Oasis Petroleum Inc.
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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: 1-34776

Oasis Petroleum Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	80-0554627 (I.R.S. Employer Identification No.)
1001 Fannin Street, Suite 1500 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

(281) 404-9500
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares of the registrant’s common stock outstanding at October 31, 2014: 101,338,246 shares.

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PART I — FINANCIAL INFORMATION
Item 1. — Financial Statements (Unaudited)
Oasis Petroleum Inc.
Condensed Consolidated Balance Sheet
(Unaudited)

	September 30, 2014	December 31, 2013
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$67,194	$91,901
Accounts receivable — oil and gas revenues	191,711	175,653
Accounts receivable — joint interest partners	197,929	139,459
Inventory	24,648	20,652
Prepaid expenses	14,253	10,191
Deferred income taxes	—	6,335
Derivative instruments	33,874	2,264
Advances to joint interest partners	97	760
Other current assets	1,972	391
Total current assets	531,678	447,606
Property, plant and equipment		
Oil and gas properties (successful efforts method)	5,546,424	4,528,958
Other property and equipment	261,665	188,468
Less: accumulated depreciation, depletion, amortization and impairment	(933,237)	(637,676)
Total property, plant and equipment, net	4,874,852	4,079,750
Assets held for sale	—	137,066
Derivative instruments	6,422	1,333
Deferred costs and other assets	44,523	46,169
Total assets	$5,457,475	$4,711,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$39,550	$8,920
Revenues and production taxes payable	248,272	146,741
Accrued liabilities	340,480	241,830
Accrued interest payable	24,902	47,910
Derivative instruments	—	8,188
Deferred income taxes	9,625	—
Advances from joint interest partners	6,776	12,829
Total current liabilities	669,605	466,418
Long-term debt	2,550,000	2,535,570
Deferred income taxes	504,735	323,147
Asset retirement obligations	41,052	35,918
Derivative instruments	—	139
Other liabilities	1,996	2,183
Total liabilities	3,767,388	3,363,375
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.01 par value: 300,000,000 shares authorized; 101,614,588 and 100,866,589 shares issued at September 30, 2014 and	1,000	996

December 31, 2013, respectively		
Treasury stock, at cost: 283,249 and 167,155 shares at September 30, 2014 and December 31, 2013, respectively	(10,602)	(5,362)
Additional paid-in capital	1,001,424	985,023
Retained earnings	698,265	367,892
Total stockholders’ equity	1,690,087	1,348,549
Total liabilities and stockholders’ equity	$5,457,475	$4,711,924

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues				
Oil and gas revenues	$344,706	$286,952	$1,030,735	$770,445
Well services and midstream revenues	23,953	18,546	59,821	37,939
Total revenues	368,659	305,498	1,090,556	808,384
Expenses				
Lease operating expenses	44,361	21,831	124,903	59,586
Well services and midstream operating expenses	14,922	10,319	34,611	19,877
Marketing, transportation and gathering expenses	7,306	5,688	19,606	19,856
Production taxes	34,584	26,823	100,880	70,309
Depreciation, depletion and amortization	106,972	72,728	295,520	205,779
Exploration expenses	1,100	463	1,955	2,712
Impairment of oil and gas properties	1,439	56	2,243	762
General and administrative expenses	23,915	16,728	68,186	47,238
Total expenses	234,599	154,636	647,904	426,119
Gain on sale of properties	43	—	187,076	—
Operating income	134,103	150,862	629,728	382,265
Other income (expense)				
Net gain (loss) on derivative instruments	103,426	(39,817)	20,253	(41,838)
Interest expense, net of capitalized interest	(39,420)	(22,854)	(118,568)	(65,429)
Other income (expense)	(38)	23	250	1,097
Total other income (expense)	63,968	(62,648)	(98,065)	(106,170)
Income before income taxes	198,071	88,214	531,663	276,095
Income tax expense	76,484	33,715	201,290	102,626
Net income	$121,587	$54,499	$330,373	$173,469
Earnings per share:				
Basic (Note 12)	$1.22	$0.59	$3.32	$1.88
Diluted (Note 12)	1.21	0.59	3.29	1.87
Weighted average shares outstanding:				
Basic (Note 12)	99,715	92,449	99,647	92,408
Diluted (Note 12)	100,306	92,836	100,356	92,838

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	(In thousands)						
Balance as of December 31, 2013	100,699	$996	167	$(5,362)	$985,023	$367,892	$1,348,549
Fees (2013 issuance of common stock)	—	—	—	—	(176)	—	(176)
Stock-based compensation	748	—	—	—	16,581	—	16,581
Vesting of restricted shares	—	4	—	—	(4)	—	—
Treasury stock – tax withholdings	(116)	—	116	(5,240)	—	—	(5,240)
Net income	—	—	—	—	—	330,373	330,373
Balance as of September 30, 2014	101,331	$1,000	283	$(10,602)	$1,001,424	$698,265	$1,690,087

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$330,373	$173,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	295,520	205,779
Gain on sale of properties	(187,076)	—
Impairment of oil and gas properties	2,243	762
Deferred income taxes	197,548	102,244
Derivative instruments	(20,253)	41,838
Stock-based compensation expenses	15,755	8,411
Deferred financing costs amortization and other	5,209	2,693
Working capital and other changes:		
Change in accounts receivable	(62,581)	(67,487)
Change in inventory	(4,089)	(8,820)
Change in prepaid expenses	(3,179)	(5,175)
Change in other current assets	(1,581)	(138)
Change in other assets	(3,069)	(63)
Change in accounts payable and accrued liabilities	108,788	82,246
Change in other liabilities	(116)	922
Net cash provided by operating activities	673,492	536,681
Cash flows from investing activities:		
Capital expenditures	(972,763)	(654,175)
Acquisition of oil and gas properties	(26,126)	(133,061)
Increase in restricted cash	—	(986,210)
Proceeds from sale of properties	324,938	—
Costs related to sale of properties	(2,337)	—
Redemptions of short-term investments	—	25,000
Derivative settlements	(24,773)	(5,135)
Advances from joint interest partners	(6,053)	(7,965)
Net cash used in investing activities	(707,114)	(1,761,546)
Cash flows from financing activities:		
Proceeds from issuance of senior notes	—	1,000,000
Proceeds from revolving credit facility	370,000	160,000
Principal payments on revolving credit facility	(355,570)	—
Debt issuance costs	(99)	(21,718)
Purchases of treasury stock	(5,240)	(1,424)
Other	(176)	—
Net cash provided by financing activities	8,915	1,136,858
Decrease in cash and cash equivalents	(24,707)	(88,007)
Cash and cash equivalents:		
Beginning of period	91,901	213,447
End of period	$67,194	$125,440
Supplemental non-cash transactions:		

