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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, 2017

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: 001-33756

Vanguard Natural Resources, Inc.

(Successor in interest to Vanguard Natural Resources, LLC)
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**80-0411494**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
5847 San Felipe, Suite 3000 Houston, Texas	**77057**
(Address of Principal Executive Offices)	*(Zip Code)*

(832) 327-2255
(*Registrant's Telephone Number, Including Area Code*)

Vanguard Natural Resources, LLC
(Former name, former address and former fiscal year, if changed since last report)

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 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 ☐ No

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

☐ Large accelerated filer	? Accelerated filer
☐ Non-accelerated filer	☐ Smaller reporting company
(Do not check if a 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 ?

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ? Yes ? No

As of August 1, 2017, the registrant had 20,055,694 outstanding shares of common stock, $0.001 par value

VANGUARD NATURAL RESOURCES, LLC AND SUBSIDIARIES
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GLOSSARY OF TERMS

Below is a list of terms that are common to our industry and used throughout this document:

/day	= per day	Mcf	= thousand cubic feet
Bbls	= barrels	Mcfe	= thousand cubic feet of natural gas equivalents
Bcf	= billion cubic feet	MMBbls	= million barrels
Bcfe	= billion cubic feet equivalents	MMBOE	= million barrels of oil equivalent
BOE	= barrel of oil equivalent	MMBtu	= million British thermal units
Btu	= British thermal unit	MMcf	= million cubic feet
MBbls	= thousand barrels	MMcfe	= million cubic feet equivalent
MBOE	= thousand barrels of oil equivalent	NGLs	= natural gas liquids

When we refer to oil, natural gas and NGLs in “equivalents,” we are doing so to compare quantities of natural gas with quantities of NGLs and oil or to express these different commodities in a common unit. In calculating equivalents, we use a generally recognized standard in which 42 gallons is equal to one Bbl of oil or one Bbl of NGLs and one Bbl of oil or one Bbl of NGLs is equal to six Mcf of natural gas. Also, when we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

References in this report to “Reorganized Vanguard” or “Successor” are to Vanguard Natural Resources, Inc., formerly known as VNR Finance Corp., and its subsidiaries, including Vanguard Natural Gas, LLC (“VNG”), VNR Holdings, LLC (“VNRH”), Vanguard Operating, LLC (“VO”), Encore Clear Fork Pipeline LLC (“ECFP”), Escambia Operating Co. LLC (“EOC”), Escambia Asset Co. LLC (“EAC”), Eagle Rock Energy Acquisition Co., Inc. (“ERAC”), Eagle Rock Upstream Development Co., Inc. (“ERUD”), Eagle Rock Acquisition Partnership, L.P. (“ERAP”), Eagle Rock Energy Acquisition Co. II, Inc. (“ERAC II”), Eagle Rock Upstream Development Co. II, Inc. (“ERUD II”) and Eagle Rock Acquisition Partnership II, L.P. (“ERAP II”).

References in this report to “Old Vanguard” and “Predecessor” are to Vanguard Natural Resources, LLC, individually and collectively with its subsidiaries

References in this report to “us,” “we,” “our,” the “Company,” “Vanguard,” or “VNR” or like terms refer to Vanguard Natural Resources, LLC for the period prior to emergence from bankruptcy on August 1, 2017 (the “Effective Date”) and to Vanguard Natural Resources, Inc. for the period as of and following the Effective Date.

Forward-Looking Statements

Certain statements and information in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements included in this Quarterly Report on Form 10-Q that are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), including, without limitation, the information set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements. These statements can be identified by the use of forward-looking terminology including "may," "believe," "expect," "intend," "anticipate," "estimate," "continue," or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. We and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Forward-looking statements include, but are not limited to, statements we make concerning future actions, conditions or events, future operating results, income or cash flow.

These statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, which could cause future outcomes to differ materially from those set forth in the forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things, those set forth in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report"), and this Quarterly Report on Form 10-Q, and those set forth from time to time in our filings with the Securities and Exchange Commission (the "SEC"), which are available on our website at www.vnrllc.com and through the SEC's Electronic Data Gathering and Retrieval System at www.sec.gov. These factors and risks include, but are not limited to:

