UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from __________ to __________

Commission File Number: 001-33801

APPROACH RESOURCES INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51-0424817** (I.R.S. Employer Identification No.)
One Ridgmar Centre **6500 West Freeway, Suite 800** **Fort Worth, Texas** (Address of principal executive offices)	**76116** (Zip Code)

(817) 989-9000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Trading Symbol(s))	(Name of each exchange on which registered)
Common stock, $0.01 par value	AREX	NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files) ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of August 1, 2019, was 93,664,421.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Approach Resources Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets
(In thousands, except shares and per-share amounts)

	June 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,198	$ 22
Accounts receivable:		
Joint interest owners	82	89
Oil, NGLs and gas sales	4,326	6,710
Derivative instruments	1,340	5,946
Prepaid expenses and other current assets	4,554	3,458
Assets held for sale	1,188	—
Total current assets	18,688	16,225
PROPERTIES AND EQUIPMENT:		
Oil and gas properties, at cost, using the successful efforts method of accounting	1,976,505	1,976,699
Furniture, fixtures and equipment	3,855	5,689
Total oil and gas properties and equipment	1,980,360	1,982,388
Less accumulated depletion, depreciation and amortization	(939,386)	(913,966)
Net oil and gas properties and equipment	1,040,974	1,068,422
Right of use operating lease assets	12,419	—
Total assets	$ 1,072,081	$ 1,084,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,099	$ 9,768
Oil, NGLs and gas sales payable	4,251	4,968
Operating lease liabilities	6,599	—
Accrued liabilities	5,813	6,341
Senior secured credit facility, net	321,379	—
Total current liabilities	341,141	21,077
NON-CURRENT LIABILITIES:		
Senior secured credit facility, net	—	300,507
Senior notes, net	84,637	84,486
Deferred income taxes	70,122	77,821
Asset retirement obligations	11,672	11,424
Operating lease liabilities	5,929	—
Other non-current liabilities	8	87
Total liabilities	513,509	495,402
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Common stock, $0.01 par value, 180,000,000 shares authorized, 93,679,776 and 95,030,569 issued and outstanding, respectively	937	950
Additional paid-in capital	743,859	744,126
Accumulated deficit	(186,224)	(155,831)
Total stockholders' equity	558,572	589,245
Total liabilities and stockholders' equity	$ 1,072,081	$ 1,084,647

See accompanying notes to these unaudited consolidated financial statements

Approach Resources Inc. and Subsidiaries
Unaudited Consolidated Statements of Operations
(In thousands, except shares and per-share amounts)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
REVENUES:				
Oil, NGLs and gas sales	$ 14,720	$ 30,326	$ 33,963	$ 59,098
EXPENSES:				
Lease operating	4,178	5,032	9,049	10,300
Production and ad valorem taxes	1,539	2,569	3,474	5,069
Exploration	1,439	3	1,448	3
General and administrative (1)	4,315	6,086	8,077	12,653
Restructuring expenses	142	—	6,424	—
Depletion, depreciation and amortization	13,068	16,849	26,674	32,529
Impairment	—	—	300	—
Gain on sale of assets	(1)	—	(67)	—
Total expenses	24,680	30,539	55,379	60,554
OPERATING LOSS	(9,960)	(213)	(21,416)	(1,456)
OTHER:				
Interest expense, net	(7,412)	(6,184)	(14,185)	(12,070)
Commodity derivative gain (loss)	355	(4,884)	(2,491)	(6,812)
Other income	—	(13)	—	(12)
LOSS BEFORE INCOME TAX BENEFIT	(17,017)	(11,294)	(38,092)	(20,350)
INCOME TAX BENEFIT	(3,420)	(2,222)	(7,699)	(3,832)
NET LOSS	$ (13,597)	$ (9,072)	$ (30,393)	$ (16,518)
LOSS PER SHARE:				
Basic	$ (0.15)	$ (0.10)	$ (0.32)	$ (0.17)
Diluted	$ (0.15)	$ (0.10)	$ (0.32)	$ (0.17)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	93,693,117	94,470,636	94,222,277	94,548,898
Diluted	93,693,117	94,470,636	94,222,277	94,548,898
(1) Includes non-cash share-based compensation expense (benefit) as follows:	281	656	(113)	1,484

See accompanying notes to these unaudited consolidated financial statements

Approach Resources Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Loss
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
NET LOSS	$ (13,597)	$ (9,072)	$ (30,393)	$ (16,518)
Other comprehensive loss, net of tax				
Net unrealized loss on cash flow hedges (1)	—	(156)	—	(156)
Other comprehensive loss	—	(156)	—	(156)
COMPREHENSIVE LOSS	$ (13,597)	$ (9,228)	$ (30,393)	$ (16,674)
(1) Includes income tax benefit as follows:	$ —	$ 41	$ —	$ 41

See accompanying notes to these unaudited consolidated financial statements

Approach Resources Inc. and Subsidiaries
Unaudited Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except shares)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
BALANCES, March 31, 2019:	93,706,945	$ 937	$ 743,580	$ —	$ (172,627)	$ 571,890
Restricted stock issuance, net of cancellations	(19,061)	—	—	—	—	—
Share-based compensation expense	—	—	281	—	—	281
Surrender of restricted shares for payment of income taxes	(8,108)	—	(2)	—	—	(2)
Net loss	—	—	—	—	(13,597)	(13,597)
BALANCES, June 30, 2019:	93,679,776	937	743,859	—	(186,224)	558,572
BALANCES, January 1, 2019:	95,030,569	$ 950	$ 744,126	$ —	$ (155,831)	$ 589,245
Issuance of common shares to directors for compensation	27,644	1	28	—	—	29
Restricted stock issuance, net of cancellations	(1,205,627)	(14)	14	—	—	—
Share-based compensation expense	—	—	(142)	—	—	(142)
Surrender of restricted shares for payment of income taxes	(172,810)	—	(167)	—	—	(167)
Net loss	—	—	—	—	(30,393)	(30,393)
BALANCES, June 30, 2019:	93,679,776	937	743,859	—	(186,224)	558,572
BALANCES, March 31, 2018:	94,605,086	$ 946	$ 742,614	$ —	$ (143,366)	$ 600,194
Issuance of common shares to directors for compensation	22,176	—	55	—	—	55
Restricted stock issuance, net of cancellations	(4,360)	—	—	—	—	—
Share-based compensation expense	—	—	601	—	—	601
Retirement of common shares in connection with acquisition	(142,362)	(1)	(379)	—	—	(380)
Surrender of restricted shares for payment of income taxes	(9,904)	—	(28)	—	—	(28)
Net loss	—	—	—	—	(9,072)	(9,072)
Other comprehensive loss	—	—	—	(156)	—	(156)
BALANCES, June 30, 2018:	94,470,636	945	742,863	(156)	(152,438)	591,214
BALANCES, January 1, 2018:	94,533,246	$ 945	$ 742,391	$ —	$ (135,920)	$ 607,416
Issuance of common shares to directors for compensation	106,001	1	317	—	—	318
Restricted stock issuance, net of cancellations	173,481	—	—	—	—	—
Share-based compensation expense	—	—	1,166	—	—	1,166
Retirement of common shares in connection with acquisition	(142,362)	(1)	(379)	—	—	(380)
Surrender of restricted shares for payment of income taxes	(199,730)	—	(632)	—	—	(632)
Net loss	—	—	—	—	(16,518)	(16,518)
Other comprehensive loss	—	—	—	(156)	—	(156)
BALANCES, June 30, 2018:	94,470,636	945	742,863	(156)	(152,438)	591,214

See accompanying notes to these unaudited consolidated financial statements

Approach Resources Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
OPERATING ACTIVITIES:		
Net loss	$ (30,393)	$ (16,518)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depletion, depreciation and amortization	26,674	32,529
Impairment	300	—
Exploration expense	1,399	—
Amortization of debt issuance costs	523	525
Commodity derivative loss	2,491	6,812
Settlements of commodity derivatives	2,115	(3,513)
Share-based compensation expense	(113)	1,484
Deferred income tax benefit	(7,699)	(3,832)
Other non-cash items	(67)	12
Changes in operating assets and liabilities:		
Accounts receivable	2,390	(1,123)
Prepaid expenses and other current assets	1,051	(811)
Accounts payable	(4,751)	(4,047)
Oil, NGLs and gas sales payable	(717)	620
Accrued liabilities	(363)	2,112
Cash (used in) provided by operating activities	(7,160)	14,250
INVESTING ACTIVITIES:		
Additions to oil and gas properties	(1,683)	(27,142)
Additions to furniture, fixtures and equipment	(185)	(31)
Sale of equipment	70	—
Change in working capital related to investing activities	(433)	7,710
Cash used in investing activities	(2,231)	(19,463)
FINANCING ACTIVITIES:		
Borrowings under credit facility	23,500	60,850
Repayment of amounts outstanding under credit facility	(3,000)	(54,350)
Tax withholdings related to restricted stock	(167)	(632)
Debt issuance costs	—	(14)
Change in working capital related to financing activities	(3,766)	(640)
Cash provided by financing activities	16,567	5,214
CHANGE IN CASH AND CASH EQUIVALENTS	7,176	1
CASH AND CASH EQUIVALENTS, beginning of period	$ 22	$ 21
CASH AND CASH EQUIVALENTS, end of period	$ 7,198	$ 22
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 13,088	$ 11,619
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTION:		
Asset retirement obligations capitalized	$ 2	$ 2

See accompanying notes to these unaudited consolidated financial statements

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Approach Resources Inc. ("Approach," the "Company," "we," "us" or "our") is an independent energy company engaged in the exploration, development, production and acquisition of oil and gas properties. We focus on finding and developing oil and natural gas reserves in oil shale and tight gas sands. Our properties are primarily located in the Permian Basin in West Texas. We also own interests in the East Texas Basin.

Consolidation, Basis of Presentation and Significant Estimates

The interim consolidated financial statements of the Company are unaudited and contain all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full year, due in part to the volatility in prices for oil, natural gas liquids ("NGLs") and gas, future commodity prices for commodity derivative contracts, global economic and financial market conditions, interest rates, access to sources of liquidity, estimates of reserves, drilling risks, geological risks, transportation restrictions, the timing of acquisitions, product supply and demand, market competition and interruptions of production. You should read these consolidated interim financial statements in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 18, 2019.

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions are eliminated. In preparing the accompanying financial statements, management has made certain estimates and assumptions that affect reported amounts in the financial statements and disclosures of contingencies. Actual results may differ from those estimates. Significant assumptions are required in the valuation of proved oil and gas reserves, which affect our estimate of depletion expense as well as our impairment analyses. Significant assumptions also are required in our estimation of accrued liabilities, commodity derivatives, income tax provision, share-based compensation and asset retirement obligations. It is at least reasonably possible these estimates could be revised in the near term, and these revisions could be material. Certain prior-year amounts have been reclassified to conform to current-year presentation. These classifications have no impact on the net loss reported.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and other commitments in the normal course of business for the twelve-month period following the date of issuance of these consolidated financial statements. As such, the accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amount, or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

Our liquidity and ability to comply with financial covenants under our revolving credit facility have been negatively impacted by the volatility in commodity prices, and by the severe natural gas price discount in the Permian Basin. As of June 30, 2019, our revolving credit facility contains three principal financial covenants: (i) a consolidated interest coverage ratio, (ii) a consolidated modified current ratio and (iii) a consolidated total leverage ratio. See Note 5 for additional information regarding the financial covenants under our revolving credit facility. As of June 30, 2019, we were not in compliance with two of the financial covenants under our revolving credit facility, which represents an event of default under our revolving credit facility. As a result, we have classified the outstanding balance on our revolving credit facility as a current liability as of June 30, 2019. These factors raise substantial doubt about our ability to continue as a going concern.

In order to improve our leverage position, we currently are pursuing or considering a number of actions, which in certain cases may require the consent of current lenders, stockholders or bond holders. As part of our review of deleveraging transactions, we currently are engaged in discussions and negotiations with Wilks Brothers, LLC, and its affiliate SDW Investments, LLC (collectively, "Wilks") regarding their investment in the Company, including, without limitation, a possible debt for equity exchange of approximately $62.3 million aggregate principal amount of 7% Senior Notes due 2021 (the "Senior Notes") currently held by Wilks and an additional capital infusion into Approach (the "Exchange Transaction"). We have engaged advisors in these discussions and negotiations, but there can be no assurance that these discussions and negotiations will result in the consummation of any transaction in a timely manner, or at all. Further, the consummation of an Exchange Transaction is contingent on the successful consummation of an extension and amendment under our credit agreement, as further discussed below.

Pursuant to the terms of a limited forbearance agreement, our credit facility lenders have agreed to forbear from exercising their rights and remedies under the revolving credit facility (and related loan documents) and applicable law with respect to the occurrence or continuance of events of default caused by our failure to comply with certain financial covenants in the credit facility. This limited forbearance agreement will terminate on August 21, 2019, unless earlier extended, or earlier terminated due to additional Events of Default under our revolving credit facility, or a default under the forbearance agreement. In addition, we are in continuing discussions and negotiations with the lenders regarding a potential extension of and amendments to the existing credit agreement. There can be no assurance that these discussions and negotiations will result in the consummation of any extension or amendment in a timely manner, or at all. An extension of and amendments to the existing credit agreement would be contingent on the successful and timely consummation of an Exchange Transaction. In the event the Exchange Transaction, and credit agreement extension and amendment, are not timely completed, we anticipate that we will pursue a restructuring of our balance sheet through an in-court Chapter 11 proceeding.

As we have previously disclosed, our Board has formed a committee of independent directors (the "Committee") to evaluate the Exchange Transaction as well as other financing alternatives and deleveraging transactions, including without limitation (i) amendments or waivers to the covenants or other provisions of our revolving credit facility, (ii) raising new capital in private or public markets and (iii) restructuring our balance sheet either through an in-court Chapter 11 proceeding or through an out-of-court agreement with creditors. We also continue to review operational matters such as adjusting our capital budget and continuing to reduce costs in an effort to improve cash flows from operations, and intend to continue to evaluate other strategic alternatives, including without limitation: (i) acquiring assets with existing production and cash flows by issuing preferred or common equity to finance such acquisitions; (ii) selling existing producing or midstream assets; and (iii) merging with a strategic partner.