Change in accrued capital expenditures	$99,103	$10,530
Change in asset retirement obligations	5,134	4,173

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

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OASIS PETROLEUM INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Operations of the Company

Organization

Oasis Petroleum Inc. (together with its subsidiaries, "Oasis" or the "Company") was formed on February 25, 2010, pursuant to the laws of the State of Delaware, to become a holding company for Oasis Petroleum LLC ("OP LLC"), the Company's predecessor, which was formed as a Delaware limited liability company on February 26, 2007. In connection with its initial public offering in June 2010 and related corporate reorganization, the Company acquired all of the outstanding membership interests in OP LLC in exchange for shares of the Company's common stock. In 2007, Oasis Petroleum North America LLC ("OPNA"), a Delaware limited liability company, was formed to conduct domestic oil and natural gas exploration and production activities. In 2011, the Company formed Oasis Well Services LLC ("OWS"), a Delaware limited liability company, to provide well services to OPNA, and Oasis Petroleum Marketing LLC ("OPM"), a Delaware limited liability company, to provide marketing services to OPNA. In 2013, the Company formed Oasis Midstream Services LLC ("OMS"), a Delaware limited liability company, to provide midstream services to OPNA. As part of the formation of OMS, the Company transferred substantially all of its salt water disposal and other midstream assets from OPNA to OMS.

Nature of Business

The Company is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas resources in the Williston Basin. The Company's proved and unproved oil and natural gas properties are located in the North Dakota and Montana areas of the Williston Basin and are owned by OPNA. The Company also operates an oil and gas marketing business (OPM), a well services business (OWS) and a midstream services business (OMS), all of which are complementary to its primary development and production activities. Both OWS and OMS are separate reportable business segments, while OPM is included in the Company's exploration and production segment.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company include the accounts of Oasis and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements of the Company have not been audited by the Company's independent registered public accounting firm, except that the Condensed Consolidated Balance Sheet at December 31, 2013 is derived from audited financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation, have been included. Management has made certain estimates and assumptions that affect reported amounts in the condensed consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

These interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report").

Significant Accounting Policies

There have been no material changes to the Company's critical accounting policies and estimates from those disclosed in the 2013 Annual Report other than those noted below.

Recent Accounting Pronouncements

Revenue recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The objective of ASU 2014-09 is greater consistency and comparability across industries by using a five-step model to recognize revenue from customer contracts. ASU 2014-09 also contains some new disclosure requirements under GAAP and is effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the effect that adopting this new guidance will have on its financial position, cash flows and results of operations.

3. Inventory

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Equipment and materials consist primarily of proppant, chemicals, tubular goods, well equipment to be used in future drilling or repair operations and well fracturing equipment, all of which are stated at the lower of cost or market value with cost determined on an average cost method. Crude oil inventory includes oil in tank and linefill and is stated at the lower of average cost or market value. Inventory consists of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
Equipment and materials	$15,041	$11,669
Crude oil inventory	9,607	8,983
Total inventory	$24,648	$20,652

4. Property, Plant and Equipment

The following table sets forth the Company's property, plant and equipment:

	September 30, 2014	December 31, 2013
	(In thousands)	
Proved oil and gas properties[1]	$4,717,065	$3,713,525
Less: Accumulated depreciation, depletion, amortization and impairment	(890,785)	(612,380)
Proved oil and gas properties, net	3,826,280	3,101,145
Unproved oil and gas properties	829,359	815,433
Total oil and gas properties, net	4,655,639	3,916,578
Other property and equipment	261,665	188,468
Less: Accumulated depreciation	(42,452)	(25,296)
Other property and equipment, net	219,213	163,172
Total property, plant and equipment, net	$4,874,852	$4,079,750

(1) Included in the Company's proved oil and gas properties are estimates of future asset retirement costs of $36.4 million and $32.6 million at September 30, 2014 and December 31, 2013, respectively.

As a result of expiring leases and periodic assessments of unproved properties, the Company recorded non-cash impairment charges on its unproved oil and natural gas properties of $1.4 million and $2.2 million for the three and nine months ended September 30, 2014, respectively, and $0.1 million and $0.8 million for the three and nine months ended September 30, 2013, respectively. No impairment charges on proved oil and natural gas properties were recorded for the three and nine months ended September 30, 2014 or 2013.

5. Divestiture

On March 5, 2014, the Company completed the sale of certain non-operated properties in its Sanish project area and other non-operated leases adjacent to its Sanish position (the "Sanish Divestiture") for cash proceeds of approximately $324.9 million, which includes, and is subject to further, customary post close adjustments. The Company recognized a $187.1 million gain on sale of properties in its Condensed Consolidated Statement of Operations for the nine months ended September 30, 2014. The transaction was structured as an Internal Revenue Code Section 1031 like-kind exchange for tax purposes and as such did not give rise to any current taxable gain.

6. Fair Value Measurements

In accordance with the FASB's authoritative guidance on fair value measurements, the Company's financial assets and liabilities are measured at fair value on a recurring basis. The Company recognizes its non-financial assets and liabilities, such as asset retirement obligations ("ARO") and proved oil and natural gas properties upon impairment, at fair value on a non-recurring basis.

As defined in the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To estimate fair value, the Company utilizes 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.

The authoritative guidance establishes a fair value 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" measurements) and the lowest priority to unobservable inputs ("Level 3" measurements). The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Pricing inputs, other than unadjusted quoted prices in active markets included in Level 1, 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. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 — Pricing inputs are generally less observable from objective sources, requiring internally developed valuation methodologies that result in management's best estimate of fair value.

Financial Assets and Liabilities

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis:

	At fair value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds	$742	$—	$—	$742
Commodity derivative instruments (see Note 7)	—	40,296	—	40,296
Total assets	$742	$40,296	$—	$41,038

	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds	$742	$—	$—	$742
Commodity derivative instruments (see Note 7)	—	3,597	—	3,597
Total assets	$742	$3,597	$—	$4,339
Liabilities:				
Commodity derivative instruments (see Note 7)	$—	$8,327	$—	$8,327
Total liabilities	$—	$8,327	$—	$8,327

The Level 1 instruments presented in the tables above consist of money market funds included in cash and cash equivalents on the Company's Condensed Consolidated Balance Sheet at September 30, 2014 and December 31, 2013. The Company's money market funds represent cash equivalents backed by the assets of high-quality major banks and financial institutions. The Company identifies the money market funds as Level 1 instruments because the money market funds have daily liquidity, quoted prices for the underlying investments can be obtained, and there are active markets for the underlying investments.