- *our ability to achieve the anticipated benefits from the consummation of the cases filed under Chapter 11 of the United States Bankruptcy Code ("Chapter 11");*
- *our ability to execute our business strategies, including our business strategies post-emergence from the Chapter 11 Cases (as defined below);*
- *ability to maintain relationships with suppliers, customers, employees and other third parties as a result of our Chapter 11 filing and following emergence from the Chapter 11 Cases;*
- *our ability to obtain sufficient financing to execute our business plan post-emergence;*
- *our ability to meet our liquidity needs;*
- *the potential adverse effects of the consummation of the Chapter 11 restructuring on our liquidity and results of operations;*
- *increased advisory costs to implement the reorganization;*
- *the impact of the Chapter 11 restructuring on the liquidity and market price of our common stock and on our ability to access the public capital markets;*
- *risks relating to any of our unforeseen liabilities;*
- *further declines in oil, natural gas liquids ("NGLs") or natural gas prices;*
- *the level of success in exploration, development and production activities;*
- *adverse weather conditions that may negatively impact development or production activities;*
- *the timing of exploitation and development expenditures;*

- *inaccuracies of reserve estimates or assumptions underlying them;*
- *revisions to reserve estimates as a result of changes in commodity prices;*
- *impacts to financial statements as a result of impairment write-downs;*
- *risks related to the level of indebtedness and periodic redeterminations of the borrowing base under our credit agreements;*
- *ability to comply with restrictive covenants contained in the agreements governing our indebtedness that may adversely affect operational flexibility;*
- *ability to generate sufficient cash flows from operations to meet the internally funded portion of any capital expenditures budget;*
- *ability to obtain external capital to finance exploitation and development operations and acquisitions;*
- *federal, state and local initiatives and efforts relating to the regulation of hydraulic fracturing;*
- *failure of properties to yield oil or natural gas in commercially viable quantities;*
- *uninsured or underinsured losses resulting from oil and natural gas operations;*
- *ability to access oil and natural gas markets due to market conditions or operational impediments;*
- *the impact and costs of compliance with laws and regulations governing oil and natural gas operations;*
- *ability to replace oil and natural gas reserves;*
- *any loss of senior management or technical personnel;*
- *competition in the oil and natural gas industry;*
- *risks arising out of hedging transactions;*
- *the costs and effects of litigation;*
- *sabotage, terrorism or other malicious intentional acts (including cyber attacks), war and other similar acts that disrupt operations or cause damage greater than covered by insurance; and*
- *costs of tax treatment as a corporation.*

All forward-looking statements included in this report are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this report.

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

VANGUARD NATURAL RESOURCES, INC. AND SUBSIDIARIES
(as successor-in-interest to Vanguard Natural Resources, LLC (Debtor-in-Possession))
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Oil sales	$ 41,046	$ 49,941	$ 85,676	$ 85,595
Natural gas sales	51,712	32,431	109,175	69,302
NGLs sales	14,109	11,104	30,773	20,019
Net losses on commodity derivative contracts	(12,875)	(68,610)	(12,868)	(36,851)
Total revenues	93,992	24,866	212,756	138,065
Costs and expenses:				
Production:				
Lease operating expenses	36,823	38,515	75,305	80,842
Production and other taxes	9,138	9,476	19,203	18,144
Depreciation, depletion, amortization, and accretion	25,328	38,786	51,056	86,839
Impairment of oil and natural gas properties	—	157,894	—	365,658
Selling, general and administrative expenses	9,777	13,408	20,072	24,430
Total costs and expenses	81,066	258,079	165,636	575,913
Income (loss) from operations	12,926	(233,213)	47,120	(437,848)
Other income (expense):				
Interest expense (excludes contractual interest expense of $8.6 million and $14.3 million for the three and six months ended June 30, 2017, respectively)	(13,832)	(23,932)	(30,273)	(49,636)
Net gains (losses) on interest rate derivative contracts	—	(2,135)	30	(6,825)
Net loss on acquisition of oil and natural gas properties	—	(1,665)	—	(1,665)
Gain on extinguishment of debt	—	—	—	89,714
Other	255	196	311	252
Total other income (expense), net	(13,577)	(27,536)	(29,932)	31,840
Income (loss) before reorganization items	(651)	(260,749)	17,188	(406,008)
Reorganization items (Note 2)	(53,221)	—	(79,967)	—
Net loss	$ (53,872)	$ (260,749)	$ (62,779)	$ (406,008)
Less: Net income (loss) attributable to non-controlling interests	5	(40)	(12)	(64)
Net loss attributable to Vanguard unitholders	(53,867)	(260,789)	(62,791)	(406,072)
Distributions to Preferred unitholders	—	(6,689)	(2,230)	(13,379)
Net loss attributable to Common and Class B unitholders	$ (53,867)	$ (267,478)	$ (65,021)	$ (419,451)
Net loss per Common and Class B unit – basic and diluted	$ (0.41)	$ (2.04)	$ (0.49)	$ (3.20)
Weighted average Common units outstanding				
Common units – basic and diluted	130,961	131,015	130,959	130,772