As of June 30, 2019, we have incurred approximately $3.7 million in costs related to the potential issuance of equity in the above alternatives, which are recorded in prepaid expenses and other current assets. There can be no assurance that we will be able to implement any of these plans successfully, or that such plans, if executed, will result in compliance with our credit facility financial covenants.

Recent Accounting Pronouncements

On January 1, 2019, we adopted the Financial Accounting Standards Board ("FASB") account standards update for "Leases", which amended existing guidance to require lessees to recognize liabilities and right-of-use ("ROU") assets on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. We adopted this guidance using a modified retrospective approach on January 1, 2019 using the transition method that allows a cumulative-effect adjustment to the opening balance to retained earnings in the period of adoption.

We have completed our process to implement this standard, and we have designed processes and internal controls necessary for adoption of this standard. We have made policy elections to (i) not capitalize short-term leases for all asset classes, (ii) not separate non-lease components from lease components for all of our existing asset classes, (iii) apply the package of practical expedients that allows us to not reassess: whether any expired or existing contracts contain leases, lease classification for any expired or existing leases and initial direct costs for existing leases, (iv) apply the land easement practical expedient to not evaluate land easements that existed or expired prior to adoption and (v) apply the practical expedient to apply hindsight in estimating lease term and impairment.

The impact of applying this standard is not expected to significantly impact our results of operations or cash flows. As of January 1, 2019, we recognized ROU assets and liabilities of approximately $15 million from operating leases on our consolidated balance sheet. See Note 10 for additional disclosures related to our adoption this accounting standards update.

Prepaid Expenses and Other Assets

In April 2017, we entered into an agreement that secured pricing of a hydraulic fracturing services crew. Under this agreement, we made a prepayment of $5 million, to be used as we completed wells. We have used $1.2 million of this prepayment related to hydraulic fracturing services provided during the first year of the agreement. In March 2018, this agreement was terminated, and $3.8 million of the unused prepaid balance was refunded to us.

2. Restructuring Expenses

During the six months ended June 30, 2019, we recorded restructuring charges of $6.4 million in connection with the departures of certain executives and in connection with the review of the potential financing alternatives and deleveraging transactions discussed above. Additionally, in connection with the departure of certain executives, 960,890 unvested shares of restricted stock and 691,509 unvested cash-settled performance awards were forfeited, which resulted in a reduction in general and administrative expenses of $1.1 million during the six months ended June 30, 2019. The following table summarizes the Company’s restructuring accrual for the three and six months ended June 30, 2019, which is included under the caption “accrued liabilities” on our consolidated balance sheet (in thousands).

	Three months ended June 30, 2019	Six months ended June 30, 2019
Beginning balance	$ 5,799	$ —
Restructuring expenses incurred	142	6,424
Cash payments	(5,665)	(6,148)
Ending balance	$ 276	$ 276

3. Revenue Recognition

Revenues for the sale of oil, NGLs and gas are recognized as the product is delivered to our customers’ custody transfer points and collectability is reasonably assured. We fulfill the performance obligations under our customer contracts through daily delivery of oil, NGLs and gas to our customers’ custody transfer points and revenues are recorded on a monthly basis. The prices received for oil, NGLs and natural gas sales under our contracts are generally derived from stated market prices which are then adjusted to reflect deductions including transportation, fractionation and processing. As a result, our revenues from the sale of oil, natural gas and NGLs will decrease if market prices decline. The sales of oil, NGLs and gas as presented on the Consolidated Statements of Operations represent the Company’s share of revenues net of royalties and excluding revenue interests owned by others. When selling oil, NGLs and gas on behalf of royalty owners or working interest owners, the Company is acting as an agent and thus reports the revenue on a net basis. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the expected sales volumes and prices for those properties are estimated and recorded.

The following table presents our disaggregated revenue by major source for the three and six months ended June 30, 2019, and 2018 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues (in thousands):				
Oil	$ 11,261	$ 18,044	$ 22,616	$ 34,388
NGLs	4,030	8,852	9,199	16,184
Gas	(571)	3,368	2,148	8,464
Total revenue from contracts with customers	14,720	30,264	33,963	59,036
Commodity derivatives designated as cash flow hedges	—	62	—	62
Total oil, NGLs and gas sales	$ 14,720	$ 30,326	$ 33,963	$ 59,098

4. Earnings Per Common Share

We report basic earnings per common share, which excludes the effect of potentially dilutive securities, and diluted earnings per common share, which includes the effect of all potentially dilutive securities unless their impact is antidilutive. There were no potentially dilutive securities in the three or six months ended June 30, 2019, and June 30, 2018. The following table provides a reconciliation of the numerators and denominators of our basic and diluted earnings per share (dollars in thousands, except per-share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Income (numerator):				
Net loss – basic	$ (13,597)	$ (9,072)	$ (30,393)	$ (16,518)
Weighted average shares (denominator):				
Weighted average shares – basic	93,693,117	94,470,636	94,222,277	94,548,898
Dilution effect of share-based compensation, treasury method	—	—	—	—
Weighted average shares – diluted	93,693,117	94,470,636	94,222,277	94,548,898
Net loss per share:				
Basic	$ (0.15)	$ (0.10)	$ (0.32)	$ (0.17)
Diluted	$ (0.15)	$ (0.10)	$ (0.32)	$ (0.17)

5. Long-Term Debt

The following table provides a summary of our long-term debt at June 30, 2019, and December 31, 2018 (in thousands).

	June 30, 2019	December 31, 2018
Senior secured credit facility:		
Outstanding borrowings	$ 322,000	$ 301,500
Debt issuance costs	(621)	(993)
Senior secured credit facility, net	321,379	300,507
Senior notes:		
Principal	85,240	85,240
Debt issuance costs	(603)	(754)
Senior notes, net	84,637	84,486
Total debt	$ 406,016	$ 384,993

Senior Secured Credit Facility

At June 30, 2019, the borrowing base and aggregate lender commitments under our amended and restated senior secured credit facility (the "Credit Facility") were $325 million, with maximum commitments from the lenders of $1 billion. The Credit Facility has a maturity date of May 7, 2020. The borrowing base is redetermined semi-annually based on our oil, NGLs and gas reserves. We, or the lenders, can each request one additional borrowing base redetermination each calendar year.

At June 30, 2019, borrowings under the Credit Facility bore interest based on the agent bank's prime rate plus an applicable margin ranging from 2% to 3%, or the sum of the LIBOR rate plus an applicable margin ranging from 3% to 4%. In addition, we pay an annual commitment fee of 0.50% of unused borrowings available under the Credit Facility. Margins vary based on the borrowings outstanding compared to the borrowing base of the lenders.

We had outstanding borrowings of $322 million under the Credit Facility at June 30, 2019, compared to $301.5 million of outstanding borrowings at December 31, 2018. The weighted average interest rate applicable to borrowings under the Credit Facility for the three months ended June 30, 2019, was 6.7%. We had outstanding unused letters of credit under the Credit Facility totaling $0.3 million at June 30, 2019, and December 31, 2018, respectively, which reduce amounts available for borrowing under the Credit Facility.

Obligations under the Credit Facility are secured by mortgages on substantially all of the oil and gas properties of the Company and its subsidiaries. The Company is required to grant liens in favor of the lenders covering the oil and gas properties of the Company and its subsidiaries representing at least 95% of the total value of all oil and gas properties of the Company and its subsidiaries.

Covenants

The Credit Facility contains three principal financial covenants:

- a consolidated interest coverage ratio covenant that requires us to maintain a ratio of (i) consolidated EBITDAX for the period of four fiscal quarters then ending to (ii) Cash Interest Expense for such period as of the last day of any fiscal quarter of not less than 2.25 to 1.0 through December 31, 2019, and 2.5 to 1.0 thereafter. EBITDAX is defined as consolidated net (loss) income plus (i) interest expense, net, (ii) income tax provision (benefit), (iii) depreciation, depletion, amortization, (iv) exploration expenses and (v) other non-cash loss or expense (including share-based compensation and the change in fair value of any commodity derivatives), less non-cash income. Cash Interest Expense is calculated as interest expense, net less amortization of debt issuance costs. At June 30, 2019, our consolidated interest coverage ratio was 1.5 to 1.0;
- a consolidated modified current ratio covenant that requires us to maintain a ratio of not less than 1.0 to 1.0 as of the last day of any fiscal quarter. The consolidated modified current ratio is defined as the ratio of (i) current assets plus funds available under our revolving credit facility, less the current derivative asset, to (ii) current liabilities less the current derivative liability and the current operating lease liabilities. At June 30, 2019, our consolidated modified current ratio was 1.3 to 1.0; and
- a consolidated total leverage ratio covenant that imposes a maximum permitted ratio of (i) Total Debt to (ii) EBITDAX for the period of four fiscal quarters then ending of not more than 5.0 to 1.0, as of the last day of any fiscal quarter through June 30, 2019, thereafter not more than 4.75 to 1.0 as of the last day of any fiscal quarter through December 31, 2019, and (iii) not more than 4.0 to 1.0 as of the last day of any fiscal quarter thereafter. Total Debt is defined as the face or principal amount of debt. At June 30, 2019, our leverage ratio was 10.4 to 1.0.

As of June 30, 2019, as a result of prolonged low commodity prices and restructuring expenses incurred in the six months ended June 30, 2019, we were not in compliance with the interest coverage ratio and total leverage ratio financial covenants under the Credit Facility, which represents an Event of Default (as defined in the Credit Facility). As a result, we have presented the outstanding balance under the Credit Facility as a current liability as of June 30, 2019. In the case of an Event of Default, the lenders (i) are not required to lend any additional amounts to us, (ii) could elect to declare all outstanding borrowings, together with accrued and unpaid interest and fees to be payable, (iii) could require us to apply all of our available cash to repay these borrowings and (iv) could prevent us from making debt service payments under our other agreements. Pursuant to the terms of a limited forbearance agreement, our credit facility lenders have agreed to forbear from exercising their rights and remedies under the Credit Facility (and related loan documents) and applicable law with respect to the occurrence or continuance of events of default caused by our failure to comply with certain financial covenants in the Credit Facility. This limited forbearance agreement will terminate on August 21, 2019, unless earlier terminated due to additional Events of Default under our Credit Facility, or a default under the forbearance agreement.

The Credit Facility also contains covenants restricting cash distributions and other restricted payments, transactions with affiliates, incurrence of other debt, consolidations and mergers, the level of operating leases, asset sales, investment in other entities and liens on properties.

In addition, the obligations of the Company may be accelerated upon the occurrence of other Events of Default (as defined in the Credit Facility). Events of Default include customary events for a financing agreement of this type, including, without limitation, payment defaults, the inaccuracy of representations and warranties, defaults in the performance of affirmative or negative covenants, defaults on other indebtedness of the Company or its subsidiaries, bankruptcy or related defaults, defaults related to judgments and the occurrence of a Change of Control (as defined in the Credit Facility), which includes instances where a third party becomes the beneficial owner of more than 50% of the Company's outstanding equity interests entitled to vote.

Senior Notes

At June 30, 2019, and December 31, 2018, $85.2 million of Senior Notes were outstanding. We issued the Senior Notes under an indenture dated June 11, 2013, among the Company, our subsidiary guarantors and Wilmington Trust, National Association, as successor trustee. The senior indenture, as supplemented by supplemental indentures dated June 11, 2013, and December 20, 2016, is referred to as the "Indenture."

We may redeem some or all of the Senior Notes at specified redemption prices, plus accrued and unpaid interest to the redemption date. The Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by each of our subsidiaries, subject to certain customary release provisions. A subsidiary guarantor may be released from its obligations under the guarantee:

- in connection with any sale or other disposition of all or substantially all of the assets of that guarantor (including by way of merger or consolidation) to a person that is not (either before or after giving effect to such transaction) the Company or a subsidiary guarantor, if the sale or other disposition otherwise complies with the Indenture;
- in connection with any sale or other disposition of the capital stock of that guarantor to a person that is not (either before or after giving effect to such transaction) the Company or a subsidiary guarantor, if that guarantor no longer qualifies as a subsidiary of the Company as a result of such disposition and the sale or other disposition otherwise complies with the Indenture;
- if the Company designates any restricted subsidiary that is a guarantor to be an unrestricted subsidiary in accordance with the Indenture;
- upon defeasance or covenant defeasance of the notes or satisfaction and discharge of the Indenture, in each case, in accordance with the Indenture;
- upon the liquidation or dissolution of that guarantor, provided that no default or event of default occurs under the Indenture as a result thereof or shall have occurred and is continuing; or
- in the case of any restricted subsidiary that, after the issue date of the notes is required under the Indenture to guarantee the notes because it becomes a guarantor of indebtedness issued or an obligor under a credit facility with respect to the Company and/or its subsidiaries, upon the release or discharge in full from its (i) guarantee of such indebtedness or (ii) obligation under such credit facility, in each case, which resulted in such restricted subsidiary's obligation to guarantee the notes.

The Indenture contains limited events of default. An event of default under the Credit Facility does not result in an event of default under our Senior Notes.

Subsidiary Guarantors

The Senior Notes are guaranteed on a senior unsecured basis by each of our consolidated subsidiaries. Approach Resources Inc. is a holding company with no independent assets or operations. The subsidiary guarantees are full and unconditional and joint and several, and any subsidiaries of the Company other than the subsidiary guarantors are minor. There are no significant restrictions on the Company's ability, or the ability of any subsidiary guarantor, to obtain funds from its subsidiaries through dividends, loans, advances or otherwise.

6. Commitments and Contingencies

Our contractual obligations include long-term debt, operating lease obligations, asset retirement obligations and employment agreements with our executive officers. Since December 31, 2018, other than the restructuring expenses disclosed in Note 2, there have been no material changes to our contractual obligations.