The Level 2 instruments presented in the tables above consist of commodity derivative instruments, which include oil collars, swaps and deferred premium puts. The fair values of the Company's commodity derivative instruments are based upon a third-party preparer's calculation using mark-to-market valuation reports provided by the Company's counterparties for monthly settlement purposes to determine the valuation of its derivative instruments. The Company has the third-party preparer evaluate other readily available market prices for its derivative contracts as there is an active market for these contracts. The third-party preparer performs its independent valuation using a moment matching method similar to Turnbull-Wakeman for Asian options. The significant inputs used are crude oil prices, volatility, skew, discount rate and the contract terms of the derivative instruments. However, the Company does not have access to the specific proprietary valuation models or inputs used by its counterparties or third-party preparer. The Company compares the third-party preparer's valuation to counterparty valuation statements, investigating any significant differences, and analyzes monthly valuation changes in relation to movements in crude oil forward price curves. The determination of the fair value for derivative instruments also incorporates a credit adjustment for non-performance risk, as required by GAAP. The Company calculates the credit adjustment for derivatives in a net asset position using current credit default swap values for each counterparty. The credit adjustment for derivatives in a net liability position is based on the Company's market credit spread. Based on these calculations, the Company recorded an adjustment to reduce the fair value of its net derivative asset by $0.1 million at September 30, 2014 and an adjustment to reduce the fair value of its net derivative liability by $0.2 million at December 31, 2013.

Fair Value of Other Financial Instruments

The Company's financial instruments, including certain cash and cash equivalents, accounts receivable and accounts payable, are carried at cost, which approximates fair value due to the short-term maturity of these instruments. At September 30, 2014, the Company's cash equivalents were all Level 1 assets. The carrying amount of the Company's long-term debt reported in the Condensed Consolidated Balance Sheet at September 30, 2014 is $2,550.0 million, which includes $2,200.0 million of senior unsecured notes and $350.0 million of borrowings under the revolving credit facility (see Note 8 – Long-Term Debt). The fair value of the Company's senior unsecured notes, which are Level 1 liabilities, is $2,310.5 million at September 30, 2014.

Nonfinancial Assets and Liabilities

Asset retirement obligations. The carrying amount of the Company's ARO in the Condensed Consolidated Balance Sheet at September 30, 2014 is $41.5 million (see Note 9 – Asset Retirement Obligations). The Company determines the ARO by calculating the present value of estimated cash flows related to the liability. Estimating the future ARO requires management to make estimates and judgments regarding timing and existence of a liability, as well as what constitutes adequate restoration. Inherent in the fair value calculation are numerous assumptions and judgments, including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. These assumptions represent Level 3 inputs. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset.

Impairment. The Company reviews its proved oil and natural gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. The Company estimates the expected undiscounted future cash flows of its oil and natural gas properties and compares such undiscounted future cash flows to the carrying amount of the oil and natural gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the oil and natural gas properties to fair value. The factors used to determine fair value are subject to management's judgment and expertise and include, but are not limited to, recent sales prices of comparable properties, the present value of future cash flows, net of estimated operating and development costs using estimates of proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. These assumptions represent Level 3 inputs. No impairment charges on proved oil and natural gas properties were recorded for the three and nine months ended September 30, 2014 or 2013.

7. Derivative Instruments

The Company utilizes derivative financial instruments to manage risks related to changes in oil prices. As of September 30, 2014, the Company utilized two-way and three-way costless collar options, swaps, swaps with sub-floors and deferred premium puts to reduce the volatility of oil prices on a significant portion of its future expected oil production. A two-way collar is a combination of options: a sold call and a purchased put. The purchased put establishes a minimum price (floor) and the sold call establishes a maximum price (ceiling) the Company will receive for the volumes under contract. A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be the NYMEX West Texas Intermediate ("WTI") crude oil index price plus the difference between the purchased put and the sold put strike price. The sold call establishes a maximum price (ceiling) the Company will receive for the volumes under contract. A swap is a sold call and a purchased put established at the same price (both ceiling and floor). A swap with a sub-floor is a swap coupled with a sold put (sub-floor) at which point the minimum price would be the WTI crude oil index price plus the difference between the swap and the sold put strike price. For the deferred premium puts, the Company agrees to pay a premium to the

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counterparty at the time of settlement. At settlement, if the WTI price is below the floor price of the put, the Company receives the difference between the floor price and the WTI price multiplied by the contract volumes, less the premium. If the WTI price settles at or above the floor price of the put, the Company pays only the premium.

All derivative instruments are recorded on the Company’s Condensed Consolidated Balance Sheet as either assets or liabilities measured at fair value (see Note 6 – Fair Value Measurements). The Company has not designated any derivative instruments as hedges for accounting purposes and does not enter into such instruments for speculative trading purposes. If a derivative does not qualify as a hedge or is not designated as a hedge, the changes in fair value are recognized in the other income (expense) section of the Company’s Condensed Consolidated Statement of Operations as a net gain or loss on derivative instruments. The Company’s cash flow is only impacted when the actual settlements under the derivative contracts result in making a payment to or receiving a payment from the counterparty. These cash settlements are reflected as investing activities in the Company’s Condensed Consolidated Statement of Cash Flows.

As of September 30, 2014, the Company had the following outstanding commodity derivative instruments, all of which settle monthly based on the average WTI crude oil index price:

Settlement Period	Derivative Instrument	Total Notional Amount of Oil (Barrels)	Weighted Average Prices Swap ($/Barrel)	Sub-Floor	Floor	Ceiling	Weighted Average Deferred Premium	Fair Value Asset (Liability) (In thousands)
2014	Two-way collars	1,088,000			$95.07	$106.42		$ 4,893
2014	Three-way collars	842,000		$70.55	$90.55	$105.16		1,066
2014	Swaps	994,000	$96.32					3,942
2014	Swaps with sub-floors	552,000	$92.60	$70.00				690
2015	Two-way collars	2,388,500			$87.98	$103.21		9,574
2015	Three-way collars	263,500		$70.59	$90.59	$105.25		869
2015	Swaps	5,263,500	$90.81					14,093
2015	Swaps with sub-floors	186,000	$92.60	$70.00				538
2015	Deferred premium puts	1,086,000			$90.00		$2.55	2,919
2016	Two-way collars	155,000			$86.00	$103.42		692
2016	Swaps	310,000	$90.15					1,020
								$ 40,296

The following table summarizes the location and fair value of all outstanding commodity derivative instruments recorded in the Company’s Condensed Consolidated Balance Sheet for the periods presented:

