



Non-GAAP Financial Information

First Quarter 2014

Adjusted Net Income

We provide the non-GAAP financial measures adjusted net income and adjusted net income per diluted share, which excludes an unrealized loss on commodity derivatives and related income taxes.

The amounts included in the calculation of adjusted net income and adjusted net income per diluted share below were computed in accordance with GAAP. We believe adjusted net income and adjusted net income per diluted share are useful to investors because they provide readers with a more meaningful measure of our profitability before recording certain items whose timing or amount cannot be reasonably determined. However, these measures are provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below provides a reconciliation of adjusted net income and adjusted net income per diluted share to net income (loss) for the three months ended March 31, 2014 and 2013 (in thousands, except per-share amounts).

	Three Months Ended	
	March 31,	
	2014	2013
Net income (loss)	\$ 2,945	\$ (347)
Adjustments for certain items:		
Unrealized loss on commodity derivatives	5,926	4,100
Related income tax effect	(2,154)	(1,394)
Adjusted net income	\$ 6,717	\$ 2,359
Adjusted net income per diluted share	\$ 0.17	\$ 0.06

EBITDAX

We define EBITDAX as net income (loss), plus (1) exploration expense, (2) depletion, depreciation and amortization expense, (3) share-based compensation expense, (4) unrealized loss on commodity derivatives, (5) interest expense, net, and (6) income tax provision (benefit). EBITDAX is not a measure of net income or cash flow as determined by GAAP. The amounts included in the calculation of EBITDAX were computed in accordance with GAAP. EBITDAX is presented herein and reconciled to the GAAP measure of net income because of its wide acceptance by the investment community as a financial indicator of a company's ability to internally fund development and exploration activities. This measure is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below provides a reconciliation of EBITDAX and EBITDAX per diluted share to net income (loss) for the three months ended March 31, 2014 and 2013 (in thousands, except per-share amounts).

	Three Months Ended	
	March 31,	
	2014	2013
Net income (loss)	\$ 2,945	\$ (347)
Exploration	738	260
Depletion, depreciation and amortization	23,606	17,056
Share-based compensation	2,654	2,257
Unrealized loss on commodity derivatives	5,926	4,100
Interest expense, net	5,137	1,229
Income tax provision (benefit)	1,681	(187)
EBITDAX	\$ 42,687	\$ 24,368
EBITDAX per diluted share	\$ 1.09	\$ 0.63

Liquidity

Liquidity is calculated by adding the net funds available under our revolving credit facility and cash and cash equivalents. We use liquidity as an indicator of the Company's ability to fund development and exploration activities. However, this measurement has limitations. This measurement can vary from year-to-year for the Company and can vary among companies based on what is or is not included in the measurement on a company's financial statements. This measurement is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below summarizes our liquidity at March 31, 2014, and our liquidity at March 31, 2014, on a pro forma basis to give effect to our May 2014, borrowing base increase (in thousands).

	Liquidity at	Liquidity Pro Forma for
	March 31, 2014	Borrowing Base
		Increase at
		March 31, 2014
Borrowing base	\$ 350,000	\$ 450,000
Cash and cash equivalents	4,341	4,341
Outstanding letters of credit	(325)	(325)
Credit facility	—	—
Liquidity	\$ 354,016	\$ 454,016

Long-Term Debt-to-Capital

Long-term debt-to-capital ratio is calculated by dividing long-term debt (GAAP) by the sum of total stockholders' equity (GAAP) and long-term debt (GAAP). We use the long-term debt-to-capital ratio as a measurement of our overall financial leverage. However, this ratio has limitations. This ratio can vary from year-to-year for the Company and can vary among companies based on what is or is not included in the ratio on a company's financial statements. This ratio is provided in addition to, and not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP (including the notes), included in our SEC filings and posted on our website.

The table below summarizes our long-term debt-to-capital ratio at March 31, 2014, and December 31, 2013 (in thousands).

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Long-term debt(1)	\$ 250,000	\$ 250,000
Total stockholders' equity	<u>715,860</u>	<u>710,495</u>
	\$ 965,860	\$ 960,495
Long-term debt-to-capital	<u>25.9%</u>	<u>26.0%</u>

- (1) Long-term debt at March 31, 2014, and December 31, 2013, is comprised of \$250 million in 7% senior notes.