We are involved in various legal and regulatory proceedings arising in the normal course of business. While we cannot predict the outcome of these proceedings with certainty, we do not believe that an adverse result in any pending legal or regulatory proceeding, individually or in the aggregate, would be material to our consolidated financial condition or cash flows.

7. Income Taxes

For the three months ended June 30, 2019, our income tax benefit was \$3.4 million, compared to \$2.2 million for the three months ended June 30, 2018. The following table reconciles our income tax benefit for the three and six months ended June 30, 2019, and 2018, to the U.S. federal statutory rates of 21% (dollars in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Statutory tax at 21%	$ (3,574)	$ (2,372)	$ (7,999)	$ (4,274)
State taxes, net of federal impact	64	112	127	274
Share-based compensation tax shortfall	12	—	1	70
Nondeductible compensation	74	36	167	93
Other differences	4	2	5	5
Income tax benefit	$ (3,420)	$ (2,222)	$ (7,699)	$ (3,832)

8. Derivative Instruments and Fair Value Measurements

We enter into commodity derivative contracts to reduce our exposure to fluctuations in commodity prices related to our oil, NGLs and gas production. We record open derivative instruments at fair value on our consolidated balance sheets as either current or non-current assets or liabilities based on the anticipated timing of cash settlements under the related contracts. Changes in fair value of our commodity derivative contracts, not designated as cash-flow hedges, and cash settlements are recorded in earnings as they occur on our consolidated statements of operations under the caption entitled “Commodity derivative gain (loss).”

In April 2018, we entered into swaps for the NYMEX Calendar Monthly Average Roll (the “CMA Roll”) covering 2,000 Bbls of oil per day for May 2018 through December 2018 at $0.66/bbl. Swaps for the CMA Roll are pricing adjustments to the trade month versus the delivery month for contract pricing. These derivative contracts were designated as cash-flow hedges. The changes in fair value of the derivative contracts designated as cash-flow hedges, to the extent the hedge is effective, will be recognized in other comprehensive income until the hedged item is recognized in revenue. As of June 30, 2019, we had no outstanding derivative instruments designated as cash-flow hedges.

The following table provides our outstanding commodity derivative positions at June 30, 2019.

Commodity and Period	Contract Type	Volume Transacted	Contract Price
Crude Oil			
July 2019 – December 2019	Collar	500 Bbls/day	$65.00/Bbl - $71.00/Bbl
NGLs (C5 - Pentane)			
July 2019 – December 2019	Swap	200 Bbls/day	$65.205/Bbl

The following table summarizes the fair value of our open commodity derivatives as of June 30, 2019, and December 31, 2018 (in thousands).

	Balance Sheet Location	Fair Value	
		June 30, 2019	December 31, 2018
Derivatives not designated as hedging instruments			
Commodity derivatives	Derivative assets	$ 1,340	$ 5,946

The following table summarizes the change in the fair value of our commodity derivatives (in thousands).

	Income Statement Location	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Derivatives not designated as hedging instruments					
Net cash receipt (payment) on derivative settlements		$ 639	$ (1,982)	$ 2,115	$ (3,513)
Non-cash fair value loss on derivatives		(284)	(2,902)	(4,606)	(3,299)
	Commodity derivative gain (loss)	$ 355	$ (4,884)	$ (2,491)	$ (6,812)
Derivatives designated as cash-flow hedges					
	Oil, NGLs and gas sales	$ —	$ 62	$ —	$ 62

The following table summarizes the changes in accumulated other comprehensive income ("AOCI") for the three months ended June 30, 2018 (in thousands).

	Pre-Tax	Tax Benefit	Net of Tax
Balance at March 31, 2018	$ —	$ —	$ —
Other comprehensive loss before reclassifications	(135)	28	(107)
Amounts reclassified from AOCI	(62)	13	(49)
Net other comprehensive loss	(197)	41	(156)
Balance at June 30, 2018	$ (197)	$ 41	$ (156)

The following table summarizes the changes in AOCI for the six months ended June 30, 2018 (in thousands).

	Pre-Tax	Tax Benefit	Net of Tax
Balance at December 31, 2017	$ —	$ —	$ —
Other comprehensive loss before reclassifications	(135)	28	(107)
Amounts reclassified from AOCI	(62)	13	(49)
Net other comprehensive loss	(197)	41	(156)
Balance at June 30, 2018	$ (197)	$ 41	$ (156)

We estimate the fair value of swap contracts based on the present value of the difference in exchange-quoted forward price curves and contractual settlement prices multiplied by notional quantities. We internally valued the option contracts using industry-standard option pricing models and observable market inputs. We use our internal valuations to determine the fair values of the contracts that are reflected on our consolidated balance sheets.

We are exposed to credit losses in the event of nonperformance by the counterparties on our commodity derivatives positions and have considered the exposure in our internal valuations. However, we do not anticipate nonperformance by the counterparties over the term of the commodity derivatives positions.

To estimate the fair value of our commodity derivatives positions, we use market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and attempt to use the best available information. We determine the fair value based upon the hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and lowest priority to unobservable inputs (Level 3 measurement). The three levels of fair value hierarchy are as follows:

- Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. At June 30, 2019, we had no Level 1 measurements.
- Level 2 — Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Our derivatives, which consist primarily of commodity swaps and collars, are valued using commodity market data, which is derived by combining raw inputs and quantitative models and processes to generate forward curves. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2. At June 30, 2019, all of our commodity derivatives were valued using Level 2 measurements.
- Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value. At June 30, 2019, we had no recurring Level 3 measurements.

Nonrecurring Fair Value Measurements

Assets Held for Sale

During the six months ended June 30, 2019, we initiated a plan to market certain corporate assets for sale. The assets are available for immediate sale and are being actively marketed. The corporate assets held for sale were recorded at their estimated fair value less costs to sell as of March 31, 2019, which is a Level 3 fair value measurement. As a result, we recognized an impairment loss of $0.3 million for the difference between the asset’s carrying value and the estimated fair value less costs to sell during the six months ended June 30, 2019.

Financial Instruments Not Recorded at Fair Value

The following table sets forth the fair values of financial instruments that are not recorded at fair value on our financial statements (in thousands).

	June 30, 2019	
	Carrying Amount	Fair Value
Senior Notes	$ 84,637	$ 21,756

The fair value of the Senior Notes is based on quoted market prices, but the Senior Notes are not actively traded in the public market. Accordingly, the fair value of the Senior Notes would be classified as Level 2 in the fair value hierarchy.

9. Share-Based Compensation

Nonvested Shares

During the six months ended June 30, 2019, 960,890 unvested shares of restricted stock were forfeited in connection with the departures of certain executives. As a result, we recorded a reduction in share-based compensation expense of $0.9 million related to the forfeitures.

Cash-settled performance awards

As of June 30, 2019, we had 191,731 unvested cash-settled performance awards, subject to certain performance conditions outstanding. The cash-settled performance awards represent a non-equity unit with a conversion value equal to the fair market value of a share of the Company's common stock at the vesting date. These awards are classified as liability awards due to the cash settlement feature. Compensation costs associated with the cash-settled performance awards are re-measured at each interim reporting period and an adjustment is recorded in general and administrative expenses on our consolidated statements of operations. During the six months ended June 30, 2019, 691,509 unvested cash-settled performance awards were forfeited in connection with the departures of certain executives. As a result, we recorded a reduction in general and administrative expense of $0.2 million related to the forfeitures. For the three and six months ended June 30, 2019, including the forfeitures, we recognized a benefit of $28,000 and $0.5 million, respectively. For the three and six months ended June 30 2018, we recognized an expense of $0.5 million and $0.8 million, respectively. At June 30, 2019, we recorded a current liability of $33,000 and a non-current liability of $8,000 related to the cash-settled performance awards on our consolidated balance sheets. During the six months ended June 30, 2019, we paid $0.7 million related to vested cash-settled performance awards.

10. Leases

We determine if an arrangement is a lease at inception of the arrangement. To the extent that we determine an arrangement represents a lease, we evaluate whether the lease will be classified as an operating lease or a finance lease. As of June 30, 2019, we do not have any finance leases. We capitalize our operating leases on our consolidated balance sheet under the caption entitled "Right of use operating lease assets" and a corresponding lease liability under the caption "Operating lease liabilities." The operating lease liabilities are classified as current or non-current based on the estimated timing of payment. The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Short-term leases that have an initial term of one year or less are not capitalized but are disclosed below. Short-term lease costs exclude expenses related to leases with a lease term of one month or less.

We currently enter into lease agreements to support our operations. These agreements are for leases on assets such as office space, compressors and well equipment. Below is a detailed description of our significant lease types.

Office Space

We lease our corporate office space under a non-cancelable agreement that expires on September 30, 2021. We have concluded that this arrangement represents an operating lease with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the primary term.

Compressors

We lease compressors for gas lift on our wells and for delivery of gas to our purchasers. Our compressor contracts typically have an initial lease term of one to four years, cancelable at our option with thirty-day written notice. Subsequent to the expiration of the initial term, the compressor leases will continue on a month-to-month basis cancelable by either party upon thirty-day written notice. Upon completion of the initial term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the initial term. We have concluded that the compressor rental agreements represent operating leases with a lease term that equals the initial term of the lease as it is reasonably certain that we will continue the lease over the initial term of the contract.

Other equipment

We lease other equipment to support our operations, with non-cancelable terms of two to three years. We have concluded that these arrangements represent operating leases with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the primary term.

Discount Rate

Our leases typically do not provide an implicit rate. Accordingly, we are required to use our incremental borrowing rate in determining the present value of lease payments based on the information available at the lease commencement date. Our incremental borrowing rate reflects the estimated rate of interest that we would pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Our operating leases have a weighted average remaining lease term of 2 years and a weighted average discount rate of 6.5%.

The following table summarizes our operating lease liabilities with contract terms that are greater than one year as follows (in thousands).

	Operating Leases
Remainder of 2019	$ 3,411
2020	6,833
2021	3,005
2022	121
2023	—
Total lease payments	13,370
Less imputed interest	(842)
Total operating lease liabilities	12,528
Current operating lease liabilities	6,599
Long-term operating lease liabilities	5,929
Total operating lease liability	$ 12,528

The following table summarizes the components of our total lease expenses for the three and six months ended June 30, 2019 (in thousands).

	Statement of Operations Location	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease expense	General and administrative expense	$ 246	$ 497
Operating lease expense	Lease operating expense	1,387	2,770
Short-term lease expense (1)	General and administrative expense	10	19
Short-term lease expense (1)	Lease operating expense	62	132
Total lease expense		$ 1,705	$ 3,418

(1) Short-term lease expense represents expense related to leases with a contract term of one year or less.

The following table summarizes the cash flow information related to our operating leases for the three and six months ended June 30, 2019 (in thousands).

	Three months ended June 30, 2019	Six months ended June 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ (1,705)	$ (3,415)
Amounts billed to other owners (1)	66	140
Total net lease cash flow	$ (1,639)	$ (3,275)

(1) For a portion of our operating leases, the costs of the applicable operating leases are shared with other working interest or royalty interest owners. These amounts are recorded as a reduction in oil and gas sales payable as incurred.

11. Related Party Transactions

Wilks, a related party, has purchased a portion of our outstanding Senior Notes in the open market. The Company believes that Wilks held approximately $62.3 million of our outstanding Senior Notes as of June 30, 2019. The Senior Notes held by Wilks are included in Senior Notes, net on our consolidated balance sheets. Our interest expense includes interest attributable to any Senior Notes held by Wilks on our consolidated statements of operations. Wilks currently are engaged in discussions and negotiations with the Company regarding their investment in the Company, including a possible debt for equity exchange of the Senior Notes and an additional capital infusion. We have engaged advisors in these discussions and negotiations, but there can be no assurance that these discussions will result in the consummation of any transaction in a timely manner, or at all. In connection with these discussions and negotiations, the Company has incurred $0.2 million of legal fees on behalf of Wilks.

In April 2018, we engaged ProFrac Services, LLC ("ProFrac") to perform completion services for the Company. There is no required minimum or maximum number of wells committed. Matthew D. Wilks, a member of our Board of Directors, serves as the Chief Financial Officer of ProFrac, and Wilks has an equity ownership in ProFrac. During the three months ended June 30, 2018, we incurred capital expenditures of $5.1 million for hydraulic fracturing services with ProFrac, which is included in additions to oil and gas properties on our consolidated statements of cash flows. We have not utilized ProFrac completion services in the three and six months ended June 30, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in understanding our results of operations and our financial condition. This section should be read in conjunction with management's discussion and analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission ("SEC") on March 18, 2019. Our consolidated financial statements and the accompanying notes included elsewhere in this report contain additional information that should be referred to when reviewing this material. Certain statements in this discussion may be forward-looking. These forward-looking statements involve risks and uncertainties, which could cause actual results to differ from those expressed in this report. A glossary containing the meaning of the oil and gas industry terms used in this management's discussion and analysis follows the "Results of Operations" table in this Item 2.