Fair Value of Derivative Instrument Assets (Liabilities)

Commodity	Balance Sheet Location	Fair Value September 30, 2014 (In thousands)	December 31, 2013
Crude oil	Derivative instruments — current assets	$33,874	$2,264
Crude oil	Derivative instruments — non-current assets	6,422	1,333
Crude oil	Derivative instruments — current liabilities	—	(8,188)
Crude oil	Derivative instruments — non-current liabilities	—	(139)
Total derivative instruments		$40,296	$(4,730)

The following table summarizes the location and amounts of gains and losses from the Company’s commodity derivative instruments for the periods presented:

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	Statement of Operations Location	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
		(In thousands)			
Non-cash change in fair value of derivative instruments	Net gain (loss) on derivative instruments	$114,555	$(31,750)	$45,026	$(36,703)
Derivative settlements	Net gain (loss) on derivative instruments	(11,129)	(8,067)	(24,773)	(5,135)
Total net gain (loss) on derivative instruments		$103,426	$(39,817)	$20,253	$(41,838)

In accordance with the FASB's authoritative guidance on disclosures about offsetting assets and liabilities, the Company is required to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting agreement. The Company's derivative instruments are presented as assets and liabilities on a net basis by counterparty, as all counterparty contracts provide for net settlement. No margin or collateral balances are deposited with counterparties, and as such, gross amounts are offset to determine the net amounts presented in the Company's Condensed Consolidated Balance Sheet.

The following tables summarize gross and net information about the Company's commodity derivative instruments for the periods presented:

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet
	(In thousands)		
As of September 30, 2014	$56,752	$(16,456)	$ 40,296
As of December 31, 2013	22,743	(19,146)	3,597

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet
	(In thousands)		
As of September 30, 2014	$16,456	$(16,456)	$ —
As of December 31, 2013	27,473	(19,146)	8,327

8. Long-Term Debt

Senior unsecured notes. On September 24, 2013, the Company issued $1,000.0 million of 6.875% senior unsecured notes due March 15, 2022 (the "2022 Notes"). The issuance of the 2022 Notes resulted in aggregate net proceeds to the Company of $983.6 million. The Company used the proceeds from the 2022 Notes to fund the acquisition of oil and gas properties in its West Williston project area. On June 30, 2014, the Company filed a registration statement on Form S-4 with the SEC to allow the holders of the 2022 Notes to exchange the 2022 Notes for the same principal amount of a new issue of notes with substantially identical terms, except the new notes are freely transferable under the Securities Act of 1933. The registration statement was declared effective on July 16, 2014, and the Company closed the exchange offer on August 15, 2014.

During 2011 and 2012, the Company issued $400.0 million of 7.25% senior unsecured notes due February 1, 2019 (the "2019 Notes"), $400.0 million of 6.5% senior unsecured notes due November 1, 2021 (the "2021 Notes") and $400.0 million of 6.875% senior unsecured notes due January 15, 2023 (the "2023 Notes," and together with the 2022 Notes, 2019 Notes and 2021 Notes, the "Notes"). The issuance of the 2019 Notes, 2021 Notes and the 2023 Notes resulted in aggregate net proceeds to the Company of $1,175.8 million. The Company used the proceeds from the 2019 Notes, 2021 Notes and the 2023 Notes to fund its exploration, development and acquisition program and for general corporate purposes. Interest on the Notes is payable semi-annually in arrears.

The Notes were issued under indentures containing provisions that are substantially the same, as amended and supplemented by supplemental indentures (collectively, the "Indentures"), among the Company, along with its material subsidiaries (the "Guarantors"), and U.S. Bank National Association, as trustee (the "Trustee"). The Notes are guaranteed on a senior unsecured basis by the Company's Guarantors. These guarantees are full and unconditional and joint and several among the Guarantors, subject to certain customary release provisions, as follows:

- 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 Restricted Subsidiary (as defined in the Indentures) of the Company;

- in connection with any sale or other disposition of the capital stock 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 Restricted Subsidiary of the Company, such that, immediately after giving effect to such transaction, such Guarantor would no longer constitute a subsidiary of the Company;
- if the Company designates any Restricted Subsidiary that is a Guarantor to be an unrestricted subsidiary in accordance with the Indenture;
- upon legal defeasance or satisfaction and discharge of the Indenture; or
- upon the liquidation or dissolution of a Guarantor, provided no event of default occurs under the Indentures as a result thereof.

The Company has certain options to redeem up to 35% of the Notes at a certain redemption price based on a percentage of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of certain equity offerings so long as the redemption occurs within 180 days of completing such equity offering and at least 65% of the aggregate principal amount of the Notes remains outstanding after such redemption. Prior to certain dates, the Company has the option to redeem some or all of the Notes for cash at certain redemption prices equal to a certain percentage of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. The Company estimates that the fair value of these redemption options is immaterial at September 30, 2014 and December 31, 2013.

The Indentures restrict the Company’s ability and the ability of certain of its subsidiaries to: (i) incur additional debt or enter into sale and leaseback transactions; (ii) pay distributions on, redeem or repurchase equity interests; (iii) make certain investments; (iv) incur liens; (v) enter into transactions with affiliates; (vi) merge or consolidate with another company; and (vii) transfer and sell assets. These covenants are subject to certain exceptions and qualifications. If at any time when the Notes are rated investment grade by both Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services and no Default (as defined in the Indentures) has occurred and is continuing, many of such covenants will terminate and the Company and its subsidiaries will cease to be subject to such covenants.

The Indentures contain customary events of default, including:

- default in any payment of interest on any Note when due, continued for 30 days;
- default in the payment of principal or premium, if any, on any Note when due;
- failure by the Company to comply with its other obligations under the Indentures, in certain cases subject to notice and grace periods;
- payment defaults and accelerations with respect to other indebtedness of the Company and its Restricted Subsidiaries in the aggregate principal amount of $10.0 million or more;
- certain events of bankruptcy, insolvency or reorganization of the Company or a Significant Subsidiary (as defined in the Indentures) or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary;
- failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary to pay certain final judgments aggregating in excess of $10.0 million within 60 days; and
- any guarantee of the Notes by a Guarantor ceases to be in full force and effect, is declared null and void in a judicial proceeding or is denied or disaffirmed by its maker.

