Company applies these definitions when estimating probable and possible reserves. Statements of reserves are only estimates and may not correspond to the ultimate quantities of oil and gas recovered. Any reserve estimates or potential resources disclosed in our public filings, press releases and investor presentations that are not specifically designated as being estimates of proved reserves may include estimated reserves not necessarily calculated in accordance with, or contemplated by, the SEC s reserves reporting guidelines.

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The SEC s rules prohibit us from including resource estimates in our public filings with the SEC. Our potential resource estimations include estimates of hydrocarbon quantities for (i) new areas for which we do not have sufficient information to date to classify as proved, probable or possible reserves, (ii) other areas to take into account the low level of certainty of recovery of the resources and (iii) uneconomic proved, probable or possible reserves. Potential resource estimates do not take into account the certainty of resource recovery and are therefore not indicative of the expected future recovery and should not be relied upon for such purpose. Potential resources might never be recovered and are contingent on exploration success, technical improvements in drilling access, commerciality and other factors. In our press releases and investor presentations, we sometimes include estimates of quantities of oil and gas using certain terms, such as resource, resource potential, EUR, oil in place, or other descriptions of volumes of reserves, which terms include quantities of oil and gas that may not meet the SEC definition of proved, probable and possible reserves. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being recovered by Resolute. The Company believes its potential resource estimates are reasonable, but such estimates have not been reviewed by independent engineers. Furthermore, estimates of potential resources may change significantly as development provides additional data, and actual quantities that are ultimately recovered may differ substantially from prior estimates.

Finally, 24 hour peak IP rates and 30 day peak IP rates for both our wells and for those wells that are located near to our properties are limited data points in each well s productive history and not necessarily indicative or predictive of future production rates, EUR or economic rates of return from such wells and should not be relied upon for such purpose.

You are urged to consider closely the disclosure in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013, in particular the factors described under Risk Factors.

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**RESOLUTE ENERGY CORPORATION**

**Condensed Consolidated Balance Sheets (UNAUDITED)**

**(in thousands, except share amounts)**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,235 | $ 19 |
| Accounts receivable | 65,854 | 94,358 |
| Deferred income taxes | 11,893 | 8,330 |
| Derivative instruments | 502 | 1,378 |
| Prepaid expenses and other current assets | 904 | 1,152 |
| Total current assets | 80,388 | 105,237 |
| Property and equipment, at cost: | | |
| Oil and gas properties, full cost method of accounting | | |
| Unproved | 313,502 | 274,420 |
| Proved | 1,587,407 | 1,544,942 |
| Other property and equipment | 9,779 | 8,069 |
| Accumulated depletion, depreciation and amortization | (556,842) | (494,642) |
| Net property and equipment | 1,353,846 | 1,332,789 |
| Other assets: | | |
| Restricted cash | 19,857 | 18,219 |
| Deferred financing costs | 10,974 | 12,265 |
| Other assets | 521 | 299 |
| Total assets | $ 1,465,586 | $ 1,468,809 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 19,523 | $ 32,601 |
| Accrued expenses | 90,549 | 81,478 |
| Accrued interest payable | 6,784 | 5,739 |
| Asset retirement obligations | 1,344 | 1,825 |
| Derivative instruments | 22,571 | 11,955 |
| Total current liabilities | 140,771 | 133,598 |
| Long term liabilities: | | |
| Credit facility | 335,000 | 335,000 |

| | | |
|---|---|---|
| Senior notes, net of accumulated premium amortization of $307 at June 30, 2014 and $204 at December 31, 2013 | 401,568 | 401,671 |
| Asset retirement obligations | 31,174 | 30,164 |
| Deferred income taxes | 30,600 | 34,824 |
| Other long term liabilities | 6,653 | |
| Total liabilities | 945,766 | 935,257 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding | | |
| Common stock, $0.0001 par value; 225,000,000 shares authorized; issued and outstanding 77,896,193 and 76,228,055 shares at June 30, 2014 and December 31, 2013, respectively | 8 | 8 |
| Additional paid-in capital | 637,758 | 631,822 |
| Accumulated deficit | (117,946) | (98,278) |
| Total stockholders equity | 519,820 | 533,552 |
| Total liabilities and stockholders equity | $ 1,465,586 | $ 1,468,809 |