Cautionary Statement Regarding Forward-Looking Statements

Various statements in this report, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements may include projections and estimates concerning the timing and success of specific projects, typical well economics and our future reserves, production, revenues, costs, income, capital spending, 3-D seismic operations, interpretation and results and obtaining permits and regulatory approvals. When used in this report, the words "will," "believe," "intend," "expect," "may," "should," "anticipate," "could," "estimate," "plan," "predict," "project," "potential" or their negatives, other similar expressions or the statements that include those words, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

These forward-looking statements are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed or referred to in the "Risk Factors" section and elsewhere in this report. All forward-looking statements speak only as of the date of this report. We disclaim any obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, unless required by law. These cautionary statements qualify all forward-looking statements attributable to us, or persons acting on our behalf. The risks, contingencies and uncertainties relate to, among other matters, the following:

- our ability to continue as a going concern;
- our ability to obtain forbearance or waivers from our lenders;
- our ability to regain compliance with the covenants in our revolving credit facility;
- our leverage negatively affecting the semi-annual redetermination of our revolving credit facility;
- uncertainties in drilling, exploring for and producing oil and gas;
- oil, NGLs and natural gas prices;
- overall United States and global economic and financial market conditions;
- domestic and foreign demand and supply for oil, NGLs, natural gas and the products derived from such hydrocarbons;
- actions of the Organization of Petroleum Exporting Countries, its members and other state-controlled oil companies relating to oil price and production controls;
- our ability to obtain additional financing necessary to fund our operations and capital expenditures and to meet our other obligations;
- our ability to maintain a sound financial position;
- issuance of equity securities in connection with potential financing or deleveraging transactions or other strategic alternatives that may cause substantial dilution;
- our cash flows and liquidity;

- the effects of government regulation and permitting and other legal requirements, including laws or regulations that could restrict or prohibit hydraulic fracturing;
- disruption of credit and capital markets;
- disruptions to, capacity constraints in or other limitations on the pipeline systems that deliver our oil, NGLs and natural gas and other processing and transportation considerations;
- marketing of oil, NGLs and natural gas;
- high costs, shortages, delivery delays or unavailability of drilling and completion equipment, materials, labor or other services;
- competition in the oil and gas industry;
- uncertainty regarding our future operating results;
- profitability of drilling locations;
- interpretation of 3-D seismic data;
- replacing our oil, NGLs and natural gas reserves;
- our ability to retain and attract key personnel;
- our business strategy, including our ability to recover oil, NGLs and natural gas in place associated with our Wolfcamp shale oil resource play in the Permian Basin;
- development of our current asset base or property acquisitions;
- estimated quantities of oil, NGLs and natural gas reserves and present value thereof;
- plans, objectives, expectations and intentions contained in this report that are not historical; and
- other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019.

Overview

Approach Resources Inc. is an independent energy company focused on the exploration, development, production and acquisition of unconventional oil and gas reserves in the Midland Basin of the greater Permian Basin in West Texas, where we leased approximately 116,000 net acres as of June 30, 2019. We believe our concentrated acreage position and extensive, integrated field infrastructure system provides us an opportunity to achieve cost, operating and recovery efficiencies in the development of our drilling inventory. Our long-term business strategy is to create value by growing reserves and production in a cost efficient manner and at attractive rates of return. We intend to pursue that strategy by developing resource potential from the Wolfcamp shale oil formation and pursuing acquisitions that meet our strategic and financial objectives. Additional drilling targets could include the Clearfork, Canyon Sands, Strawn and Ellenburger zones. We sometimes refer to our development project in the Permian Basin as “Project Pangea,” which includes “Pangea West.” Our management and technical teams have a proven track record of finding and developing reserves through advanced drilling and completion techniques. As the operator of all of our estimated proved reserves and production, we have a high degree of control over capital expenditures and other operating matters.

At December 31, 2018, our estimated proved reserves were 180.1 million barrels of oil equivalent (“MMBoe”), made up of 29% oil, 31% NGLs and 40% gas. The proved developed reserves were 37% of our total proved reserves at December 31, 2018. Substantially all of our proved reserves are located in the Permian Basin in Crockett and Schleicher counties, Texas. At June 30, 2019, we owned working interests in 810 producing oil and gas wells.

Going Concern Uncertainty

Our liquidity and ability to comply with financial covenants under our revolving credit facility have been negatively impacted by the recent decrease in commodity prices, the severe natural gas price discount in the Permian Basin and restructuring expenses incurred during the six months ended June 30, 2019. Our revolving credit facility contains three principal financial covenants: (i) a consolidated interest coverage ratio, (ii) a consolidated modified current ratio and (iii) a consolidated total leverage ratio. See Note 5 to our consolidated financial statements in this report for additional information regarding the financial covenants under our revolving credit facility. As of June 30, 2019, we were not in compliance with the consolidated interest coverage ratio and the consolidated total leverage ratio covenants under our revolving credit facility, which represents an event of default under our revolving credit facility. As a result, we have classified the outstanding balance on our revolving credit facility as a current liability as of June 30, 2019. These factors raise substantial doubt regarding our ability to continue as a going concern.

In order to improve our leverage position, we currently are pursuing or considering a number of actions, which in certain cases may require the consent of current lenders, stockholders or bond holders. As part of our review of deleveraging transactions, we currently are engaged in discussions and negotiations with Wilks Brothers, LLC, and its affiliate SDW Investments, LLC (collectively, "Wilks") regarding their investment in the Company, including, without limitation, a possible debt for equity exchange of approximately $62.3 million of 7% Senior Notes due 2021 (the "Senior Notes") currently held by Wilks and an additional capital infusion into Approach (the "Exchange Transaction"). We have engaged advisors in these discussions and negotiations, but there can be no assurance that these discussions and negotiations will result in the consummation of any transaction in a timely manner, or at all. Further, the consummation of an Exchange Transaction is contingent on the successful consummation of an extension and amendment under our credit agreement, as further discussed below. In the event the Exchange Transaction, and credit agreement extension and amendment, are not timely completed, we anticipate that we will pursue a restructuring of our balance sheet through an in-court Chapter 11 proceeding.

Pursuant to the terms of a limited forbearance agreement, our credit facility lenders have agreed to forbear from exercising their rights and remedies under the revolving credit facility (and related loan documents) and applicable law with respect to the occurrence or continuance of events of default caused by our failure to comply with certain financial covenants in the revolving credit facility. This limited forbearance agreement will terminate on August 21, 2019, unless earlier terminated due to additional Events of Default under our revolving credit facility, or a default under the forbearance agreement. In addition, we are in continuing discussions and negotiations with the lenders regarding a potential extension of and amendment to the existing credit agreement. There can be no assurance that these discussions and negotiations will result in the consummation of any extension or amendment in a timely manner, or at all. An extension of and amendment to the existing credit agreement would be contingent on the successful and timely consummation of an Exchange Transaction.

As we have previously disclosed, our Board has formed a committee of independent directors (the "Committee") to evaluate the Exchange Transaction as well as other financing alternatives and deleveraging transactions, including without limitation (i) amendments or waivers to the covenants or other provisions of our revolving credit facility, (ii) raising new capital in private or public markets and (iii) restructuring our balance sheet either through an in-court Chapter 11 proceeding or through an out-of-court agreement with creditors. We also are considering operational matters such as adjusting our capital budget and continuing to reduce costs in an effort to improve cash flows from operations, and intend to continue to evaluate other strategic alternatives, including without limitation: (i) acquiring assets with existing production and cash flows by issuing preferred or common equity to finance such acquisitions; (ii) selling existing producing or midstream assets; and (iii) merging with a strategic partner. There can be no assurance that we will be able to consummate any of these financing or deleveraging transactions or other strategic alternatives in a timely manner, or at all, or that such financing or deleveraging transactions or other strategic alternatives, if implemented, would result in regaining or continuing compliance under our credit facility.

Second Quarter 2019 Activity

During the three months ended June 30, 2019, we produced 875 MBoe, or 9.6 MBoe/d. At June 30, 2019, we had seven horizontal Wolfcamp wells waiting on completion. We currently have no rigs running in Project Pangea.

2019 Capital Expenditures

We currently are evaluating our annual capital budget, and our capital expenditures for 2019 will be dependent on the successful consummation of the potential financing and deleveraging transactions and other strategic alternatives disclosed above. For the three months ended June 30, 2019, our capital expenditures totaled $1.5 million.

We initially set our 2019 capital budget at a range of $30 million to $60 million, prior to suspending our capital budget in light of our pursuit of the financing and deleveraging transactions discussed above. Our original 2019 capital budget excluded acquisitions and lease extensions and renewals and is subject to change depending upon a number of factors, including prevailing and anticipated prices for oil, NGLs and gas, results of horizontal drilling and completions, economic and industry conditions at the time of drilling, the availability of sufficient capital resources for drilling prospects, our financial results and the availability of lease extensions and renewals on reasonable terms. The impact of changes in these collective factors in the current commodity price environment is difficult to estimate. We will assess the impact of changes in these collective factors, as well as the results of the potential financing and deleveraging transactions on our development plan at the appropriate time, and we may respond to such changes by altering our capital budget or our development plan.

Results of Operations

The following table sets forth summary information regarding oil, NGLs and gas revenues, production, average product prices and average production costs and expenses for the three and six months ended June 30, 2019 and 2018. We determine a barrel of oil equivalent using the ratio of six Mcf of natural gas to one Boe, and one barrel of NGLs to one Boe. The ratios of six Mcf of natural gas to one Boe and one barrel of NGLs to one Boe do not assume price equivalency and, given price differentials, the price for a Boe for natural gas or NGLs may differ significantly from the price for a barrel of oil.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues (in thousands):				
Oil	$ 11,261	$ 18,106	$ 22,616	$ 34,450
NGLs	4,030	8,852	9,199	16,184
Gas	(571)	3,368	2,148	8,464
Total oil, NGLs and gas sales	14,720	30,326	33,963	59,098
Net cash receipt (payment) on derivative settlements	639	(1,982)	2,115	(3,513)
Total oil, NGLs and gas sales including derivative impact	$ 15,359	$ 28,344	$ 36,078	$ 55,585
Production:				
Oil (MBbls)	199	278	419	550
NGLs (MBbls)	323	377	647	729
Gas (MMcf)	2,117	2,404	4,289	4,780
Total (MBoe)	875	1,056	1,781	2,076
Total (MBoe/d)	9.6	11.6	9.8	11.5
Average prices:				
Oil (per Bbl)	$ 56.54	$ 65.09	$ 53.97	$ 62.59
NGLs (per Bbl)	12.49	23.49	14.22	22.21
Gas (per Mcf)	(0.27)	1.40	0.50	1.77
Total (per Boe)	16.83	28.73	19.07	28.47
Net cash receipt (payment) on derivative settlements (per Boe)	0.73	(1.88)	1.19	(1.69)
Total including derivative impact (per Boe)	$ 17.56	$ 26.85	$ 20.26	$ 26.78
Costs and expenses (per Boe):				
Lease operating	$ 4.78	$ 4.77	$ 5.08	$ 4.96
Production and ad valorem taxes	1.76	2.43	1.95	2.44
Exploration	1.65	—	0.81	—
General and administrative	4.93	5.77	4.54	6.10
Depletion, depreciation and amortization	14.94	15.96	14.98	15.67

Glossary

Bbl. One stock tank barrel, of 42 U.S. gallons liquid volume, used herein to reference oil, condensate or NGLs.

Boe. Barrel of oil equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of oil equivalent, and one Bbl of NGLs to one Bbl of oil equivalent.

MBbl. Thousand barrels of oil, condensate or NGLs.

MBoe. Thousand barrels of oil equivalent.

Mcf. Thousand cubic feet of natural gas.

MMBoe. Million barrels of oil equivalent.

MMBtu. Million British thermal units.

MMcf. Million cubic feet of natural gas.

NGLs. Natural gas liquids.

NYMEX. New York Mercantile Exchange.

/d. "Per day" when used with volumetric units or dollars.

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Oil, NGLs and gas sales. Oil, NGLs and gas sales decreased $15.6 million, or 51%, for the three months ended June 30, 2019, to $14.7 million, compared to $30.3 million for the three months ended June 30, 2018. The decrease in oil, NGLs and gas sales was due to a decrease in average realized commodity prices ($10.4 million) and a decrease in production volumes ($5.2 million). Production volumes decreased as a result of no well completions since the third quarter of 2018. We expect oil, NGLs and gas sales to decrease in 2019 compared to 2018 due to a decrease in commodity prices and a decrease in production due to decreased well completion activity.

Net loss. Net loss for the three months ended June 30, 2019, was $13.6 million, or $0.15 per diluted share, compared to $9.1 million, or $0.10 per diluted share, for the three months ended June 30, 2018. Net loss for the three months ended June 30, 2019, included a commodity derivative gain of $0.4 million. The increase in the net loss for the three months ended June 30, 2019, was primarily due to a decrease in revenue ($15.6 million), partially offset by a decrease in operating expenses ($5.9 million).

Oil, NGLs and gas production. Production for the three months ended June 30, 2019, totaled 875 MBoe (9.6 MBoe/d), compared to production of 1,056 MBoe (11.6 MBoe/d) in the prior-year period, a 17% decrease. Production for the three months ended June 30, 2019, was 23% oil, 37% NGLs and 40% gas compared to 26% oil, 36% NGLs and 38% gas for the three months ended June 30, 2018. Production volumes decreased during the three months ended June 30, 2019, as a result of no well completions since the third quarter of 2018. We expect production to decrease from current levels due to decreased well completion activity.

Commodity derivative gain (loss). The following table sets forth the components of our commodity derivative gain (loss) for the three months ended June 30, 2019, and 2018 (dollars in thousands).

	Three Months Ended June 30,	
	2019	**2018**
Net cash receipt (payment) on derivative settlements	$ 639	$ (1,982)
Non-cash fair value loss on derivatives	(284)	(2,902)
Commodity derivative gain (loss)	$ 355	$ (4,884)

Historically, we have not designated our derivative instruments as cash-flow hedges. Commodity derivative settlements are derived from the relative movement of commodity prices in relation to the fixed notional pricing in our derivative contracts for the respective years. As commodity prices increase or decrease, the fair value of the open portion of those positions decreases or increases, respectively. We record our open derivative instruments at fair value on our consolidated balance sheets as either derivative assets or liabilities. For commodity derivatives not designated as a cash-flow hedge, we record changes in such fair value in earnings on our consolidated statements of operations under the caption entitled "Commodity derivative gain (loss)." As of June 30, 2019, we had no outstanding commodity derivative contracts designated as cash-flow hedges.

In April 2018, we entered into basis swaps for the NYMEX Calendar Monthly Average Roll (the "CMA Roll") covering 2,000 Bbls per day for May 2018 through December 2018 at $0.66/bbl. Basis swaps for the CMA Roll are pricing adjustments to the trade month versus the delivery month for contract pricing. These derivative contracts were designated as cash-flow hedges. The changes in fair value of the derivative contracts designated as cash-flow hedges, to the extent the hedge is effective, will be recognized in other comprehensive income until the hedged item is recognized in revenue. Oil, NGLs and gas sales includes $62,000 related to this cash flow hedge for the three months ended June 30, 2018.