Senior secured revolving line of credit. On April 5, 2013, the Company, as parent, and OPNA, as borrower, entered into a second amended and restated credit agreement (the “Second Amended Credit Facility”), which has a maturity date of April 5, 2018. The Second Amended Credit Facility is restricted to the borrowing base, which is reserve-based and subject to semi-annual redeterminations on April 1 and October 1 of each year. On September 30, 2014, the lenders under the Second Amended Credit Facility (the “Lenders”) completed their regular semi-annual redetermination of the borrowing base scheduled for October 1, 2014, resulting in an increase to the borrowing base from $1,750.0 million to $2,000.0 million. However, the Company elected to limit the Lenders’ aggregate commitment to $1,500.0 million. The overall senior secured line of credit under the Second Amended Credit Facility is $2,500.0 million as of September 30, 2014.

Borrowings under the Second Amended Credit Facility are collateralized by perfected first priority liens and security interests on substantially all of the Company’s assets, including mortgage liens on oil and natural gas properties having at least 80% of the reserve value as determined by reserve reports.

Borrowings under the Second Amended Credit Facility are subject to varying rates of interest based on (1) the total outstanding borrowings (including the value of all outstanding letters of credit) in relation to the borrowing base and (2) whether the loan is a London interbank offered rate ("LIBOR") loan or a domestic bank prime interest rate loan (defined in the Second Amended Credit Facility as an Alternate Based Rate or "ABR" loan). As of September 30, 2014, any outstanding LIBOR and ABR loans bore their respective interest rates plus the applicable margin indicated in the following table:

Ratio of Total Outstanding Borrowings to Borrowing Base	Applicable Margin for LIBOR Loans		Applicable Margin for ABR Loans	
Less than .25 to 1	1.50	%	0.00	%
Greater than or equal to .25 to 1 but less than .50 to 1	1.75	%	0.25	%
Greater than or equal to .50 to 1 but less than .75 to 1	2.00	%	0.50	%
Greater than or equal to .75 to 1 but less than .90 to 1	2.25	%	0.75	%
Greater than or equal to .90 to 1	2.50	%	1.00	%

An ABR loan may be repaid at any time before the scheduled maturity of the Second Amended Credit Facility upon the Company providing advance notification to the Lenders. Interest is paid quarterly on ABR loans based on the number of days an ABR loan is outstanding as of the last business day in March, June, September and December. The Company has the option to convert an ABR loan to a LIBOR-based loan upon providing advance notification to the Lenders. The minimum available loan term is one month and the maximum loan term is six months for LIBOR-based loans. Interest for LIBOR loans is paid upon maturity of the loan term. Interim interest is paid every three months for LIBOR loans that have loan terms greater than three months in duration. At the end of a LIBOR loan term, the Second Amended Credit Facility allows the Company to elect to repay the borrowing, continue a LIBOR loan with the same or a differing loan term or convert the borrowing to an ABR loan.

On a quarterly basis, the Company pays a 0.375% (as of September 30, 2014) annualized commitment fee on the average amount of borrowing base capacity not utilized during the quarter and fees calculated on the average amount of letter of credit balances outstanding during the quarter.

As of September 30, 2014, the Second Amended Credit Facility contained covenants that included, among others:

- a prohibition against incurring debt, subject to permitted exceptions;
- a prohibition against making dividends, distributions and redemptions, subject to permitted exceptions;
- a prohibition against making investments, loans and advances, subject to permitted exceptions;
- restrictions on creating liens and leases on the assets of the Company and its subsidiaries, subject to permitted exceptions;
- restrictions on merging and selling assets outside the ordinary course of business;
- restrictions on use of proceeds, investments, transactions with affiliates or change of principal business;
- a provision limiting oil and natural gas derivative financial instruments;
- a requirement that the Company maintain a ratio of consolidated EBITDAX (as defined in the Second Amended Credit Facility) to consolidated Interest Expense (as defined in the Second Amended Credit Facility) of no less than 2.5 to 1.0 for the four quarters ended on the last day of each quarter; and
- a requirement that the Company maintain a Current Ratio (as defined in the Second Amended Credit Facility) of consolidated current assets (including unused borrowing base capacity and with exclusions as described in the Second Amended Credit Facility) to consolidated current liabilities (with exclusions as described in the Second Amended Credit Facility) of no less than 1.0 to 1.0 as of the last day of any fiscal quarter.

The Second Amended Credit Facility contains customary events of default. If an event of default occurs and is continuing, the Lenders may declare all amounts outstanding under the Second Amended Credit Facility to be immediately due and payable.

As of September 30, 2014, the Company had $350.0 million of LIBOR loans and $5.2 million of outstanding letters of credit issued under the Second Amended Credit Facility, resulting in an unused borrowing base committed capacity of

$1,144.8 million. As of September 30, 2014, the weighted average interest rate was 1.7% on borrowings outstanding under the Second

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Amended Credit Facility. The Company was in compliance with the financial covenants of the Second Amended Credit Facility as of September 30, 2014.

Deferred financing costs. As of September 30, 2014, the Company had $37.1 million of deferred financing costs related to the Notes and the Second Amended Credit Facility. The deferred financing costs are included in deferred costs and other assets on the Company's Condensed Consolidated Balance Sheet at September 30, 2014 and are being amortized over the respective terms of the Notes and the Second Amended Credit Facility. Amortization of deferred financing costs recorded for the three and nine months ended September 30, 2014 was $1.6 million and $4.8 million, respectively, and $1.0 million and $2.9 million for the three and nine months ended September 30, 2013, respectively. These costs are included in interest expense on the Company's Condensed Consolidated Statement of Operations.

9. Asset Retirement Obligations

The following table reflects the changes in the Company's ARO during the nine months ended September 30, 2014:

	(In thousands)
Balance at December 31, 2013	$36,458
Liabilities incurred during period	4,850
Liabilities settled during period[1]	(2,062)
Accretion expense during period[2]	1,395
Revisions to estimates	863
Balance at September 30, 2014	$41,504

(1) Liabilities settled during period include ARO related to the properties sold in the Sanish Divestiture.

(2) Included in depreciation, depletion and amortization on the Company's Condensed Consolidated Statement of Operations.

At September 30, 2014, the current portion of the total ARO balance was approximately $0.5 million and is included in accrued liabilities on the Company's Condensed Consolidated Balance Sheet.

10. Stock-Based Compensation

Restricted stock awards. The Company has granted restricted stock awards to employees and directors under its Amended and Restated 2010 Long Term Incentive Plan, the majority of which vest over a three-year period. The fair value of restricted stock grants is based on the value of the Company's common stock on the date of grant. Compensation expense is recognized ratably over the requisite service period. For the nine months ended September 30, 2014, the Company assumed annual forfeiture rates by employee group ranging from 0% to 12.7% based on the Company's forfeiture history for this type of award.