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**

**Condensed Consolidated Statements of Operations (UNAUDITED)**

**(in thousands, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Revenue: | | | | |
| Oil | $ 79,920 | $ 81,680 | $ 160,525 | $ 154,616 |
| Gas | 6,175 | 5,301 | 14,161 | 9,836 |
| Natural gas liquids | 2,364 | 2,135 | 4,651 | 3,561 |
| Total revenue | 88,459 | 89,116 | 179,337 | 168,013 |
| Operating expenses: | | | | |
| Lease operating | 29,390 | 25,588 | 58,044 | 50,800 |
| Production and ad valorem taxes | 10,015 | 10,876 | 20,613 | 21,099 |
| Depletion, depreciation, amortization, and asset retirement obligation accretion | 31,625 | 28,796 | 63,533 | 53,678 |
| General and administrative | 10,497 | 9,129 | 19,140 | 17,697 |
| Total operating expenses | 81,527 | 74,389 | 161,330 | 143,274 |
| Income from operations | 6,932 | 14,727 | 18,007 | 24,739 |
| Other income (expense): | | | | |
| Interest expense, net | (7,577) | (7,181) | (15,373) | (15,262) |
| Commodity derivative instruments gain (loss) | (22,164) | 6,841 | (30,098) | 55 |
| Other income | 8 | 15 | 9 | 18 |
| Total other expense | (29,733) | (325) | (45,462) | (15,189) |
| Income (loss) before income taxes | (22,801) | 14,402 | (27,455) | 9,550 |
| Income tax benefit (expense) | 6,681 | (5,379) | 7,787 | (3,576) |
| Net income (loss) | $ (16,120) | $ 9,023 | $ (19,668) | $ 5,974 |
| Net income (loss) per common share: | | | | |
| Basic and diluted | $ (0.22) | $ 0.14 | $ (0.27) | $ 0.09 |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 73,843 | 66,782 | 73,692 | 63,322 |

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**

**Condensed Consolidated Statements of Stockholders Equity (UNAUDITED)**

**(in thousands)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders Equity |
|---|---|---|---|---|---|
| Balance as of January 1, 2014 | 76,228 | $ 8 | $ 631,822 | $ (98,278) | $ 533,552 |
| Issuance of stock, restricted stock and share-based compensation | 1,960 | | 7,482 | | 7,482 |
| Redemption of restricted stock for employee income tax and restricted stock forfeitures | (292) | | (1,546) | | (1,546) |
| Net loss | | | | (19,668) | (19,668) |
| Balance as of June 30, 2014 | 77,896 | $ 8 | $ 637,758 | $ (117,946) | $ 519,820 |

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**

**Condensed Consolidated Statements of Cash Flows (UNAUDITED)**

**(in thousands)**

| | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|
| Operating activities: | | |
| Net income (loss) | $ (19,668) | $ 5,974 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depletion, depreciation, amortization and asset retirement obligation accretion | 63,533 | 53,678 |
| Amortization of deferred financing costs and senior notes premium | 1,188 | 1,245 |
| Share-based compensation | 7,342 | 7,123 |
| Commodity derivative instruments loss (gain) | 30,098 | (55) |
| Commodity derivative settlements | (12,053) | (13,775) |
| Deferred income taxes | (7,787) | 3,576 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 28,634 | (14,174) |
| Other current assets | 258 | 592 |
| Accounts payable and accrued expenses | (858) | 20,039 |
| Accrued interest payable | 1,045 | 301 |
| Net cash provided by operating activities | 91,732 | 64,524 |
| Investing activities: | | |
| Oil and gas exploration and development expenditures ` | (90,502) | (117,592) |
| Purchase of oil and gas properties | | (256,977) |
| Proceeds from sale of oil and gas properties and other | 4,728 | 50,252 |
| Purchase of other property and equipment | (1,710) | (598) |
| Restricted cash | (1,638) | 204 |
| Other | 152 | 2,548 |
| Net cash used in investing activities | (88,970) | (322,163) |
| Financing activities: | | |
| Proceeds from bank borrowings | 227,000 | 384,000 |
| Repayments of bank borrowings | (227,000) | (226,000) |
| Redemption of restricted stock for employee income taxes | (1,546) | (39) |
| Payment of financing costs | | (2,137) |
| Proceeds from issuance of common stock, net of underwriters discounts and commissions | | 101,760 |
| Net cash provided by (used in) financing activities | (1,546) | 257,584 |

| | | | | |
|---|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | | 1,216 | | (55) |
| Cash and cash equivalents at beginning of period | | 19 | | 934 |
| Cash and cash equivalents at end of period | $ | 1,235 | $ | 879 |

See notes to condensed consolidated financial statements

## RESOLUTE ENERGY CORPORATION

### Notes to Condensed Consolidated Financial Statements

**Note 1 Organization and Nature of Business**

Resolute Energy Corporation ( Resolute or the Company ), is an independent oil and gas company engaged in the exploitation, development, exploration for and acquisition of oil and gas properties. The Company s asset base is comprised of properties in Aneth Field located in the Paradox Basin in southeast Utah (the Aneth Field Properties or Aneth Field ), the Permian Basin in west Texas and southeast New Mexico and the Big Horn and Powder River Basins in Wyoming. The Company conducts all of its activities in the United States of America.