Class B units – basic and diluted	420	420	420	420

See accompanying notes to consolidated financial statements

VANGUARD NATURAL RESOURCES, INC. AND SUBSIDIARIES
(as successor-in-interest to Vanguard Natural Resources, LLC (Debtor-in-Possession))
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)
(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 168,255	$ 49,957
Trade accounts receivable, net	84,294	97,138
Other current assets	3,768	7,944
Total current assets	256,317	155,039
Oil and natural gas properties, at cost	4,647,438	4,725,692
Accumulated depletion, amortization and impairment	(3,910,989)	(3,867,439)
Oil and natural gas properties evaluated, net – full cost method	736,449	858,253
Other assets		
Goodwill	253,370	253,370
Other assets	44,424	42,626
Total assets	$ 1,290,560	$ 1,309,288
Liabilities and members' deficit		
Current liabilities		
Accounts payable:		
Trade	$ 3,841	$ 12,929
Affiliates	—	1,443
Accrued liabilities:		
Lease operating	13,505	14,909
Developmental capital	8,574	6,676
Interest	7,650	13,345
Production and other taxes	34,754	32,663
Other	17,421	5,416
Derivative liabilities	4,694	125
Oil and natural gas revenue payable	26,145	33,672
Long-term debt classified as current	1,319,157	1,753,345
Other current liabilities	14,382	14,160
Total current liabilities	1,450,123	1,888,683
Long-term debt, net of current portion (Note 4)	13,055	15,475
Derivative liabilities	8,181	—
Asset retirement obligations, net of current portion	261,013	264,552
Other long-term liabilities	39,050	39,443
Total liabilities not subject to compromise	1,771,422	2,208,153
Liabilities subject to compromise (Note 2)	476,268	—
Total liabilities	2,247,690	2,208,153
Commitments and contingencies (Note 8)		
Members' deficit (Note 9)		
Cumulative Preferred units, 13,881,873 units issued and outstanding at June 30,		

2017 and December 31, 2016	335,444	335,444
Common units, 130,978,907 units issued and outstanding at June 30, 2017 and 131,008,670 units at December 31, 2016	(1,306,809)	(1,248,767)
Class B units, 420,000 issued and outstanding at June 30, 2017 and December 31, 2016	7,615	7,615
Total VNR members' deficit	(963,750)	(905,708)
Non-controlling interest in subsidiary	6,620	6,843
Total members' deficit	(957,130)	(898,865)
Total liabilities and members' deficit	$ 1,290,560	$ 1,309,288

See accompanying notes to consolidated financial statements

VANGUARD NATURAL RESOURCES, INC. AND SUBSIDIARIES
(as successor-in-interest to Vanguard Natural Resources, LLC (Debtor-in-Possession))
CONSOLIDATED STATEMENTS OF MEMBERS' DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND THE YEAR ENDED DECEMBER 31, 2016
(in thousands)
(Unaudited)

	Cumulative Preferred Units	Common Units	Class B Units	Non-controlling Interest	Total Members' Deficit
Balance at January 1, 2016	$ 335,444	$ (430,494)	$ 7,615	$ —	$ (87,435)
Issuance costs related to prior period equity transactions	—	(250)	—	—	(250)
Distributions to Preferred unitholders (see Note 9)	—	(5,575)	—	—	(5,575)
Distributions to Common and Class B unitholders (see Note 9)	—	(7,998)	—	—	(7,998)
Unit-based compensation		10,639	—	—	10,639
Non-controlling interest in subsidiary	—	—	—	7,452	7,452
Net income (loss)	—	(815,089)	—	82	(815,007)
Potato Hills cash distribution to non-controlling interest	—	—	—	(691)	(691)
Balance at December 31, 2016	$ 335,444	$ (1,248,767)	$ 7,615	$ 6,843	$ (898,865)
Issuance costs related to prior period equity transactions	—	(16)	—	—	(16)
Unit-based compensation	—	4,765	—	—	4,765
Net income (loss)	—	(62,791)	—	12	(62,779)
Potato Hills cash distribution to non-controlling interest	—	—	—	(235)	(235)
Balance at June 30, 2017	$ 335,444	$ (1,306,809)	$ 7,615	$ 6,620	$ (957,130)