Lease operating. Our lease operating expenses ("LOE") decreased $0.8 million, or 17%, for the three months ended June 30, 2019, to $4.2 million, or $4.78 per Boe, compared to $5 million, or $4.77 per Boe, for the three months ended June 30, 2018. The decrease in LOE for the three months ended June 30, 2019, was primarily due to a decrease in well repairs, workovers and maintenance and water handling. The following table summarizes LOE in millions and LOE per Boe.

	Three Months Ended June 30,												
	2019				2018				Change				
	$MM		Boe		$MM		Boe		$MM		Boe		% Change (Boe)
Compressor rental and repair	$	1.8	$	2.01	$	1.6	$	1.56	$	0.2	$	0.45	28.8%
Well repairs, workovers and maintenance		0.9		1.06		1.4		1.33		(0.5)		(0.27)	(20.3)
Water handling and other		0.7		0.85		1.2		1.16		(0.5)		(0.31)	(26.7)
Pumpers and supervision		0.8		0.86		0.8		0.72		-		0.14	19.4
Total	$	4.2	$	4.78	$	5.0	$	4.77	$	(0.8)	$	0.01	0.2%

Production and ad valorem taxes. Our production and ad valorem taxes decreased $1.1 million, or 40%, for the three months ended June 30, 2019, to $1.5 million compared to $2.6 million for the three months ended June 30, 2018. Production and ad valorem taxes were $1.76 per Boe and $2.43 per Boe and approximately 10.5% and 8.5% of oil, NGLs and gas sales for the three months ended June 30, 2019 and 2018, respectively. The decrease in production and ad valorem taxes was primarily a function of the decrease in oil, NGLs and gas sales between the two periods.

Exploration. We recorded exploration expense of $1.4 million for the three months ended June 30, 2019, compared to $3,000 for the three months ended June 30, 2018. The increase in exploration expense is due to lease expirations of approximately 2,400 net acres in the three months ended June 30, 2019.

General and administrative. Our general and administrative expenses ("G&A") decreased $1.8 million, or 29%, to $4.3 million, or $4.93 per Boe, for the three months ended June 30, 2019, compared to $6.1 million, or $5.77 per Boe, for the three months ended June 30, 2018. The decrease in G&A and G&A per Boe was primarily due to a decrease in salaries and benefits and share-based compensation due to the departure of certain executives. We expect G&A to decrease compared to 2018 due to a decrease in salaries and benefits in connection with the departure of certain executives. The following table summarizes G&A in millions and G&A per Boe.

	Three Months Ended June 30,												
	2019				2018				Change				
	$MM		Boe		$MM		Boe		$MM		Boe		% Change (Boe)
Salaries and benefits	$	2.0	$	2.25	$	3.6	$	3.40	$	(1.6)	$	(1.15)	(33.8)%
Share-based compensation		0.3	$	0.32		0.7	$	0.62		(0.4)		(0.30)	(48.4)
Professional fees		0.7	$	0.77		0.5	$	0.48		0.2		0.29	60.4
Other		1.3	$	1.59		1.3	$	1.27		-		0.32	25.2
Total	$	4.3	$	4.93	$	6.1	$	5.77	$	(1.8)	$	(0.84)	(14.6)%

Restructuring expenses. During the three months ended June 30, 2019, we recorded restructuring expenses of $0.1 million in connection with the departures of certain executives and in connection with the review of the potential deleveraging transactions. We expect to continue to recognize restructuring expenses in connection with the continued review of the potential financing and deleveraging transactions.

Depletion, depreciation and amortization. Our depletion, depreciation and amortization expense ("DD&A") decreased $3.7 million, or 22%, to $13.1 million for the three months ended June 30, 2019, compared to $16.8 million for the three months ended June 30, 2018. Our DD&A per Boe decreased by $1.02, or 6%, to $14.94 per Boe for the three months ended June 30, 2019, compared to $15.96 per Boe for the three months ended June 30, 2018. The decrease in DD&A over the prior-year period was primarily due to a decrease in production.

Interest expense, net. Our interest expense, net, increased $1.2 million, or 20%, to $7.4 million for the three months ended June 30, 2019, compared to $6.2 million for the three months ended June 30, 2018. This increase was primarily due to an increase in outstanding borrowings and floating interest rates under our revolving credit facility. The weighted average interest rate applicable to borrowings under our revolving credit facility for the three months ended June 30, 2019, was 6.7% compared to 5.8% for the three months ended June 30, 2018.

Income taxes. For the three months ended June 30, 2019, our income tax benefit was $3.4 million, compared to $2.2 million for the three months ended June 30, 2018. The following table reconciles our income tax benefit for the three months ended June 30, 2019, and 2018, to the U.S. federal statutory rates of 21% (dollars in thousands).

	June 30, 2019	June 30, 2018
Statutory tax at 21%	$ (3,574)	$ (2,372)
State taxes, net of federal impact	64	112
Share-based compensation tax shortfall	12	—
Nondeductible compensation	74	36
Other differences	4	2
Income tax benefit	$ (3,420)	$ (2,222)

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Oil, NGLs and gas sales. Oil, NGLs and gas sales decreased $25.1 million, or 43%, for the six months ended June 30, 2019, to $34 million, compared to $59.1 million for the six months ended June 30, 2018. The decrease in oil, NGLs and gas sales was due to a decrease in average realized commodity prices ($16.7 million) and a decrease in production volumes ($8.4 million). Production volumes decreased as a result of no well completions since the third quarter of 2018. We expect oil, NGLs and gas sales to decrease in 2019 compared to 2018 due to a decrease in commodity prices and a decrease in production due to decreased well completion activity.

Net loss. Net loss for the six months ended June 30, 2019, was $30.4 million, or $0.32 per diluted share, compared to $16.5 million, or $0.17 per diluted share, for the six months ended June 30, 2018. Net loss for the six months ended June 30, 2019, included restructuring expenses of $6.4 million and a commodity derivative loss of $2.5 million. The increase in the net loss for the six months ended June 30, 2019, was primarily due to a decrease in revenue ($25.1 million) and the restructuring expenses of $6.4 million, partially offset by a decrease in other operating expenses ($11.6 million).

Oil, NGLs and gas production. Production for the six months ended June 30, 2019, totaled 1,781 MBoe (9.8 MBoe/d), compared to production of 2,076 MBoe (11.5 MBoe/d) in the prior-year period, a 14% decrease. Production for the six months ended June 30, 2019, was 24% oil, 36% NGLs and 40% gas compared to 27% oil, 35% NGLs and 38% gas for the six months ended June 30, 2018. Production volumes decreased during the six months ended June 30, 2019, as a result of no well completions since the third quarter of 2018. We expect production to decrease from current levels due to decreased well completion activity.

Commodity derivative loss. The following table sets forth the components of our commodity derivative loss for the six months ended June 30, 2019, and 2018 (dollars in thousands).

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net cash receipt (payment) on derivative settlements	$ 2,115	$ (3,513)
Non-cash fair value loss on derivatives	(4,606)	(3,299)
Commodity derivative loss	$ (2,491)	$ (6,812)

Lease operating. Our LOE decreased $1.3 million, or 12%, for the six months ended June 30, 2019, to $9 million, or $5.08 per Boe, compared to $10.3 million, or $4.96 per Boe, for the six months ended June 30, 2018. The increase in LOE per Boe for the six months ended June 30, 2019, was primarily due to lower production volumes. The following table summarizes LOE in millions and LOE per Boe.

	Six Months Ended June 30,				Change		
	2019		2018				
	$MM	Boe	$MM	Boe	$MM	Boe	% Change (Boe)
Compressor rental and repair	$ 3.6	$ 2.02	$ 3.4	$ 1.65	$ 0.2	$ 0.37	22.4%
Well repairs, workovers and maintenance	2.2	1.25	3.0	1.44	(0.8)	(0.19)	(13.2)
Water handling and other	1.7	0.95	2.3	1.12	(0.6)	(0.17)	(15.2)
Pumpers and supervision	1.5	0.86	1.6	0.75	(0.1)	0.11	14.7
Total	$ 9.0	$ 5.08	$ 10.3	$ 4.96	$ (1.3)	$ 0.12	2.4%

Production and ad valorem taxes. Our production and ad valorem taxes decreased $1.6 million, or 31%, for the six months ended June 30, 2019, to $3.5 million compared to $5.1 million for the six months ended June 30, 2018. Production and ad valorem taxes were $1.95 per Boe and $2.44 per Boe and approximately 10.2% and 8.6% of oil, NGLs and gas sales for the six months ended June 30, 2019 and 2018, respectively. The decrease in production and ad valorem taxes was primarily a function of the decrease in oil, NGLs and gas sales between the two periods.

Exploration. We recorded exploration expense of $1.4 million for the six months ended June 30, 2019, compared to $3,000 for the six months ended June 30, 2018. The increase in exploration expense is due to lease expirations of approximately 2,400 net acres in the six months ended June 30, 2019.

General and administrative. Our general and administrative expenses ("G&A") decreased $4.6 million, or 36%, to $8.1 million, or $4.54 per Boe, for the six months ended June 30, 2019, compared to $12.7 million, or $6.10 per Boe, for the six months ended June 30, 2018. For the six months ended June 30, 2019, G&A included a benefit of $1.1 million related to the forfeiture of 960,890 unvested shares of restricted stock and 691,509 unvested cash-settled performance awards in connection with the departures of certain executives. The decrease in G&A and G&A per Boe was primarily due a decrease in salaries and benefits and share-based compensation due to the departure of certain executives. We expect G&A to decrease compared to 2018 due to a decrease in salaries and benefits in connection with the departure of certain executives. The following table summarizes G&A in millions and G&A per Boe.

	Six Months Ended June 30,						
	2019		2018		Change		
	$MM	Boe	$MM	Boe	$MM	Boe	% Change (Boe)
Salaries and benefits	$ 3.8	$ 2.14	$ 7.4	$ 3.56	$ (3.6)	$ (1.42)	(39.9)%
Share-based compensation	(0.1)	$ (0.06)	1.5	$ 0.71	(1.6)	(0.77)	(108.5)
Professional fees	1.8	$ 0.98	1.2	$ 0.59	0.6	0.39	66.1
Other	2.6	$ 1.48	2.6	$ 1.24	-	0.24	19.4
Total	$ 8.1	$ 4.54	$ 12.7	$ 6.10	$ (4.6)	$ (1.56)	(25.6)%

Restructuring expenses. During the six months ended June 30, 2019, we recorded restructuring expenses of $6.4 million in connection with the departures of certain executives and in connection with the review of the potential deleveraging transactions. We expect to continue to recognize restructuring expenses in connection with the continued review of the potential financing and deleveraging transactions.

Depletion, depreciation and amortization. Our depletion, depreciation and amortization expense ("DD&A") decreased $5.8 million, or 18%, to $26.7 million for the six months ended June 30, 2019, compared to $32.5 million for the six months ended June 30, 2018. Our DD&A per Boe decreased by $0.69, or 4%, to $14.98 per Boe for the six months ended June 30, 2019, compared to $15.67 per Boe for the six months ended June 30, 2018. The decrease in DD&A over the prior-year period was primarily due to a decrease in production.

Impairment. During the six months ended June 30, 2019, we initiated a plan to market certain corporate assets for sale. The assets are available for immediate sale and are being actively marketed. The corporate assets held for sale were recorded at their estimated fair value less costs to sell as of March 31, 2019. As a result, we recognized an impairment loss of $0.3 million for the difference between the asset's carrying value and the estimated fair value less costs to sell during the six months ended June 30, 2019.

Interest expense, net. Our interest expense, net, increased $2.1 million, or 18%, to $14.2 million for the six months ended June 30, 2019, compared to $12.1 million for the six months ended June 30, 2018. This increase was primarily due to an increase in outstanding borrowings and floating interest rates under our revolving credit facility. The weighted average interest rate applicable to borrowings under our revolving credit facility for the six months ended June 30, 2019, was 6.6% compared to 5.6% for the six months ended June 30, 2018.

Income taxes. For the six months ended June 30, 2019, our income tax benefit was $7.7 million, compared to $3.8 million for the six months ended June 30, 2018. The following table reconciles our income tax benefit for the six months ended June 30, 2019, and 2018, to the U.S. federal statutory rates of 21% (dollars in thousands).

	June 30, 2019	June 30, 2018
Statutory tax at 21%	$ (7,999)	$ (4,274)
State taxes, net of federal impact	127	274
Share-based compensation tax shortfall	1	70
Nondeductible compensation	167	93
Other differences	5	5
Income tax benefit	$ (7,699)	$ (3,832)

Liquidity and Capital Resources

We believe the liquidity of our business is dependent on a successful restructuring of our balance sheet in the near term. In the event the Exchange Transaction, and credit agreement extension and amendment, as discussed above, are not completed in the near term, we anticipate that we will pursue a restructuring of our balance sheet through an in-court Chapter 11 proceeding.

Our failure to comply with financial covenants under the revolving credit facility represents an event of default. In the case of an event of default, the lenders (i) are not required to lend any additional amounts to us, (ii) could elect to declare all outstanding borrowings, together with accrued and unpaid interest and fees, to be due and payable, (iii) could require us to apply all of our available cash to repay these borrowings and (iv) could prevent us from making debt service payments under our other agreements. Pursuant to the terms of a limited forbearance agreement, our credit facility lenders have agreed to forbear from exercising their rights and remedies under the revolving credit facility (and related loan documents) and applicable law with respect to the occurrence or continuance of events of default caused by our failure to comply with certain financial covenants in the revolving credit facility. This limited forbearance agreement will terminate on August 21, 2019, unless earlier terminated due to additional Events of Default under our revolving credit facility, or a default under the forbearance agreement. In addition, we are in continuing discussions and negotiations with the lenders regarding a potential extension of and amendment to the existing credit agreement. These factors raise substantial doubt about our ability to continue as a going concern. See Note 1 to our consolidated financial statements in this report for additional information regarding our plans to improve our leverage and liquidity.