**Note 2 Basis of Presentation and Summary of Significant Accounting Policies**

***Basis of Presentation***

The unaudited condensed consolidated financial statements include Resolute and its subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and Regulation S-X for interim financial reporting. Except as disclosed herein, there has been no material change in our basis of presentation from the information disclosed in the notes to Resolute s consolidated financial statements for the year ended December 31, 2013. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation of the interim financial information have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. All significant intercompany transactions have been eliminated upon consolidation.

In connection with the preparation of the condensed consolidated financial statements, Resolute evaluated subsequent events that occurred after the balance sheet date, through the date of filing.

***Significant Accounting Policies***

The significant accounting policies followed by Resolute are set forth in Resolute s consolidated financial statements for the year ended December 31, 2013. These unaudited condensed consolidated financial statements are to be read in conjunction with the consolidated financial statements appearing in Resolute s Annual Report on Form 10-K and related notes for the year ended December 31, 2013.

***Assumptions, Judgments and Estimates***

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Significant estimates with regard to the condensed consolidated financial statements include proved oil and gas reserve volumes and the related present value of estimated future net cash flows used in the ceiling test applied to capitalized oil and gas properties; asset retirement obligations; valuation of derivative assets and liabilities; the estimated fair value and allocation of the purchase price related to business combinations; share-based compensation expense; depletion, depreciation and amortization; accrued liabilities; revenue and related receivables and income taxes.

***Oil and Gas Properties***

The Company uses the full cost method of accounting for its oil and gas operations. Accounting rules require Resolute to perform a quarterly ceiling test calculation to test its oil and gas properties for possible impairment. The primary components affecting this calculation are commodity prices, reserve quantities added and produced, overall exploration and development costs and depletion expense. If the net capitalized cost of the Company s oil and gas properties subject to amortization (the carrying value ) exceeds the ceiling limitation, the excess would be charged to expense. The ceiling limitation is equal to the sum of the present value discounted at 10% of estimated future net cash flows from proved reserves, the cost of properties not being amortized, the lower of cost or estimated fair value of unproven properties included in the costs being amortized, and all related tax effects.

At June 30, 2014, the calculated value of the ceiling limitation exceeded the carrying value of Resolute s oil and gas properties subject to the test and no impairment was necessary. However, if in future periods there is a negative impact on one or more of the components of the calculation, including market prices of oil and gas, differentials from posted prices, future drilling and capital plans, operating costs or expected production, the Company may incur a full cost ceiling impairment related to its oil and gas properties in such periods.

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## Note 3 Acquisitions and Divestitures

### *Permian Property Acquisitions*

On December 28, 2012, the Company purchased properties in the Midland Basin portion of the Permian Basin in Midland and Ector counties, Texas, for a purchase price of approximately $133 million. Concurrently with that transaction, the Company acquired, for additional consideration of $6 million, the option to buy the balance of the working interest in and operatorship of the properties under substantially the same terms as the initial transaction (the Option Properties ). On March 22, 2013, the Company exercised the option and acquired the Option Properties for $258 million, net of the option fee, after customary purchase price adjustments, which were estimated at closing. Revenue and expenses related to the acquired properties are included in the consolidated statement of operations beginning on the closing date of the respective transaction. Together, the December 2012 and March 2013 acquisitions, which the Company refers to as the Permian Acquisitions, were accounted for using the acquisition method.

The purchase price of the Option Properties was comprised of the following (in thousands):

| | 2013 |
|---|---|
| Purchase price | $ 258,000 |

The Company has completed its assessment of the fair values of the assets acquired and liabilities assumed. Accordingly, the following table presents the final purchase price allocation of the Option Properties at December 31, 2013, based on the fair values of assets acquired and liabilities assumed (in thousands):

| | 2013 |
|---|---|
| Proved oil and gas properties | $ 93,000 |
| Unproved oil and gas properties | 167,000 |
| Asset retirement obligations assumed | (2,000) |
| Total purchase price | $ 258,000 |

### *Pro Forma Financial Information*

The unaudited pro forma consolidated financial information in the table below summarizes the results of operations of the Company as though the purchase of the Option Properties in March 2013 had occurred on January 1, 2013. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of the Option Properties had taken place at the beginning of the earliest periods presented or that may result in the future. The pro forma adjustments made utilize certain assumptions that Resolute believes are reasonable based on the available information.