See accompanying notes to consolidated financial statements

VANGUARD NATURAL RESOURCES, INC. AND SUBSIDIARIES
(as successor-in-interest to Vanguard Natural Resources, LLC (Debtor-in-Possession))
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
Operating activities	**2017**	**2016**
Net loss	$ (62,779)	$ (406,008)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization, and accretion	51,056	86,839
Impairment of oil and natural gas properties	—	365,658
Amortization of deferred financing costs	2,228	2,348
Amortization of debt discount	348	1,783
Non-cash reorganization items	58,755	—
Compensation related items	4,765	6,103
Net losses on commodity and interest rate derivative contracts	12,838	43,676
Cash settlements received on matured commodity derivative contracts	7	142,476
Cash settlements paid on matured interest rate derivative contracts	(95)	(4,727)
Net loss on acquisition of oil and natural gas properties	—	1,665
Gain on extinguishment of debt	—	(89,714)
Changes in operating assets and liabilities:		
Trade accounts receivable	14,804	25,427
Other current assets	2,106	(96)
Net premiums received (paid) on commodity derivative contracts	(16)	905
Accounts payable and oil and natural gas revenue payable	(14,484)	(40,220)
Payable to affiliates	(890)	(277)
Accrued expenses and other current liabilities	5,564	(41,323)
Other assets	(357)	(2,965)
Net cash provided by operating activities	73,850	91,550
Investing activities		
Additions to property and equipment	(67)	(36)
Potato Hills Gas Gathering System acquisition	—	(7,470)
Additions to oil and natural gas properties	(17,873)	(28,009)
Deposits and prepayments of oil and natural gas properties	(22,330)	(5,342)
Proceeds from the sale of oil and natural gas properties	107,689	285,590
Net cash provided by investing activities	67,419	244,733
Financing activities		
Proceeds from long-term debt	—	93,500
Repayment of long-term debt	(22,683)	(377,228)
Distributions to Preferred unitholders	—	(6,690)
Distributions to Common and Class B unitholders	—	(11,917)
Potato Hills distribution to non-controlling interest	(235)	(230)
Financing fees	(53)	(2,543)
Net cash used in financing activities	(22,971)	(305,108)
Net increase cash and cash equivalents	118,298	31,175
Cash and cash equivalents, beginning of period	49,957	—

Cash and cash equivalents, end of period	$ 168,255	$ 31,175
Supplemental cash flow information:		
Cash paid for interest	$ 22,424	$ 47,008
Non-cash investing activity:		
Asset retirement obligations, net	$ 7,890	$ 10,045

See accompanying notes to consolidated financial statements

VANGUARD NATURAL RESOURCES, INC. AND SUBSIDIARIES
(as successor-in-interest to Vanguard Natural Resources, LLC (Debtor-in-Possession))
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

General

When referring to Vanguard Natural Resources, Inc. (formerly known as VNR Finance Corp. and also referred to as "Successor," "Reorganized Vanguard" or the "Company"), the intent is to refer to Vanguard Natural Resources, Inc. and its consolidated subsidiaries as a whole or an individual basis, depending on the context in which the statements are made. Vanguard Natural Resources, Inc. became the successor reporting company of Vanguard Natural Resources, LLC ("Old Vanguard") pursuant to Rule 15d-5 of the Exchange Act on August 1, 2017. When referring to the "Predecessor" or the "Company" in reference to the period prior to the emergence from bankruptcy, the intent is to refer to Old Vanguard, the predecessor that assigned all of its assets to Reorganized Vanguard pursuant to the Plan (as defined below) on the Effective Date, and its consolidated subsidiaries on a whole or on an individual basis, depending on the context in which the statements are made.

Description of the Business

We are an independent oil and gas company focused on the acquisition and development of mature, long-lived oil and natural gas properties in the United States. Through our operating subsidiaries, as of June 30, 2017, we own properties and oil and natural gas reserves primarily located in ten operating areas:

- the Green River Basin in Wyoming;
- the Piceance Basin in Colorado;
- the Permian Basin in West Texas and New Mexico;
- the Gulf Coast Basin in Texas, Louisiana, Mississippi and Alabama;
- the Arkoma Basin in Arkansas and Oklahoma;
- the Big Horn Basin in Wyoming and Montana;
- the Anadarko Basin in Oklahoma and North Texas;
- the Williston Basin in North Dakota and Montana;
- the Wind River Basin in Wyoming; and
- the Powder River Basin in Wyoming.