In the event we successfully consummate the Exchange Transactions and associated credit agreement extension and amendment, we generally would rely on cash generated from operations, to the extent available, borrowings under our revolving credit facility and, to the extent that credit and capital market conditions will allow, future equity and debt offerings to satisfy our liquidity needs. Due to our non-compliance with certain financial covenants under our revolving credit facility, our current sources of liquidity include only cash generated from operations and our cash balance of $7.2 million as of June 30, 2019. See Note 5 to our consolidated financial statements in this report for additional information regarding the financial covenants under our revolving credit facility.

Our cash flow from operations is driven by commodity prices, production volumes and the effect of commodity derivatives. Cash flows from operations are primarily used to fund exploration and development of our oil and gas properties. In addition, our revolving credit facility is subject to scheduled redeterminations of its borrowing base semi-annually, based on our reserves. Continued low commodity prices may adversely impact the results of the upcoming redetermination, and have a significant negative impact on the Company's liquidity.

Our ability to fund planned capital expenditures and to make acquisitions depends upon commodity prices, our future operating performance, availability of borrowings under our revolving credit facility, and more broadly, on the availability of equity and debt financing, which is affected by prevailing economic conditions in our industry and financial, business and other factors, some of which are beyond our control. We cannot predict whether additional liquidity from equity or debt financings, including access to our revolving credit facility, will be available on acceptable terms, or at all, in the foreseeable future.

We are continuing to minimize our capital expenditures, reduce costs and maximize cash flows from operations to improve our liquidity; however, our business and liquidity outlook has adversely changed as a result of prolonged commodity price declines. Please see "Going Concern Uncertainty" above. If we do not have sufficient resources from operations or cash on hand to fund our working capital needs, we may determine to use various financing sources, including the issuance of common stock, preferred stock, debt, convertible securities and other securities for future development of reserves, acquisitions, additional working capital or other liquidity needs, if such financing is available on acceptable terms. We cannot guarantee that such financing will be available on acceptable terms or at all. Using some of these financing sources may require approval from the lenders under our revolving credit facility. If such financing is unavailable, we anticipate that we will pursue a restructuring of our balance sheet through an in-court Chapter 11 proceeding.

Liquidity

We have historically defined liquidity as funds available under our revolving credit facility and cash and cash equivalents. However, due to our non-compliance with financial covenants under our revolving credit facility, our liquidity as of June 30, 2019, was limited to our then available cash of $7.2 million. See Note 5 to our consolidated financial statements in this report for additional information regarding the financial covenants under our revolving credit facility, and the remedies our lenders may exercise during an event of default. As of June 30, 2019, we had $322 million in outstanding borrowings under our revolving credit facility and liquidity of $7.2 million. As of December 31, 2018, we had $301.5 million in outstanding borrowings under our revolving credit facility and liquidity of $23.2 million.

Working Capital

We had a working capital deficit of $322.5 million and $4.8 million at June 30, 2019, and December 31, 2018, respectively. The change in working capital was primarily due to the classification of the outstanding borrowings under our revolving credit facility as current as of June 30, 2019. Additionally, our working capital deficit increased $6.6 million due to the application of ASC 842, *Leases*. This was partially offset by an increase in cash and cash equivalents of $7.2 million.

Cash Flows

The following table summarizes our sources and uses of funds for the periods noted (in thousands).

	Six Months Ended June 30,	
	2019	**2018**
Cash (used in) provided by operating activities	$ (7,160)	$ 14,250
Cash used in investing activities	(2,231)	(19,463)
Cash provided by financing activities	16,567	5,214
Net increase in cash and cash equivalents	$ 7,176	$ 1

Operating Activities

Cash used in operating activities increased by $21.5 million, to $7.2 million during the six months ended June 30, 2019, compared to cash provided by operating activities of $14.3 million in the prior-year period. The decrease in our cash provided by operating activities was primarily due to a decrease in revenue ($25.1 million) and an increase in restructuring expenses ($6.4 million), partially offset by decreases in LOE ($1.3 million) and G&A ($4.6 million).

Investing Activities

Cash used in investing activities decreased by $17.3 million for the six months ended June 30, 2019, to $2.2 million, compared to the prior-year period. Cash used in investing activities for the six months ended June 30, 2019, was primarily related to capital expenditures ($1.9 million) and changes in working capital associated with investing activities ($0.4 million). At June 30, 2019, we had seven horizontal Wolfcamp wells waiting on completion.

Financing Activities

Cash provided by financing activities increased by $11.4 million for the six months ended June 30, 2019, compared to the prior-year period. During the six months ended June 30, 2019, net cash provided by financing activities included net borrowings under our revolving credit facility of $20.5 million, tax withholdings related to restricted stock of $0.2 million and changes in working capital associated with financing activities of $3.8 million.

Revolving Credit Facility

At June 30, 2019, the borrowing base and aggregate lender commitments under our revolving credit facility were $325 million, with maximum commitments from the lenders of $1 billion and a maturity date of May 7, 2020. We had outstanding borrowings of $322 million and $301.5 million under our revolving credit facility at June 30, 2019, and December 31, 2018, respectively. The weighted average interest rate applicable to borrowings under our revolving credit facility for the three months ended June 30, 2019, was 6.7%. The borrowing base is redetermined semi-annually based upon a number of factors, including commodity prices and reserve levels. We or the lenders can each request one additional borrowing base redetermination each calendar year.

As of June 30, 2019, we were not in compliance with the interest coverage ratio and the total leverage ratio covenants under our revolving credit facility, which represents an event of default. See Note 5 to our consolidated financial statements in this report for additional information regarding the financial covenants under our revolving credit facility. As a result, we have presented the outstanding balance under the revolving credit facility as a current liability as of June 30, 2019. In the case of an event of default, the lenders (i) are not required to lend any additional amounts to us, (ii) could elect to declare all outstanding borrowings, together with accrued and unpaid interest and fees to be payable, (iii) could require us to apply all of our available cash to repay these borrowings and (iv) could prevent us from making debt service payments under our other agreements. Pursuant to the terms of a limited forbearance agreement, our credit facility lenders have agreed to forbear from exercising their rights and remedies under the revolving credit facility (and related loan documents) and applicable law with respect to the occurrence or continuance of events of default caused by our failure to comply with certain financial covenants in the revolving credit facility. This limited forbearance agreement will terminate on August 21, 2019, unless earlier terminated due to additional Events of Default under our revolving credit facility, or a default under the forbearance agreement. In addition, we are in continuing discussions and negotiations with the lenders regarding a potential extension of and amendment to the existing credit agreement. There can be no assurance that these discussions and negotiations will result in the consummation of any extension or amendment in a timely manner, or at all.

Senior Notes

At June 30, 2019, and December 31, 2018, $85.2 million of our 7% Senior Notes were outstanding. See Note 5 to our consolidated financial statements in this report for additional information regarding the Senior Notes. An event of default under our revolving credit facility does not result in an event of default under our Senior Notes.

Wilks, a related party, purchased a portion of our outstanding Senior Notes in the open market. The Company believes that Wilks held approximately $62.3 million of our outstanding Senior Notes as of June 30, 2019. The Senior Notes held by Wilks are included in Senior Notes, net on our consolidated balance sheets. Our interest expense includes interest attributable to any Senior Notes held by Wilks on our consolidated statements of operations. As we previously disclosed, we are currently engaged in discussions and negotiations with Wilks regarding, among other things, a debt for equity exchange involving the Senior Notes. We have engaged advisors in these discussions and negotiations, but there can be no assurance that these discussions and negotiations will result in the consummation of any transaction in a timely manner, or at all.

Contractual Obligations

Our contractual obligations include long-term debt, operating lease obligations, asset retirement obligations and employment agreements with our executive officers. Since December 31, 2018, other than the restructuring expenses disclosed in Note 2 to our consolidated financial statements in this report, there have been no other material changes to our contractual obligations.

Off-Balance Sheet Arrangements

From time to time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of June 30, 2019, the off-balance sheet arrangements and transactions that we have entered into include undrawn letters of credit and short-term operating lease agreements. We do not believe that these arrangements have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

General Trends and Outlook

We believe the outlook for our business is dependent on a successful restructuring of our balance sheet. In the event the Exchange Transaction, and credit agreement extension and amendment, are not timely completed, we anticipate that we will pursue a restructuring of our balance sheet through an in-court Chapter 11 proceeding.

Our financial results depend upon many factors, particularly the price of oil, NGLs and gas. Commodity prices are affected by changes in market demand, which is impacted by factors outside of our control, including domestic and foreign supply of oil, NGLs and gas, overall domestic and global economic conditions, commodity processing, gathering and transportation availability and the availability of refining capacity, price and availability of alternative fuels, price and quantity of foreign imports, domestic and foreign governmental regulations, political conditions in or affecting other oil and gas producing countries, weather and technological advances affecting oil, NGLs and gas consumption. As a result, we cannot accurately predict future oil, NGLs and gas prices, and therefore, we cannot determine what effect increases or decreases will have on our capital program, production volumes and future revenues. If the current oil or natural gas prices and differentials do not improve from current levels, they could have a material adverse effect on our business, financial condition and results of operations and quantities of oil, natural gas and NGLs reserves that may be economically produced and liquidity that may be accessed through our borrowing base under our revolving credit facility and through capital markets. Our current operations have been significantly impacted by the WAHA NYMEX-Henry Hub price differential, which we do not expect to significantly improve until the fourth quarter of 2019.

We face the challenge of financing exploration, development and future acquisitions. We may determine to use various financing sources, including the issuance of common stock, preferred stock, debt, convertible securities and other securities for future development of reserves, acquisitions, additional working capital or other liquidity needs, if such financing is available on acceptable terms. We cannot guarantee that such financing will be available on acceptable terms or at all. Using some of these financing sources may require approval from the lenders under our revolving credit facility.

In addition to production volumes and commodity prices, finding and developing sufficient amounts of oil and gas reserves at economical costs are critical to our long-term success. Future finding and development costs are subject to changes in the industry, including the costs of acquiring, drilling and completing our projects. We focus our efforts on increasing oil and gas reserves and production while controlling costs at a level that is appropriate for long-term operations. As commodity prices improve, service costs in our industry may also increase. Our future cash flow from operations will depend on our ability to manage our overall cost structure.

Like all oil and gas production companies, we face the challenge of natural production declines. Oil and gas production from a given well naturally decreases over time. Additionally, our wells have a rapid initial production decline. We attempt to overcome this natural decline by drilling to develop and identify additional reserves, farm-ins or other joint drilling ventures, and by acquisitions. However, during times of severe price declines, we may from time to time reduce current capital expenditures and curtail drilling operations in order to preserve liquidity. A material reduction in capital expenditures and drilling activities could materially reduce our production volumes and revenues.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Some of the information below contains forward-looking statements. The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term “market risk” refers to the risk of loss arising from adverse changes in oil, NGLs and gas prices, and other related factors. The disclosure is not meant to be a precise indicator of expected future losses, but rather an indicator of reasonably possible losses. This forward-looking information provides an indicator of how we view and manage our ongoing market risk exposures. Our market risk sensitive instruments were entered into for commodity derivative and investment purposes, not for trading purposes.

Commodity Price Risk

Given the current economic outlook, we expect commodity prices to remain volatile. Even modest decreases in commodity prices can materially affect our revenues and cash flow. In addition, if commodity prices are anticipated to remain low for a significant amount of time, we could be required under successful efforts accounting rules to write down our oil and gas properties.

In the three months ended June 30, 2019, the NYMEX WTI prompt month price ranged from a low of $51.14 per barrel to a high of $66.30 per barrel. In the three months ended June 30, 2018, the NYMEX WTI prompt month price ranged from a low of $62.06 per barrel to a high of $74.15 per barrel.

In the three months ended June 30, 2019, the NYMEX Henry Hub natural gas prompt month price ranged from a low of $2.19 per MMBtu to a high of $2.71 per MMBtu. In the three months ended June 30, 2018, the NYMEX Henry Hub natural gas prompt month price ranged from a low of $2.66 per MMBtu to a high of $3.02 per MMBtu.

The following table provides our outstanding commodity derivative positions at June 30, 2019.

Commodity and Period	Contract Type	Volume Transacted	Contract Price
Crude Oil			
July 2019 – December 2019	Collar	500 Bbls/day	$65.00/Bbl - $71.00/Bbl
NGLs (C5 - Pentane)			
July 2019 – December 2019	Swap	200 Bbls/day	$65.205/Bbl

We enter into financial swaps and options to reduce the risk of commodity price fluctuations. Derivative assets and liabilities on our commodity derivative contracts, at fair value, are included on our consolidated balance sheets as current or non-current assets or liabilities based on the anticipated timing of cash settlements under the related contracts. Cash settlements under our commodity derivative contracts and changes in the fair value of our commodity derivative contracts are recorded in earnings as they occur and included in commodity derivative gain (loss) on our consolidated statements of operations for derivatives not designated as cash-flow hedges. As of June 30, 2019, we had no outstanding commodity derivative contracts designated as cash-flow hedges. We estimate the fair values of swap or collar contracts based on the present value of the difference in exchange-quoted forward price curves and contractual settlement prices multiplied by notional quantities. We internally valued the option contracts using industry-standard option pricing models and observable market inputs. We use our internal valuations to determine the fair values of the contracts that are reflected on our consolidated balance sheets.

At June 30, 2019, the fair value of our open derivative contracts was a net asset of $1.3 million, compared to $5.9 million at December 31, 2018.

We are exposed to credit losses in the event of nonperformance by counterparties on our commodity derivative positions. We do not anticipate nonperformance by the counterparties over the term of the commodity derivatives positions; however, we cannot be certain that we will not experience such losses in the future. All of the counterparties to our commodity derivative positions are participants in our revolving credit facility, and the collateral for the outstanding borrowings under our revolving credit facility is used as collateral for our commodity derivatives.