The unaudited pro forma financial information for the three and six months ended June 30, 2013, combine the historical results of the Option Properties and Resolute (in thousands, except per share amounts):

| | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2013 |
|---|---|---|
| Revenue | $ 89,116 | $ 179,071 |
| Revenue in excess of operating expenses | 52,652 | 105,286 |
| Net income | 9,023 | 8,537 |
| Basic and diluted net loss per share | $ 0.14 | $ 0.13 |

***Aneth Field Transactions***

During the second quarter of 2012 Resolute and Navajo Nation Oil and Gas Company ( NNOGC ) entered into an amendment to their Cooperative Agreement. Among other changes, this amendment allowed NNOGC to exercise options to purchase 10% of certain interests owned by the Company in the Aneth Field Properties. These options were exercised for cash consideration of $100 million. Resolute entered into a purchase and sale agreement relating to the exercise of the options which provided that the transaction be closed and paid for in two equal transfers, each for 5% of certain interests owned by Resolute in the properties. The first transfer took place in July 2012 and the second transfer took place in January 2013, each with an effective date of January 1, 2012.

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The Cooperative Agreement amendment also provides for the cancellation of a second set of options held by NNOGC to purchase an additional 10% on certain interests in the Aneth Field Properties and stipulates that NNOGC has one remaining option to purchase an additional 10% of certain interests owned by Resolute in the Aneth Field Properties. The remaining option is exercisable in July 2017 at the then-current fair market value of such interest at that time. No gain or loss was recognized upon these sales as it did not represent a significant portion of the Company s oil and gas properties and did not significantly alter the relationship of capitalized costs and proved reserves.

***Sale of New Home Properties***

On June 27, 2013, the Company entered into a purchase and sale agreement with HRC Energy, LLC, a Colorado limited liability company and a wholly-owned subsidiary of Halcón Resources Corporation, a Delaware corporation, effective March 1, 2013, to dispose of certain Bakken properties located in Williams County, North Dakota (the New Home Properties ) and other non-operated Bakken properties, for proceeds of $70.1 million. The transaction closed on July 15, 2013, and net proceeds received were recorded as a reduction to the capitalized costs of the Company s oil and gas properties.

**Note 4 Earnings per Share**

The Company computes basic net income (loss) per share using the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. Potentially dilutive shares consist of the incremental shares issuable under the outstanding warrants, which entitle the holder to purchase one share of the Company s common stock at a price of $13.00 per share and which expire on September 25, 2014, and incremental shares issuable under the Company s 2009 Performance Incentive Plan (the Incentive Plan ). The treasury stock method is used to measure the dilutive impact of potentially dilutive shares.

The following table details the potential weighted average dilutive and anti-dilutive securities for the periods presented (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Potential dilutive warrants | | | | |
| Potential dilutive restricted stock | 3,598 | 2,874 | 3,214 | 2,258 |
| Anti-dilutive securities | 36,639 | 33,041 | 36,255 | 33,041 |

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock for the periods presented (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income (loss) | $ (16,120) | $ 9,023 | $ (19,668) | $ 5,974 |
| Basic weighted average common shares outstanding | 73,843 | 66,782 | 73,692 | 63,322 |

| | | | | |
|---|---|---|---|---|
| Add: dilutive effect of non-vested restricted stock | | | | |
| Add: dilutive effect of outstanding warrants | | | | |
| Diluted weighted average common shares outstanding | 73,843 | 66,872 | 73,692 | 63,322 |
| Basic and diluted net income (loss) per common share | $ (0.22) | $ 0.14 | $ (0.27) | $ 0.09 |

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## Note 5 Long Term Debt

As of the dates indicated, the Company s long-term debt consisted of the following (in thousands):

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Credit facility | $ 335,000 | $ 335,000 |
| 8.50% senior notes | 400,000 | 400,000 |
| Unamortized premium on senior notes | 1,568 | 1,671 |
| Total long-term debt | $ 736,568 | $ 736,671 |

***Credit Facility***

Resolute s credit facility is with a syndicate of banks led by Wells Fargo Bank, National Association, as Administrative Agent, and Bank of Montreal, as Syndication Agent (the Credit Facility ) with Resolute as the borrower. The Credit Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of Resolute s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either Resolute or the lenders may request an interim redetermination.

In March 2013, we entered into the Sixth Amendment, which among other things, extended the maturity date of the revolving Credit Facility from April 2017 to March 2018. On March 7, 2014, the Company entered into the Ninth Amendment to the amended and restated Credit Facility which redefined and adjusted the Maximum Leverage Ratio to (a) 4.90:1.00 for the fiscal quarters ending March 31, 2014, and June 30, 2014, (b) 4.75:1.00 for the fiscal quarters ending September 30, 2014, and December 31, 2014, and (c) 4.00:1.00 for all quarters thereafter. The Ninth Amendment also provided that as of the last day of each fiscal quarter in 2014, the ratio of senior secured debt as of such date to Adjusted EDITDA for the four quarter period ending on such date may not exceed 2.75:1.00.