During the nine months ended September 30, 2014, employees and non-employee directors of the Company were granted restricted stock awards equal to 939,915 shares of common stock with a $43.01 weighted average grant date per share value. Stock-based compensation expense recorded for restricted stock awards for the three and nine months ended September 30, 2014 was $5.2 million and $13.4 million, respectively, and was $2.6 million and $7.1 million for the three and nine months ended September 30, 2013, respectively. Stock-based compensation expense is included in general and administrative expenses on the Company's Condensed Consolidated Statement of Operations.

Performance share units. The Company has granted performance share units ("PSUs") to officers of the Company under its Amended and Restated 2010 Long Term Incentive Plan. The PSUs are awards of restricted stock units, and each PSU that is earned represents the right to receive one share of the Company's common stock. For the nine months ended September 30, 2014, the Company assumed an annual forfeiture rate of 3.3% based on the Company's forfeiture history for the officer employee group receiving PSUs.

During the nine months ended September 30, 2014, officers of the Company were granted 158,970 PSUs with a $41.71 weighted average grant date per share value. Stock-based compensation expense recorded for PSUs for the three and nine months ended September 30, 2014 was $0.8 million and $2.3 million, respectively, and is included in general and administrative expenses on the Condensed Consolidated Statement of Operations. Stock-based compensation expense recorded for PSUs for the three and nine months ended September 30, 2013 was $0.5 million and $1.3 million, respectively.

Each grant of PSUs is subject to a designated three-year initial performance period. The number of PSUs to be earned is subject to a market condition, which is based on a comparison of the total shareholder return (“TSR”) achieved with respect to shares of the Company’s common stock against the TSR achieved by a defined peer group at the end of the performance period.

Depending on the Company's TSR performance relative to the defined peer group, an award recipient will earn between 0% and 200% of the initial PSUs granted. If less than 200% of the initial PSUs granted are earned at the end of the initial three-year performance period, then the performance period will be extended an additional year to give the recipient the opportunity to earn up to an aggregate of 200% of the initial PSUs granted.

The Company accounted for these PSUs as equity awards pursuant to the FASB's authoritative guidance for share-based payments. The aggregate grant date fair value of the market-based awards was determined using a Monte Carlo simulation model, which results in an expected percentage of PSUs earned. The fair value of these PSUs is recognized on a straight-line basis over the performance period. As it is probable that a portion of the awards will be earned during the extended performance period, the grant date fair value will be amortized over four years. However, if 200% of the initial PSUs granted are earned at the end of the initial performance period, then the remaining compensation expense will be accelerated in order to be fully recognized over three years. All compensation expense related to the PSUs will be recognized if the requisite performance period is fulfilled, even if the market condition is not achieved.

The Monte Carlo simulation model uses assumptions regarding random projections and must be repeated numerous times to achieve a probabilistic assessment. The key valuation assumptions for the Monte Carlo model are the forecast period, initial value, risk-free interest rate, volatility and correlation coefficients. The risk-free interest rate is the U.S. treasury bond rate on the date of grant that corresponds to the extended performance period. The initial value is the average of the volume weighted average prices for the 30 trading days prior to the start of the performance cycle for the Company and each of its peers. Volatility is the standard deviation of the average percentage change in stock price over a historical period for the Company and each of its peers. The correlation coefficients are measures of the strength of the linear relationship between and amongst the Company and its peers estimated based on historical stock price data.

The following assumptions were used for the Monte Carlo model to determine the grant date fair value and associated stock-based compensation expense of the PSUs granted during the nine months ended September 30, 2014:

Forecast period (years)	4.00	
Risk-free interest rate	1.12	%
Oasis stock price volatility	44.49	%

Based on these assumptions, the Monte Carlo simulation model resulted in an expected percentage of PSUs earned of 98% for the PSUs granted during the nine months ended September 30, 2014.

11. Income Taxes

The Company's effective tax rate for the three and nine months ended September 30, 2014 was 38.6% and 37.9%, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2013 was 38.2% and 37.2%, respectively. These rates were consistent with the statutory tax rate applicable to the U.S. and the blended state rate for the states in which the Company conducts business. As of September 30, 2014, the Company did not have any uncertain tax positions requiring adjustments to its tax liability.

The Company had deferred tax assets for its federal and state tax loss carryforwards at September 30, 2014 recorded in deferred income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of September 30, 2014, management determined that a valuation allowance was not required for the tax loss carryforwards as they are expected to be fully utilized before expiration.

12. Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the periods presented. The calculation of diluted earnings per share includes the impact of potentially dilutive non-vested restricted shares outstanding during the periods presented, unless their effect is anti-dilutive. There are no adjustments made to income available to common stockholders in the calculation of diluted earnings per share.

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The following is a calculation of the basic and diluted weighted-average shares outstanding for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Basic weighted average common shares outstanding	99,715	92,449	99,647	92,408
Dilution effect of stock awards at end of period	591	387	709	430
Diluted weighted average common shares outstanding	100,306	92,836	100,356	92,838
Anti-dilutive stock-based compensation awards	1,067	789	927	719

Issuance of common stock. On December 9, 2013, the Company completed a public offering of 7,000,000 shares of its common stock, par value $0.01 per share, at an offering price of $44.94 per share. Net proceeds from the offering were $314.4 million, after deducting offering expenses, of which $70,000 is included in common stock and $314.3 million is included in additional paid-in capital on the Company's Consolidated Balance Sheet. The Company used the net proceeds to repay outstanding indebtedness under its Second Amended Credit Facility, to fund its exploration, development and acquisition program and for general corporate purposes.

13. Business Segment Information

The Company's exploration and production segment is engaged in the acquisition and development of oil and natural gas properties and includes the complementary marketing services provided by OPM. Revenues for the exploration and production segment are primarily derived from the sale of oil and natural gas production. In the first quarter of 2012, the Company began its well services business segment (OWS) to perform completion services for the Company's oil and natural gas wells operated by OPNA. Revenues for the well services segment are derived from providing well completion services, well completion product sales and tool rentals. In the first quarter of 2013, the Company formed its midstream services business segment (OMS) to perform salt water disposal and other midstream services for the Company's oil and natural gas wells operated by OPNA. Revenues for the midstream segment are primarily derived from salt water transport, salt water disposal and fresh water sales. The revenues and expenses related to work performed by OWS and OMS for OPNA's working interests are eliminated in consolidation, and only the revenues and expenses related to non-affiliated working interest owners are included in the Company's Condensed Consolidated Statement of Operations. These segments represent the Company's three current operating units, each offering different products and services. The Company's corporate activities have been allocated to the supported business segments accordingly.