For the three months ended June 30, 2019 and 2018, we recognized a commodity derivative gain of $0.4 million and a commodity derivative loss of $4.9 million, respectively. A hypothetical 10% increase in commodity prices would have resulted in a $0.7 million decrease in the fair value of our commodity derivative positions recorded on our balance sheet at June 30, 2019, and a corresponding increase in the commodity derivatives loss recorded on our consolidated statement of operations for the three months ended June 30, 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Such controls include those designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer ("CEO"), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our CEO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of June 30, 2019. Based on this evaluation, the CEO, who also serves as the Chief Financial Officer has concluded that, as of June 30, 2019, our disclosure controls and procedures were effective, in that they ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our CEO, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There were no changes made in our internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Exchange Act) during the three months ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations Inherent in All Controls

Our management, including the CEO and CFO, recognizes that the disclosure controls and procedures and internal controls (discussed above) cannot prevent all errors or all attempts at fraud. Any controls system, no matter how well-crafted and operated, can only provide reasonable, and not absolute, assurance of achieving the desired control objectives. Because of the inherent limitations in any control system, no evaluation or implementation of a control system can provide complete assurance that all control issues and all possible instances of fraud have been or will be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no material developments in the legal proceedings described in Part I, Item 3. "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risks discussed in the following report that we have filed with the SEC, which risks could materially affect our business, financial condition and results of operations: Annual Report on Form 10-K for the year ended December 31, 2018, under the headings Item 1. "Business – Markets and Customers; Competition; and Regulation," Item 1A. "Risk Factors," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" filed with the SEC on March 18, 2019.

There have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019, which is accessible on the SEC's website at www.sec.gov and our website at www.approachresources.com.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information relating to our purchase of shares of our common stock during the three months ended June 30, 2019. The repurchases reflect shares withheld upon vesting of restricted stock under our 2018 Long Term Incentive Plan to satisfy statutory minimum tax withholding obligations.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2019 – April 30, 2019	—	$ —	—	—
May 1, 2019 – May 31, 2019	2,131	0.32	—	—
June 1, 2019 – June 30, 2019	5,977	0.21	—	—
Total	8,108	$ 0.24	—	—

Item 6. Exhibits.

The following documents are filed as exhibits to this report.

Exhibit Number	*Exhibit title*
3.1	Certificate of Amendment of Restated Certificate of Incorporation of Approach Resources Inc. (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed March 10, 2017, and incorporated herein by reference).
3.2	Restated Certificate of Incorporation of Approach Resources Inc. (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed December 13, 2007, and incorporated herein by reference).
3.4	Third Amended and Restated Bylaws of Approach Resources Inc (filed as Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).

Exhibit Number	*Exhibit title*
4.1	Specimen Common Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1/A filed October 18, 2007 (File No. 333-144512), and incorporated herein by reference).
4.2	Second Supplemental Indenture, dated as of December 20, 2016, by and among Approach Resources Inc., the guarantors named therein and Wilmington Trust, National Association, as successor trustee under the Indenture (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 22, 2016, and incorporated herein by reference).
4.3	First Supplemental Indenture, dated as of June 11, 2013, among Approach Resources Inc., as issuer, the subsidiary guarantors named therein, as guarantors, and Wells Fargo Bank, National Association, as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed June 11, 2013, and incorporated herein by reference).
4.4	Senior Indenture, dated as of June 11, 2013, among Approach Resources Inc., as issuer, the subsidiary guarantors named therein, as guarantors, and Wells Fargo Bank, National Association, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed June 11, 2013, and incorporated herein by reference).
4.5	Agreement dated as of April 28, 2016, by and among Approach Resources Inc., Wells Fargo Bank, National Association, and Wilmington Trust, National Association (filed as Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed August 4, 2016, and incorporated herein by reference).
4.6	Registration Rights Agreement, dated as of January 27, 2017, by and among Approach Resources Inc., Wilks Brothers, LLC and SDW Investments, LLC (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed January 30, 2017, and incorporated herein by reference).
4.7	Registration Rights Agreement, dated as of November 14, 2007, by and among Approach Resources Inc. and investors identified therein (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed December 3, 2007, and incorporated herein by reference).
10.1†	Separation Agreement by and between Approach Resources Inc. and J. Ross Craft dated April 8, 2019 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.2†	Consulting Agreement by and between Approach Resources Inc. and J. Ross Craft dated April 8, 2019 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.3†	Separation Agreement by and between Approach Resources Inc. and Qingming Yang dated April 10, 2019 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.4†	Consulting Agreement by and between Approach Resources Inc. and Qingming Yang dated April 10, 2019 (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.5†	Separation and Consulting Agreement by and between Approach Resources Inc. and J. Curtis Henderson dated April 8, 2019 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.6	Limited Forbearance Agreement dated as of May 9, 2019, by and among the Company and its subsidiary guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, and each of the Lenders party thereto (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed May 10, 2019, and incorporated herein by reference).
10.7	First Amendment to Limited Forbearance Agreement dated as of June 21, 2019, by and among the Company and its subsidiary guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent, and each of the Lenders party thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 24, 2019, and incorporated herein by reference).
10.8	Second Amendment to Limited Forbearance Agreement dated as of July 22, 2019, by and among the Company and its subsidiary guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent and each of the Lenders party thereto (filed as exhibit 10.1 to the Company's Current Report on Form 8-K filed July 22, 2019, and incorporated herein by reference).

Exhibit Number	*Exhibit title*
*#10.9	Amendment dated May 1, 2019, to Gas Purchase Contract dated as of January 1, 2011, between Approach Resources I, LP and Approach Oil & Gas Inc. as Seller and DCP Midstream, LP as Buyer.
*31.1	Certification by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification by the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

† Denotes management contract or compensatory plan or arrangement.

\# Pursuant to Item 601(b)(2) of Regulation S-K, certain immaterial provisions contained in this exhibit that would likely cause competitive harm to the Company if publicly disclosed have been redacted or omitted and marked by brackets and asterisks.

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 thereunto duly authorized.

APPROACH RESOURCES INC.

Date: August 9, 2019

By: /s/ Sergei Krylov
Sergei Krylov
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

Exhibit 10.9

THE SYMBOL "[****]" DENOTES PLACES WHERE CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL, AND (ii) WOULD LIKELY CAUSE COMPETITIVE HARM TO THE COMPANY IF PUBLICLY DISCLOSED.

AMENDMENT TO GAS PURCHASE CONTRACT

This Amendment dated and effective as of May 1, 2019 (the "Effective Date") is between **APPROACH RESOURCES I, LP** and **APPROACH OIL & GAS INC.** (collectively "Seller") and **DCP OPERATING COMPANY, LP** ("Buyer"), formerly known as DCP Midstream, LP.

In consideration of the promises and of the mutual covenants contained herein, the parties agree to amend the Gas Purchase Contact dated January 1, 2011 between the parties or their predecessors, Buyer's File No. PRR0029000 (together with any previous amendments, the "Contract") covering properties in Crockett and Schleicher Counties, Texas, as follows:

1. **Price.** The parties amend Section **5.2, Residue Gas Value,** by deleting it and replacing it with the following:

5.2 **Residue Gas Value**. The Residue Gas value will be the weighted average of the prices per MMBtu received by Buyer f.o.b. Buyer's Facilities for Residue Gas sold during the month, plus [****] per MMBtu up to a maximum of [****]. For Residue Gas in excess of [****], the Residue Gas value will be the weighted average of the prices per MMBtu received by Buyer f.o.b. Buyer's Facilities for Residue Gas sold during the month. Seller recognizes that Affiliates of Buyer may be involved in the handling, purchasing, marketing or sales of Residue Gas and acknowledges and agrees that the reasonable good faith, fair market prices so established will nevertheless control.

2. **Price.** The parties amend Section **5.4(a), NGL Value,** by deleting it and replacing it with the following:

5.4 (a) **NGL Value**. The net value of NGLs attributable to Seller will be the simple average of the midpoint of the daily high/low spot price for (i) purity ethane, (ii) non-TET propane, (iii) non-TET isobutane, (iv) non-TET normal butane, and (v) non-TET natural gasoline (pentanes and heavier) during the month as reported for Mont Belvieu, Texas published by the *Oil Price Information Service* (or in its absence, a comparable successor publication designated by Buyer and agreed by Seller) less the actual reasonable TF&S costs that Buyer incurs for the movement and disposition of NGLs using transportation on the Sand Hills Pipeline and other NGL lines for deliveries to Sweeny, Texas, Mont Belvieu, Texas, or other similarly-priced fractionator market centers mutually agreed by both parties, and less a $0.0025/gallon NGL marketing fee; provided, however, that with respect to calculating TF&S costs for [****]. [****]. If a change in downstream NGL pipeline specifications causes a failure to meet the revised NGLs quality specifications and Buyer incurs NGL off quality fees as a result, Buyer will so notify Seller, and the parties shall then negotiate an equitable solution of the problem; provided, however, that the terms of Section F of the General Terms and Conditions will continue to apply. [****]. Seller recognizes that Affiliates of Buyer may be involved in the handling of NGLs downstream from the Plant, and acknowledges that the reasonable good faith, fair market prices or fees so established will nevertheless control.

3. Price. The parties amend Subsection **5.6(c) and 5.6(f),** by deleting them and replacing them with the following:

(c) Determination of NGL Volumes. Buyer will determine the quantity of each NGL component attributable to Seller's gas by multiplying Seller's Plant Inlet Volume in Mcf by the gallons of each component contained in the gas delivered by Seller at each Delivery Point by the fixed recovery percentage that Seller elects in accordance with Section 5.6(f) below.

(f) Ethane Rejection. At least six (6) business days before the first of each month, Seller shall notify Buyer of its election to be paid for NGLs based on either the Ethane Recovery Option or the Ethane Rejection Option as follows:

Ethane Recovery	
Ethane	80%
Propane	95%
Iso & Normal Butanes	97%
Pentanes and Heavier	97%

Ethane Rejection	
Ethane	[****]%
Propane	[****]%
Iso & Normal Butanes	[****]%
Pentanes and Heavier	[****]%

If Buyer fails to timely notify Seller of its election, then the fixed Ethane Recovery or Ethane Rejection percentages shall continue from the prior month. Notwithstanding the foregoing in this Section 3, Seller shall make no election for the months of May 2019, June 2019, and July 2019, but instead the Ethane Recovery Option shall apply to each of those three months.

4. **Price.** The parties add the following new Section 5.8, Residue Take-In-Kind Option**:**

5.8 **<u>Residue Gas Take in Kind Option</u>.** (a) In lieu of sale to Buyer and payment to Seller for Seller's allocable Residue Gas as contemplated in this Contract, Seller may, in its sole discretion, make an election to take the Residue Gas allocable to Seller in kind at the Redelivery Points listed in Exhibit D by providing [****] advance written notice to Buyer of its election to take the Residue Gas allocable to Seller in kind, to be effective on a date that is either the first day of April or the first day of November (and no other date), following the [****] advance written notice during the Term of the Contract. Any such election by Seller shall last for a period of [****], unless Seller provides Buyer [****] advance written notice prior to the end of the [****] period that Seller elects to take the Residue Gas allocable to Seller in kind for an additional [****] period commencing again consecutively from the next April 1 or November 1. During periods when Seller is taking its Residue Gas in kind, title to the Seller's allocable Residue Gas will remain with Seller. Whenever Seller is taking Residue Gas in kind, Buyer will pay no Residue Gas compensation under Sections 5.1 or 5.2, and the nominations, scheduling, balancing and other provisions of Exhibit C to this Contract will apply.

(b) During periods when the Residue Gas take in kind option is in effect, Seller shall take its Residue Gas in kind timely at the Redelivery Points. The parties recognize that Buyer has no Residue Gas storage. Buyer agrees to deliver Seller's Residue Gas to or for the account of Seller. Seller must receive and transport or cause to be received and transported when produced and available all of Seller's Residue Gas. Buyer is not required to install any additional facilities to accommodate Seller's redelivered gas disposition. Seller is solely responsible for all arrangements for receipt and transportation of its in kind Residue Gas, including any bypassed gas. Consistently with Exhibit C, Seller shall make or cause its sales customers to make all arrangements with the downstream gas pipelines, and shall ensure that its desired nominations for downstream transportation are properly and timely placed with the downstream pipelines in accordance with their nomination and confirmation procedures. Each party will endeavor to provide the other party prompt notice of scheduled maintenance, construction, and other operational events that will affect volumes materially, including but not limited to facility outages and operational changes.

(c) If Seller fails, for any reason, to take in kind or otherwise dispose of all or any part of Seller's Residue Gas, Buyer shall have the option, but not the obligation, to sell or otherwise dispose in any manner necessary Seller's Residue Gas not timely taken in kind or otherwise disposed of by Seller; provided that Buyer shall account to and timely pay Seller for any proceeds received by Buyer from a sale or disposition less transportation, storage, and other charges and marketing fees paid by Buyer to Affiliates or third parties. Seller recognizes these sales may be distress sales at below market prices and that fees paid by Buyer for transportation, storage, marketing or handling may be higher for such disposition than when Buyer purchases Residue Gas under Sections 5.1 and 5.2, and Seller agrees to pay such fees.

5. **Exhibit A.** The parties amend the General Terms and Conditions, **Section O.9,** by deleting and replacing it with the following:

> **O.9** **<u>Dispute Resolution</u>.** The parties desire to resolve any disputes that may arise informally, if possible. All disputes arising out of or relating to this Contract that are not resolved by agreement of the parties must be resolved using the provisions of this Section. If a dispute or disputes arise out of or relating to this Contract, a party shall give written notice of the disputes to the other involved parties, and each party will appoint an employee to negotiate with the other party concerning the disputes. If the disputes have not been resolved by negotiation within 30 Days of the initial dispute notice, or if the complaining party fails to send an initial dispute notice, the parties shall resolve their disputes by arbitration in accordance with the then current International Institute for Conflict Prevention and Resolution, Inc. ("CPR") Rules for Non-Administered Arbitration and related commentary ("Rules") and this Section. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1, et seq., and the Rules, to the exclusion of any provision of state law inconsistent with them. The party seeking resolution shall initiate arbitration by written notice sent to the other party or parties to be involved. The parties shall promptly select one disinterested arbitrator with at least ten years' experience in the natural gas industry or with natural gas law, and not previously employed by either party or its Affiliates, and, if possible, selected by agreement between the parties. If the parties cannot select an arbitrator by agreement within 30 Days of the date of the notice of arbitration, they will cause CPR to select a qualified arbitrator in accordance with the Rules. If the disputes involve more than $1,000,000, a panel of three arbitrators with the above qualifications will decide them, one selected by each party, and the third selected by the party-appointed arbitrators, or in the absence of their agreement, pursuant to the Rules. The arbitrator(s) shall resolve the disputes and render a final award in accordance with the substantive law of the state referenced in Section O.1, "Governing Law." The arbitration award will be limited by Sections O.7, "Fees and Costs; Damages" and O.8 above, "Mutual Waiver of Certain Remedies." The parties intend case specific dispute resolution; either party may opt out of any attempted class action for all claims of any party related to this Contract. The arbitrator(s) shall state the reasons for the award in writing, and either party may enter judgment on the arbitration award in any court having jurisdiction.