In March 2014, the Company entered into the Tenth Amendment to the amended and restated Credit Facility agreement. In connection with the Tenth Amendment, the semi-annual redetermination of the Company s borrowing base was completed, resulting in a borrowing base of $425 million, consisting of a $400 million conforming tranche and a $25 million non-conforming tranche (which non-conforming tranche will expire no later than the Company s next borrowing base redetermination date). The Tenth Amendment also required that the Company enter into commodity derivative agreements by March 31, 2014, on production of not less than 5,100 barrels of oil per day in the aggregate for the fiscal year ending December 31, 2015, at a weighted average floor price of not less than $84.17 per barrel. This requirement was satisfied during the first quarter of 2014.

Each base rate borrowing under the Credit Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 1.50% to 2.50% (or 3.0% if the Company utilizes any portion of the non-conforming tranche) or (b) the alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate (ii) the Federal Funds effective Rate plus 0.5% or (iii) an adjusted London Interbank Offered Rate ( LIBOR ) plus a margin which ranges from 0.50% to 1.50% (or 2.0% if the Company utilizes any portion of the non-conforming tranche). Each such margin is based on the level of utilization under the borrowing base.

As of June 30, 2014, outstanding borrowings were $335 million, with a borrowing base of $425 million. The borrowing base availability had been reduced by $3.1 million in conjunction with letters of credit issued to vendors at June 30, 2014. To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. The Credit Facility is guaranteed by all of Resolute s subsidiaries and is collateralized by substantially all of the proved oil and gas assets of Resolute Aneth, LLC, Resolute Wyoming, Inc. and Resolute Natural Resources Southwest, LLC, which are wholly-owned subsidiaries of the Company.

As of June 30, 2014, the weighted average interest rate on the outstanding balance under the Credit Facility was 2.46%. The recorded value of the Credit Facility approximates its fair market value because the interest rate of the Credit Facility is variable over the term of the loan (Level 2 fair value measurement).

The Credit Facility includes customary terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. Resolute was in compliance with all terms and covenants of the Credit Facility at June 30, 2014.

Resolute Energy Corporation, the stand-alone parent entity, has insignificant independent assets and no operations. There are no restrictions on the Company s ability to obtain cash dividends or other distributions of funds from its subsidiaries, except those imposed by applicable law.

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***Senior Notes***

In April 2012 the Company consummated a private placement of senior notes with a principal amount of $250 million, and in December 2012 placed a follow-on issuance of senior notes with a principal amount of $150 million (the Notes or Senior Notes ). The Senior Notes are due May 1, 2020, and bear an annual interest rate of 8.50% with the interest on the Notes payable semiannually in cash on May 1 and November 1 of each year.

The Senior Notes were issued under an Indenture (the Indenture ) among the Company, the Company s existing subsidiaries (the Guarantors ) and U.S. Bank National Association, as trustee (the Trustee ) in a private transaction not subject to the registration requirements of the Securities Act of 1933. In March 2013, the Company registered the Senior Notes with the Securities and Exchange Commission by filing an amendment to the registration statement on Form S-4 enabling holders of the Senior Notes to exchange the privately placed Notes for publically registered Notes with substantially identical terms. The Indenture contains affirmative and negative covenants that, among other things, limit the Company s and the Guarantors ability to make investments, incur additional indebtedness or issue preferred stock, create liens, sell assets, enter into agreements that restrict dividends or other payments by restricted subsidiaries, consolidate, merge or transfer all or substantially all of the assets of the Company, engage in transactions with the Company s affiliates, pay dividends or make other distributions on capital stock or prepay subordinated indebtedness and create unrestricted subsidiaries. The Indenture also contains customary events of default. Upon occurrence of events of default arising from certain events of bankruptcy or insolvency, the Senior Notes shall become due and payable immediately without any declaration or other act of the Trustee or the holders of the Senior Notes. Upon the occurrence of certain other events of default, the Trustee or the holders of the Senior Notes may declare all outstanding Senior Notes to be due and payable immediately. The Company was in compliance with all financial covenants under its Senior Notes as of June 30, 2014.

The Senior Notes are general unsecured senior obligations of the Company and guaranteed on a senior unsecured basis by the Guarantors. The Senior Notes rank equally in right of payment with all existing and future senior indebtedness of the Company, will be subordinated in right of payment to all existing and future senior secured indebtedness of the Guarantors, will rank senior in right of payment to any future subordinated indebtedness of the Company and will be fully and unconditionally guaranteed by the Guarantors on a senior basis.