Management evaluates the performance of the Company's business segments based on operating income, which is defined as segment operating revenues less expenses. The following table summarizes financial information for the Company's segments for the periods presented:

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	Exploration and Production	Well Services	Midstream Services	Eliminations	Consolidated
	(In thousands)				
Three months ended September 30, 2014:					
Revenues from external customers	$344,706	$20,925	$3,028	$—	$368,659
Inter-segment revenues	—	66,298	10,596	(76,894)	—
Total revenues	344,706	87,223	13,624	(76,894)	368,659
Operating income	126,184	23,388	5,126	(20,595)	134,103
Other income (expense)	63,968	—	—	—	63,968
Income before income taxes	$190,152	$23,388	$5,126	$(20,595)	$198,071
Three months ended September 30, 2013:					
Revenues from external customers	$286,952	$17,090	$1,456	$—	$305,498
Inter-segment revenues	—	40,026	6,141	(46,167)	—
Total revenues	286,952	57,116	7,597	(46,167)	305,498
Operating income	140,765	19,094	4,394	(13,391)	150,862
Other income (expense)	(62,628)	(20)	—	—	(62,648)
Income before income taxes	$78,137	$19,074	$4,394	$(13,391)	$88,214
Nine months ended September 30, 2014:					
Revenues from external customers	$1,030,735	$51,630	$8,191	$—	$1,090,556
Inter-segment revenues	—	146,447	28,264	(174,711)	—
Total revenues	1,030,735	198,077	36,455	(174,711)	1,090,556
Operating income	602,797	53,137	15,854	(42,060)	629,728
Other income (expense)	(98,140)	75	—	—	(98,065)
Income before income taxes	$504,657	$53,212	$15,854	$(42,060)	$531,663
Nine months ended September 30, 2013:					
Revenues from external customers	$770,445	$34,266	$3,673	$—	$808,384
Inter-segment revenues	—	90,000	15,778	(105,778)	—
Total revenues	770,445	124,266	19,451	(105,778)	808,384
Operating income	359,121	39,513	11,790	(28,159)	382,265
Other income (expense)	(106,159)	(11)	—	—	(106,170)
Income before income taxes	$252,962	$39,502	$11,790	$(28,159)	$276,095
Total assets:					
As of September 30, 2014	$5,344,775	$212,131	$157,209	$(256,640)	$5,457,475
As of December 31, 2013	4,592,140	78,359	117,641	(76,216)	4,711,924

14. Commitments and Contingencies

Included below is a discussion of various future commitments of the Company as of September 30, 2014. The commitments under these arrangements are not recorded in the accompanying Condensed Consolidated Balance Sheet. The amounts disclosed represent undiscounted cash flows, and no inflation elements have been applied.

Lease obligations. The Company’s total rental commitments under leases for office space and other property and equipment at September 30, 2014 were $27.8 million.

Drilling contracts. As of September 30, 2014, the Company had certain drilling rig contracts with initial terms greater than one year. In the event of early termination under these contracts, the Company would be obligated to pay approximately $33.1 million as of September 30, 2014 for the days remaining through the end of the primary terms of the contracts.

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Volume commitment agreements. As of September 30, 2014, the Company had certain agreements with an aggregate requirement to deliver a minimum quantity of approximately 33.7 MMBbl and 9.1 Bcf from its Williston Basin project areas within specified timeframes, all of which are less than ten years. Future obligations under these agreements were approximately $199.6 million as of September 30, 2014.

Water purchase agreements. As of September 30, 2014, the Company had certain agreements for the purchase of fresh water with an aggregate future obligation of approximately $4.2 million.

Cost sharing agreements. As of September 30, 2014, the Company had certain agreements to share the cost to construct and install electrical facilities. The Company’s estimated future obligation under these agreements was $9.6 million as of September 30, 2014.

Investment commitment. As of September 30, 2014, the Company had a remaining capital spending commitment of $7.0 million in connection with drilling and completion activities that the Company agreed to fund for certain wells that were part of the Company’s acquisitions of oil and natural gas properties in its East Nesson project area during the third quarter of 2013.

Litigation. The Company is party to various legal and/or regulatory proceedings from time to time arising in the ordinary course of business. While the ultimate outcome and impact to the Company cannot be predicted with certainty, the Company believes that all such matters are without merit and involve amounts which, if resolved unfavorably, either individually or in the aggregate, will not have a material adverse effect on its financial condition, results of operations or cash flows. When the Company determines that a loss is probable of occurring and is reasonably estimable, the Company accrues an undiscounted liability for such contingencies based on its best estimate using information available at the time. The Company discloses contingencies where an adverse outcome may be material, or in the judgment of management, the matter should otherwise be disclosed.

On July 6, 2013, a freight train operated by Montreal, Maine and Atlantic Railway (“MMA”) carrying crude oil (the “Train”) derailed in Lac-Mégantic, Quebec. In March 2014, Oasis Petroleum Inc. and OP LLC were added to a group of over fifty named defendants, including other crude oil producers as well as the Canadian Pacific Railway, MMA and certain of its affiliates, owners and transloaders of the crude oil carried by the Train, several lessors of tank cars, and the Attorney General of Canada, in a motion filed in Quebec Superior Court to authorize a class-action lawsuit seeking economic, compensatory and punitive damages, as well as costs for claims arising out of the derailment of the Train (Yannick Gagne, etc., et al. v. Rail World, Inc., etc., et al., Case No. 48006000001132). The motion generally alleges wrongful death and negligence in the failure to provide for the proper and safe transportation of crude oil.

The Company believes that all claims against Oasis Petroleum Inc. and OP LLC in connection with the derailment of the Train in Lac-Mégantic, Quebec are without merit and intends to vigorously defend against them.

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15. Condensed Consolidating Financial Information

The Notes (see Note 8) are guaranteed on a senior unsecured basis by the Guarantors, which are 100% owned by the Company. These guarantees are full and unconditional and joint and several among the Guarantors. Certain of the Company's immaterial wholly-owned subsidiaries do not guarantee the Notes ("Non-Guarantor Subsidiaries").

The following financial information reflects consolidating financial information of the parent company, Oasis Petroleum Inc. ("Issuer"), and its Guarantors on a combined basis, prepared on the equity basis of accounting. The Non-Guarantor Subsidiaries are immaterial and, therefore, not presented separately. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the Guarantors operated as independent entities. The Company has not presented separate financial and narrative information for each of the Guarantors because it believes such financial and narrative information would not provide any additional information that would be material in evaluating the sufficiency of the Guarantors.