6. **Exhibit C.** The parties amend the Contract to add the new attached Exhibit C: Residue Nominations, Scheduling, and Imbalances**.**

7. **Exhibit D.** The parties amend the Contract to add the new attached Exhibit D: Redelivery Points**.**

8. **Scope.** The parties amend the Contract to the extent provided above. In all other respects, they confirm it, and it shall continue in full force and effect.

9. **Confidentiality.** The parties acknowledge that this Amendment is subject to the Confidentiality provisions of Section 8 of the Contract.

10. **Counterparts.** The parties may sign this Amendment in any number of counterparts, all of which constitute one instrument. This Amendment is binding upon all parties signing it, whether or not all parties owning interests in the properties committed under the Contract as amended sign this Amendment.

Signature page to follow.

The parties have signed this Amendment by their duly authorized representatives as of the date stated above.

APPROACH RESOURCES I, LP
By: APPROACH OPERATING, LLC
General Partner
By: APPROACH RESOURCES INC.
Sole Member

By: /s/ Sergei Krylov

Title: Chief Executive Officer

Signed on: July 15, 2019

DCP OPERATING COMPANY, LP

By: /s/ Don Baldridge
Don Baldridge
President, Commercial

Signed on: July 19, 2019

APPROACH OIL & GAS INC.

By: /s/ Sergei Krylov

Title: Chief Executive Officer

Signed on: July 15, 2019

Signature Page for Amendment dated May 1, 2019
to Gas Purchase Contract

EXHIBIT C
To January 1, 2011, GAS PURCHASE CONTRACT
Between APPROACH RESOURCES I, LP and APPROACH OIL & GAS INC. as Seller and DCP OPERATING COMPANY, LP as Buyer,

Amendment Dated as of May 1, 2019

RESIDUE NOMINATIONS, SCHEDULING, AND IMBALANCES

1. REDELIVERY POINTS

Subject to the downstream pipelines' capacity allocation rules, and to the extent pipeline capacity is available, the Redelivery Points for Seller's redelivered gas shall be the pipeline interconnects designated by Buyer. Buyer will use reasonable efforts to deliver Seller's allocated share of Residue Gas at the required pipeline inlet pressure and quality specifications of the applicable pipelines used as Redelivery Points. Buyer has no duty to install any additional Facilities to accommodate Seller's redelivered gas dispositions.

2. NOMINATION PROCESS

(a) **Definition; Information.** "Nominations" means Seller's notifications to Buyer of the relevant details of Seller's gathering service requests and related gas transportation and sales, including but not limited to:

Contract number
Beginning date
Ending Date
Delivery Points,
Redelivery Points,
Delivery and redelivery quantities,
Downstream transportation Contract number

and all other details required for proper and timely Nominations and confirmations in accordance with customary industry practice. Seller Nominations must be for volumes that reflect expected reductions for applicable fuel and loss quantities. Seller or its sales customer will be responsible for all Nomination and other transportation arrangements at and beyond the Redelivery Points. Seller shall make or cause its sales customer to make all arrangements with the downstream pipeline and shall ensure that its desired Nominations for downstream pipeline transportation are properly and timely placed with the downstream pipeline in accordance with that pipeline's Nomination and confirmation procedures.

(b) **Initial Estimate.** For initial deliveries at each Delivery Point, Seller and Buyer will agree on an estimated daily quantity reasonably in advance of the Nomination deadlines preceding the commencement of deliveries.

(c) **Nomination Deadlines.**

(i) For each Day of deliveries, Seller shall give written notice of Seller's Nominations to Buyer stating the quantity of gas that Seller requests under this Contract for each Day of the month for each Redelivery Point. The Nomination will also include any imbalance correction quantities and any scheduled daily variations. Seller's Nominations shall be based in good faith upon the producing ability of Seller's wells for the upcoming month, adjusted as necessary to bring cumulative receipts into line with cumulative redeliveries, and adjusted to cover in kind fuel and losses, in kind Buyer fuel retentions, any in kind fees, and expected NGLs recoveries. Seller shall enter into a separate data access agreement with Buyer to furnish Seller a confidential user ID and password allowing Seller to furnish Nominations information directly into Buyer's designated web-based gas management application. Seller shall also furnish the information Buyer reasonably determines is necessary to perform the deliveries requested by Seller.

(ii) Seller will deliver its initial monthly Redelivery Point Nomination for the first Day of a month by 7:30 a.m. Central Clock Time to Buyer on the fourth business Day prior to the last Day of the previous month, or sooner if required by the confirming interconnected pipeline.

(iii) On or after the first Day of the month, Seller may submit a new Nomination or revise its existing Nomination for any Day during the month by delivering the new Nomination to Buyer before 7:30 a.m. Central Clock Time on the business day prior to the Day that Seller requests that the new or revised service commence. The new or revised Nomination shall state Seller's anticipated service requirements for the remainder of the month. Buyer shall schedule and implement new or revised Nominations on a prospective basis, and only to the extent that Buyer is able to confirm the delivery of gas with the operator of the Redelivery Points.

(d) **Late Nominations.** Buyer may in its sole reasonable discretion accept or decline Seller's new or revised Nominations after 7:30 a.m. Central Clock Time on the business day prior to the Day that Seller requests that the new or revised service commence. These new or revised Nominations shall also specify Seller's anticipated quantities for the remainder of the month. These late revised Nominations will not "bump" any previously scheduled deliveries.

(e) **Confirmation of Nominations.** Seller shall cause the operator of each Redelivery Point designated in any Nomination or revised Nomination to confirm the Nominations or changes to them in writing prior to Buyer's scheduling of the nominated volumes. If a conflict arises between Seller's new or revised Nominations and the operators' confirmations, or if the operator at the Redelivery Point does not provide a confirmation to Buyer, Buyer may elect to use either the lower of Seller's Nominations or the previously scheduled and confirmed quantities.

(f) **Buyer Nomination Changes.** Seller and Buyer will assist each other in adjusting Nominations to reflect actual flows, adjustments required by downstream pipeline recipients of the gas, and the efficient operations of Buyer's Facilities. Buyer may at any time adjust Seller's Nominations quantity as necessary to conform to the above requirements and to maintain balance. Buyer will endeavor to notify Seller timely of these adjustments. Buyer has no obligation to accommodate any imbalances caused by Seller's inability or failure to match actual performance with Nominations, or to provide gas storage for Seller.

(g) **Balancing.** Seller will adjust Nominations to conform to all significant production changes to minimize imbalances and to meet the delivery tolerances of the downstream pipeline at each active Redelivery Point.

(h) **Deadline Changes.** Buyer reserves the right to adjust Nomination deadlines reasonably in response to Buyer's needs and changes in the practices of the downstream pipelines at the Redelivery Points.

(i) **Volume Verification.** Buyer is not obligated to assist Seller in resolving payment or transportation disputes with downstream pipelines or Seller's customers other than to confirm the volumes delivered at the Redelivery Points for Seller's account.

(j) **Hazardous Situations.** Nothing in this Contract limits any party's right to take any action whatsoever to correct or remedy any potentially hazardous situation or condition on the party's facilities. That party shall promptly give notice of the action to the other.

3. IMBALANCES

(a) **Continuous Balancing.** Buyer will make all reasonable efforts to deliver to or for the account of Seller each Day at the Redelivery Points a volume of gas equal to Seller's Nominated gas quantities, as adjusted hereunder, so long as Seller's deliveries remain reasonably in balance with Seller's Nominations. Seller will make all reasonable efforts to balance delivery quantities daily with its current Nominated gas quantity at each Delivery Point plus Seller's applicable in kind fuel, NGLs shrinkage, and loss reduction quantities. Seller will separately state and Nominate any imbalance makeup quantities.

(b) **Changes in Procedures.** Buyer reserves the right to change Nominations, allocations, and imbalance penalties and procedures from time to time upon notice to Seller as Buyer's policies change or in response to changes in the practices or requirements of the downstream pipelines at the Redelivery Points.

(c) **Buyer's Right to Purchase and Sell Imbalance Gas.** Seller authorizes Buyer to purchase and sell gas at Redelivery Points to manage imbalance quantities.

(d) **Monthly Imbalance Quantity.** Buyer will account for any imbalances between Seller's deliveries to Buyer at the Delivery Points and Buyer's redeliveries to Seller at the Redelivery Points, less the applicable in kind fuel, NGLs shrinkage, and loss reduction. Buyer will calculate Seller's Monthly Imbalance Quantity for gas in MMBtus as follows:

- Total monthly Delivery Point MMBtus
- Less applicable NGLs and in kind fuel and loss reduction MMBtus.
- Less total Monthly Redelivery Point MMBtus.

(e) **Monthly Imbalance Percentage.** Buyer will calculate Seller's Monthly Imbalance Percentage for gas as the Monthly Imbalance Quantity divided by Seller's total actual Redelivery Point MMBtus.

(f) **Mandatory Cash Out of Monthly Imbalances.** Each month Seller's Monthly Imbalances must be cashed out using the following principles.

(i) **Daily Price Index.** The price used to value Seller's Monthly Imbalance will be the daily index price for Waha – West Tx as reported in the "*Daily Price Survey*" section of Platts *Gas Daily* ("Daily Price Index"). If *Gas Daily* publishes a range of prices for any Day, the midpoint of the range will be that Day's price. If for any reason *Gas Daily* ceases to be available, Buyer will determine the Daily Price Index for the month using price quotations for the general location indicated above as reported by another generally accepted industry publication.

(ii) **Incremental Imbalance Values.** (1) Buyer will use the monthly average of the Daily Price Index to determine the cash value for monthly imbalances for that portion of Residue Gas redelivered up to and including 5%, whether due Buyer or Seller.

(2) For Monthly Imbalances for that portion of Residue Gas redelivered in excess of 5%, whether due to Seller or to Buyer, Buyer shall determine the cash value of that portion using the following two-step process:

- First, each Month will have four weekly average prices, which Buyer will determine by (i) calculating the average of the daily mid-point Daily Price Index for each week of the Month and (ii) the last week will consist of the fourth seven Day period in the Month plus all remaining Days of that Month;

- Second, when the Monthly Imbalance is negative (due to Buyer), Buyer will determine this portion of the Daily Price Index using only the highest one of the four average weekly prices for the applicable Month; and when the Monthly Imbalance is positive (due to Seller), Buyer will determine this portion of the Daily Price Index using only the lowest of the four average weekly prices for the applicable Month.

(iii) **Monthly Imbalance Cash Out Due Seller.** If Seller's Monthly Imbalance Quantity is positive (i.e., deliveries exceed redeliveries and are owed to Seller), Buyer will calculate the cash out amount using the applicable Cash Value Percentages set out in the table below as follows: Buyer will value the portion of Seller's monthly imbalance that falls within each range below as the product of (X) the Monthly Imbalance Quantity that falls within each range, (Y) the corresponding Cash Value Percentage, and (Z) the applicable average Daily Price Index specified in Subsection 3(f)(ii) above.

Monthly Imbalance Percentage	Cash Value Percentage
0% to 5%	100%
> 5% to 10%	90%
> 10% to 15%	80%
> 15% to 20%	70%
> 20%	50%

(iv) **Monthly Imbalance Cash Out Due Buyer.** If Seller's Monthly Imbalance Quantity is negative (i.e., redeliveries exceed deliveries, and are owed to Buyer), Buyer will calculate the cash out amount using the applicable Cash Value Percentages set out in the table below as follows: Buyer will value the portion of Seller's monthly imbalance that falls within each range below as the product of (X) the Monthly Imbalance Quantity that falls within each range, (Y) the corresponding Cash Value Percentage, and (Z) the applicable average Daily Price Index as specified in Subsection 3(f)(ii) above.

Monthly Imbalance Percentage	Cash Value Percentage
0% to 5%	100%
> 5% to 10%	110%
> 10% to 15%	120%
> 15% to 20%	130%
≥ 20%	150%

(g) Pipeline Penalties. Seller will pay or reimburse Buyer for any imbalance penalties, interest, and related costs imposed upon Buyer by pipelines attributable to Seller's over or under deliveries or other actions or omissions.

END OF EXHIBIT C TO GAS PURCHASE CONTRACT

EXHIBIT D
To GAS PURCHASE CONTRACT
Between APPROACH RESOURCES I, LP and APPROACH OIL & GAS INC. as Seller and
DCP OPERATING COMPANY, LP as Buyer
Dated as of May 1, 2019

REDELIVERY POINTS

Crockett County, Texas

No.	Meter No.	Pipeline	Plant, Location
1.	6632	Oasis	Ozona Plant, Crockett and Schleicher Counties, Texas
2.	3348-10	Oasis	Sonora Plant, Crockett and Schleicher Counties, Texas

Exhibit 31.1

Certification

I, Sergei Krylov, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Approach Resources Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Sergei Krylov
Sergei Krylov
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer of Approach Resources Inc.
(Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report of Approach Resources Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sergei Krylov, Chief Executive Officer and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

APPROACH RESOURCES INC.

Date: August 9, 2019

/s/ Sergei Krylov
Sergei Krylov
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)