The Senior Notes are redeemable by the Company on or after May 1, 2016, on not less than 30 or more than 60 days prior notice, at redemption prices set forth in the Indenture. In addition, at any time prior to May 1, 2015, the Company may use the net proceeds from equity offerings and warrant exercises to redeem up to 35% of the principal amount of Notes issued under the Indenture at a redemption price equal to 108.50% of the principal amount of the Notes redeemed, plus accrued and unpaid interest. The Senior Notes may also be redeemed at any time prior to May 1, 2016, at the option of the Company at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium, and accrued and unpaid interest and additional interest, if any, to the applicable redemption date as set forth in the Indenture. If a change of control occurs, each holder of the Notes will have the right to require that the Company purchase all of such holder s Notes in an amount equal to 101% of the principal of such Notes, plus accrued and unpaid interest, if any, to the date of the purchase.

The fair value of the Senior Notes at June 30, 2014, was estimated to be $419.0 million based upon data from independent market makers (Level 2 fair value measurement).

For the three months ended June 30, 2014 and 2013, the Company incurred interest expense on long-term debt of $7.6 million and $7.2 million, respectively. For the six months ended June 30, 2014 and 2013, the Company incurred interest expense on long-term debt of $15.4 million and $15.3 million, respectively. The Company capitalized $4.0 million and $4.7 million of interest expense during the three months ended June 30, 2014 and 2013, respectively. The

Company capitalized $7.8 million and $7.3 million of interest expense during the six months ended June 30, 2014 and 2013, respectively.

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## Note 6 Income Taxes

Income tax benefit (expense) during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income (loss), plus any significant unusual or infrequently occurring items that are recorded in the interim period. The provision for income taxes for the three and six months ended June 30, 2014 and 2013, differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to income before income taxes. The lower effective rate in 2014 relates to noncash executive compensation that is anticipated to be nondeductible for income tax purposes and to the permanent differences in the fair value of share-based compensation expensed under GAAP and the realized value deductible for income tax purposes.

The following table summarizes the components of the provision for income taxes (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Current income tax benefit (expense) | $ | $ | $ | $ |
| Deferred income tax benefit (expense) | 6,681 | (5,379) | 7,787 | (3,576) |
| Total income tax benefit (expense) | $ 6,681 | $ (5,379) | $ 7,787 | $ (3,576) |

The Company had no reserve for uncertain tax positions as of June 30, 2014. A valuation allowance against deferred tax assets at June 30, 2014 and 2013, is not considered necessary because in the Company s opinion it is more likely than not that the deferred tax asset will be fully realized.

## Note 7 Stockholders Equity and Equity Based Awards

### *Preferred Stock*

The Company is authorized to issue up to 1,000,000 shares of preferred stock, par value $0.0001 with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. No shares were issued and outstanding as of June 30, 2014, or December 31, 2013.

### *Common Stock*

The authorized common stock of the Company consists of 225,000,000 shares. The holders of the common shares are entitled to one vote for each share of common stock. In addition, the holders of the common stock are entitled to receive dividends when, as and if declared by the Board of Directors. At June 30, 2014, and December 31, 2013, the Company had 77,896,193 and 76,228,055 shares of common stock issued and outstanding, respectively.

During the second quarter of 2013, the Company issued 13.3 million shares of common stock in a public offering at $8.00 per share resulting in net proceeds of $101.8 million, after underwriting discounts and commissions. The net proceeds were used to repay outstanding borrowings under the Credit Facility.

During the six months ended June 30, 2014 and 2013, no warrants were repurchased or exercised. At June 30, 2014, 33,040,682 warrants remain outstanding.

***Share-Based Compensation***

The Company accounts for share-based compensation in accordance with FASB ASC Topic 718, *Stock Compensation*.

On July 31, 2009, the Company adopted the Incentive Plan, providing for long-term share-based awards intended as a means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. The share-based awards are also intended to further align the interests of award recipients and the Company s stockholders. The maximum number of shares of common stock that may be issued under the Incentive Plan is 9,157,744.

*Time-Based Awards*

Shares of time-based restricted stock generally vest in three or four year increments at specified dates based on continued employment.

The compensation expense to be recognized for the time-based awards was measured based on the Company s closing stock price on the dates of grant, utilizing estimated forfeiture rates between 8% and 10% which are updated periodically based on actual employee turnover. During the six months ended June 30, 2014, the Company granted 1,471,950 shares of time-based restricted stock to employees and directors, pursuant to the Incentive plan.