Condensed Consolidating Balance Sheet

	September 30, 2014			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands, except share data)			
ASSETS				
Current assets				
Cash and cash equivalents	$777	$66,417	$—	$67,194
Accounts receivable – oil and gas revenues	—	191,711	—	191,711
Accounts receivable – joint interest partners	—	197,929	—	197,929
Accounts receivable – affiliates	781	78,053	(78,834)	—
Inventory	—	24,648	—	24,648
Prepaid expenses	445	13,808	—	14,253
Derivative instruments	—	33,874	—	33,874
Advances to joint interest partners	—	97	—	97
Other current assets	—	1,972	—	1,972
Total current assets	2,003	608,509	(78,834)	531,678
Property, plant and equipment				
Oil and gas properties (successful efforts method)	—	5,546,424	—	5,546,424
Other property and equipment	—	261,665	—	261,665
Less: accumulated depreciation, depletion, amortization and impairment	—	(933,237)	—	(933,237)
Total property, plant and equipment, net	—	4,874,852	—	4,874,852
Investments in and advances to subsidiaries	3,826,612	—	(3,826,612)	—
Derivative instruments	—	6,422	—	6,422
Deferred income taxes	133,526	—	(133,526)	—
Deferred costs and other assets	30,582	13,941	—	44,523
Total assets	$3,992,723	$5,503,724	$(4,038,972)	$5,457,475
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$—	$39,550	$—	$39,550
Accounts payable – affiliates	78,053	781	(78,834)	—

Revenues and production taxes payable	—	248,272	—	248,272
Accrued liabilities	55	340,425	—	340,480
Accrued interest payable	24,528	374	—	24,902
Deferred income taxes	—	9,625	—	9,625
Advances from joint interest partners	—	6,776	—	6,776
Total current liabilities	102,636	645,803	(78,834)	669,605
Long-term debt	2,200,000	350,000	—	2,550,000
Deferred income taxes	—	638,261	(133,526)	504,735
Asset retirement obligations	—	41,052	—	41,052
Other liabilities	—	1,996	—	1,996
Total liabilities	2,302,636	1,677,112	(212,360)	3,767,388
Stockholders' equity				
Capital contributions from affiliates	—	2,896,147	(2,896,147)	—
Common stock, $0.01 par value: 300,000,000 shares authorized; 101,614,588 issued	1,000	—	—	1,000
Treasury stock, at cost: 283,249 shares	(10,602)	—	—	(10,602)
Additional paid-in capital	1,001,424	8,743	(8,743)	1,001,424
Retained earnings	698,265	921,722	(921,722)	698,265
Total stockholders' equity	1,690,087	3,826,612	(3,826,612)	1,690,087
Total liabilities and stockholders' equity	$3,992,723	$5,503,724	$(4,038,972)	$5,457,475

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Condensed Consolidating Balance Sheet

	December 31, 2013			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands, except share data)			
ASSETS				
Current assets				
Cash and cash equivalents	$34,277	$57,624	$—	$91,901
Accounts receivable – oil and gas revenues	—	175,653	—	175,653
Accounts receivable – joint interest partners	—	139,459	—	139,459
Accounts receivable – affiliates	770	9,100	(9,870)	—
Inventory	—	20,652	—	20,652
Prepaid expenses	318	9,873	—	10,191
Deferred income taxes	—	6,335	—	6,335
Derivative instruments	—	2,264	—	2,264
Advances to joint interest partners	—	760	—	760
Other current assets	—	391	—	391
Total current assets	35,365	422,111	(9,870)	447,606
Property, plant and equipment				
Oil and gas properties (successful efforts method)	—	4,528,958	—	4,528,958
Other property and equipment	—	188,468	—	188,468
Less: accumulated depreciation, depletion, amortization and impairment	—	(637,676)	—	(637,676)
Total property, plant and equipment, net	—	4,079,750	—	4,079,750
Assets held for sale	—	137,066	—	137,066
Investments in and advances to subsidiaries	3,450,668	—	(3,450,668)	—
Derivative instruments	—	1,333	—	1,333
Deferred income taxes	85,288	—	(85,288)	—
Deferred costs and other assets	33,983	12,186	—	46,169
Total assets	$3,605,304	$4,652,446	$(3,545,826)	$4,711,924
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$—	$8,920	$—	$8,920
Accounts payable – affiliates	9,100	770	(9,870)	—
Revenues and production taxes payable	—	146,741	—	146,741
Accrued liabilities	33	241,797	—	241,830
Accrued interest payable	47,622	288	—	47,910
Derivative instruments	—	8,188	—	8,188
Advances from joint interest partners	—	12,829	—	12,829
Total current liabilities	56,755	419,533	(9,870)	466,418
Long-term debt	2,200,000	335,570	—	2,535,570
Deferred income taxes	—	408,435	(85,288)	323,147
Asset retirement obligations	—	35,918	—	35,918
Derivative instruments	—	139	—	139
Other liabilities	—	2,183	—	2,183
Total liabilities	2,256,755	1,201,778	(95,158)	3,363,375
Stockholders' equity				
Capital contributions from affiliates	—	2,930,978	(2,930,978)	—

Common stock, $0.01 par value: 300,000,000 shares authorized; 100,866,589 issued	996	—	—	996
Treasury stock, at cost: 167,155 shares	(5,362)	—	—	(5,362)
Additional paid-in capital	985,023	8,743	(8,743)	985,023
Retained earnings	367,892	510,947	(510,947)	367,892
Total stockholders' equity	1,348,549	3,450,668	(3,450,668)	1,348,549
Total liabilities and stockholders' equity	$3,605,304	$4,652,446	$(3,545,826)	$4,711,924

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Condensed Consolidating Statement of Operations

	Three Months Ended September 30, 2014			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Revenues				
Oil and gas revenues	$—	$344,706	$—	$344,706
Well services and midstream revenues	—	23,953	—	23,953
Total revenues	—	368,659	—	368,659
Expenses				
Lease operating expenses	—	44,361	—	44,361
Well services and midstream operating expenses	—	14,922	—	14,922
Marketing, transportation and gathering expenses	—	7,306	—	7,306
Production taxes	—	34,584	—	34,584
Depreciation, depletion and amortization	—	106,972	—	106,972
Exploration expenses	—	1,100	—	1,100
Impairment of oil and gas properties	—	1,439	—	1,439
General and administrative expenses	6,373	17,542	—	23,915
Total expenses	6,373	228,226	—	234,599
Gain on sale of properties	—	43	—	43
Operating income (loss)	(6,373)	140,476	—	134,103
Other income (expense)				
Equity in earnings in subsidiaries	148,357	—	(148,357)	—
Net gain on derivative instruments	—	103,426		