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For both the three months ended June 30, 2014 and 2013, the Company recorded $3.2 million of share-based compensation expense related to time-based awards, net of amounts billed to partners. For the six months ended June 30, 2014 and 2013, the Company recorded $5.7 million and $5.2 million of share-based compensation expense related to time-based awards, net of amounts billed to partners, respectively. There was unrecognized compensation expense of approximately $22.4 million at June 30, 2014, which is expected to be recognized over a weighted-average period of 2.1 years. The following table summarizes the changes in non-vested time-based awards for the six month period ended June 30, 2014:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested, beginning of period | 2,005,721 | $ 10.62 |
| Granted | 1,471,950 | 9.08 |
| Vested | (519,132) | 10.35 |
| Forfeited | (116,311) | 9.47 |
| Non-vested, end of period | 2,842,228 | $ 9.89 |

*Performance-Based Awards*

For grants made through year-end 2012, performance-based shares generally vest in equal tranches beginning on December 31 of the year of the grant if there has been a 10% annual appreciation in the trading price of the Company s common stock, compounded annually, from the twenty trading day average stock price ended on December 31 of the year prior to the grant (which was $14.227 for 2011 grants and $11.639 for 2012 grants). At the end of each year, the twenty trading day average stock price will be measured, and if the 10% threshold is met, the stock subject to the performance criteria will vest. If the 10% threshold is not met, shares that have not vested will be carried forward to the following year subject to a four year maximum vesting period. These awards are referred to as Stock Appreciation Awards.

For the three months ended June 30, 2014 and 2013, the Company recorded share-based compensation expense related to the Stock Appreciation Awards of $0.1 million and $0.5 million, respectively. For the six months ended June 30, 2014 and 2013, the Company recorded share-based compensation expense related to the Stock Appreciation Awards of $0.1 million and $0.7 million, respectively. There was unrecognized compensation expense for the Stock Appreciation Awards of approximately $0.2 million at June 30, 2014, which is expected to be recognized over a weighted-average period of 1.1 years. The following table summarizes the changes in non-vested Stock Appreciation Awards for the six month period ended June 30, 2014:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|

| | | | |
|---|---|---|---|
| Non-vested, beginning of period | 444,571 | $ | 7.60 |
| Granted | | | |
| Vested | | | |
| Forfeited | (5,278) | | 5.89 |
| Non-vested, end of period | 439,293 | $ | 7.62 |

In March 2014, the Compensation Committee awarded 487,819 performance-based restricted shares to executive officers of the Company under the Incentive Plan. The restricted stock grants vest only upon achievement of thresholds of cumulative total shareholder return ( TSR ) as compared to a specified peer group (the Performance-Vested Shares ). A TSR percentile (the TSR Percentile ) is calculated based on the change in the value of the Company s common stock between the grant date and the applicable vesting date, including any dividends paid during the period, as compared to the respective TSRs of a specified group of seventeen peer companies. The Performance-Vested Shares vest in three installments to the extent that the applicable TSR Percentile ranking thresholds are met upon the one-, two- and three-year anniversaries of the grant date. Performance-Vested Shares that are eligible to vest on a vesting date, but do not qualify for vesting, become eligible for vesting again on the next vesting date. All Performance-Vested Shares that have not vested as of the final vesting date will be forfeited on such date.

The Compensation Committee also granted rights to earn additional shares of common stock upon achievement of a higher TSR Percentile ( Outperformance Shares ). The Outperformance Shares are earned in increasing increments based on a TSR Percentile attained over a specified threshold. Outperformance Shares may be earned on any vesting date to the extent that the applicable TSR Percentile ranking thresholds are met in three installments on the one-, two- and three-year anniversaries of the grant date. Outperformance Shares that are earned at a vesting date will be issued to the recipient; however, prior to such

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issuance, the recipient is not entitled to stockholder rights with respect to Outperformance Shares. Outperformance Shares that are eligible to be earned but remain unearned on a vesting date become eligible to be earned again on the next vesting date. The right to earn any theretofore unearned Outperformance Shares terminates immediately following the final vesting date. The Performance-Vested Shares and the Outperformance Shares are referred to as the TSR Awards.

The compensation expense to be recognized for the TSR Awards and Stock Appreciation Awards was measured based on the estimated fair value at the date of grant using a Monte Carlo simulation model and utilizes estimated forfeiture rates between 4% and 15% which are updated periodically based on actual employee turnover.

The valuation model for the TSR Awards used the following assumptions:

| Grant Year | Average Expected Volatility | Expected Dividend Yield | Risk-Free Interest Rate |
|---|---|---|---|
| 2013 | 35.0% | 0% | 0.42% |
| 2014 | 39.4% | 0% | 0.69% |

For the three months ended June 30, 2014 and 2013, the Company recorded share-based compensation expense related to the TSR Awards of $1.2 million and $1.0 million, respectively. For the six months ended June 30, 2014 and 2013, the Company recorded share-based compensation expense related to the TSR Awards of $1.5 million and $1.2 million, respectively. There was unrecognized compensation expense for TSR Awards of approximately $7.0 million at June 30, 2014, which is expected to be recognized over a weighted-average period of 2.3 years. The following table summarizes the changes in non-vested TSR Awards for the six month period ended June 30, 2014:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested, beginning of period | 340,166 | $ 15.91 |
| Granted | 487,819 | 13.32 |
| Vested | (63,387) | 15.91 |
| Forfeited | | |
| Non-vested, end of period | 764,598 | $ 14.26 |

**Note 8 Asset Retirement Obligation**

Resolute s estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells and facilities in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised, that ranges between 7% and 12%. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells. Asset retirement obligations are valued utilizing Level 3 fair value measurement inputs. The following table provides a reconciliation of Resolute s asset retirement obligations for the periods presented (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Asset retirement obligations at beginning of period | $ 31,989 | $ 19,155 |
| Additional liability incurred / acquired | 12 | 398 |
| Accretion expense | 1,333 | 651 |
| Liabilities settled | (816) | (392) |
| Asset retirement obligations at end of period | 32,518 | 19,812 |
| Less: current asset retirement obligations | (1,344) | (3,190) |
| Long-term asset retirement obligations | $ 31,174 | $ 16,622 |

**Note 9 Derivative Instruments**

Resolute enters into commodity derivative contracts to manage its exposure to oil and gas price volatility. Resolute has not elected to designate derivative instruments as hedges under the provisions of FASB ASC Topic 815, *Derivatives and Hedging*. As a result, these derivative instruments are marked to market at the end of each reporting period and changes in the fair value are recorded in the accompanying consolidated statements of operations. Gains and losses on commodity derivative instruments from Resolute s price risk management activities are recognized in other income (expense). The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element would be reported as financing activities in the condensed consolidated statement of cash flows.

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The Company utilizes fixed price swaps, basis swaps, option contracts and two-and three-way collars. These instruments generally entitle Resolute (the floating price payer in most cases) to receive settlement from the counterparty (the fixed price payer in most cases) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable to each calculation period is less than the fixed strike price or floor price. The Company would pay the counterparty if the settlement price for the scheduled trading days applicable to each calculation period exceeds the fixed strike price or ceiling price. The amount payable by Resolute, if the floating price is above the fixed or ceiling price, is the product of the notional contract quantity and the excess of the floating price over the fixed or ceiling price per calculation period. The amount payable by the counterparty, if the floating price is below the fixed or floor price, is the product of the notional contract quantity and the excess of the fixed or floor price over the floating price per calculation period. A three-way collar consists of a two-way collar contract combined with a put option contract sold by the Company with a strike price below the floor price of the two-way collar. The Company receives price protection at the purchased put option floor price of the two-way collar if commodity prices are above the sold put option strike price. If commodity prices fall below the sold put option strike price, the Company receives the cash market price plus the variance between the two put option strike prices. This type of instrument captures more value in a rising commodity price environment, but limits the benefits in a downward commodity price environment. Basis swaps are used in connection with gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the gas production is sold.

As of June 30, 2014, the fair value of the Company s commodity derivatives was a net liability of $28.6 million.

The following table represents Resolute s commodity swap contracts as of June 30, 2014:

| | Oil (NYMEX WTI) | | Gas (NYMEX Henry Hub) | |
|---|---|---|---|---|
| | | Weighted Average | | Weighted Average |
| **Remaining Term** | **Bbl per Day** | **Swap Price Per Bbl** | **MMBtu per Day** | **Swap Price Per MMBtu** |
| Jul Dec 2014 | 5,500 | $ 92.94 | 5,000 | $ 4.165 |
| Jan Dec 2015 | 4,100 | $ 88.93 | | |

The following table represents Resolute s two-way commodity collar contracts as of June 30, 2014:

| | Oil (NYMEX WTI) | | |
|---|---|---|---|
| | | Weighted Average | Weighted Average |
| **Remaining Term** | **Bbl per Day** | **Floor Price Per Bbl** | **Ceiling Price Per Bbl** |
| Jul Dec 2014 | 1,500 | $ 65.00 | $ 110.00 |
| Jan Dec 2015 | 1,000 | $ 84.17 | $ 92.10 |

The following table represents Resolute s commodity call and put option contracts as of June 30, 2014:

| | Oil (NYMEX WTI) |
|---|---|
| **Remaining Term** | |