We were formed in October 2006 and completed our initial public offering in October 2007. Following the completion of the financial restructuring, the Company will have 20.1 million shares of its common stock outstanding. We expect that the Company's shares of common stock and warrants will be traded and quoted on the OTCQX market (which is operated by OTC Markets Group, Inc.). The OTCQX market is an interdealer quotation system providing real time quotation services, each of which the Company believes constitutes an "established securities market" within the meaning of the Foreign Investment in Real Property Tax Act of 1980. The Company expects the new listing to go effective during the third quarter of 2017. Additionally, the Company is moving forward as a corporation for U.S. federal income tax purposes.

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are unaudited and were prepared from our records. We derived the Consolidated Balance Sheet as of December 31, 2016 from the audited financial statements contained in our 2016 Annual Report. Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by generally accepted accounting principles in the United States ("GAAP"). You should read this Quarterly Report on Form 10-Q along with our 2016 Annual Report, which contains a summary of our significant accounting policies and other

disclosures. In our opinion, we have made all adjustments which are of a normal, recurring nature to fairly present our interim period results. Information for interim periods may not be indicative of our operating results for the entire year.

As of June 30, 2017, our significant accounting policies, except for those related to the effects of our Chapter 11 Cases discussed below, are consistent with those discussed in Note 1 of our consolidated financial statements contained in our 2016 Annual Report.

(a) Basis of Presentation and Principles of Consolidation

The consolidated financial statements as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 include our accounts and those of our subsidiaries. We present our financial statements in accordance with GAAP. All intercompany transactions and balances have been eliminated upon consolidation.

We consolidated Potato Hills Gas Gathering System as of the close date of the acquisition in January 2016 as we have the ability to control the operating and financial decisions and policies of the entity through our 51% ownership and reflected the non-controlling interest as a separate element in our consolidated financial statements.

(b) Chapter 11 Cases

On February 1, 2017 (the "Petition Date"), Vanguard filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas. Please read Note 2. Chapter 11 Cases for a discussion of the Chapter 11 Cases (as defined in Note 2).

For periods subsequent to filing the Bankruptcy Petitions (as defined in Note 2), we have prepared our consolidated financial statements in accordance with Accounting Standards Codification ("ASC") 852, *Reorganizations* ("ASC 852"). ASC 852 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, professional fees incurred in the Chapter 11 Cases have been recorded in a reorganization line item on the consolidated statements of operations. In addition, ASC 852 provides for changes in the accounting and presentation of significant items on the consolidated balance sheets, particularly liabilities. Prepetition obligations that may be impacted by the Chapter 11 reorganization process have been classified on the consolidated balance sheets in liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

(c) Oil and Natural Gas Properties

The full cost method of accounting is used to account for oil and natural gas properties. Under the full cost method, substantially all costs incurred in connection with the acquisition, development and exploration of oil, natural gas and NGLs reserves are capitalized. These capitalized amounts include the costs of unproved properties, internal costs directly related to acquisitions, development and exploration activities, asset retirement costs and capitalized interest. Under the full cost method, both dry hole costs and geological and geophysical costs are capitalized into the full cost pool, which is subject to amortization and ceiling test limitations as discussed below.

Capitalized costs associated with proved reserves are amortized over the life of the reserves using the unit of production method. Conversely, capitalized costs associated with unproved properties are excluded from the amortizable base until these properties are evaluated, which occurs on a quarterly basis. Specifically, costs are transferred to the amortizable base when properties are determined to have proved reserves. In addition, we transfer unproved property costs to the amortizable base when unproved properties are evaluated as being impaired and as exploratory wells are determined to be unsuccessful. Additionally, the amortizable base includes estimated future development costs, dismantlement, restoration and abandonment costs net of estimated salvage values.

Capitalized costs are limited to a ceiling based on the present value of future net revenues, computed using the 12-month unweighted average of first-day-of-the-month historical price, the "12-month average price" discounted at 10%, plus the lower of cost or fair market value of unproved properties. If the ceiling is less than the total capitalized costs, we are required to write-down capitalized costs to the ceiling. We perform this ceiling test calculation each quarter. Any required write-downs are included in the Consolidated Statements of Operations as an impairment charge.

We recorded a non-cash ceiling test impairment of oil and natural gas properties for the six months ended June 30, 2016 of $365.7 million as a result of a decline in oil and natural gas prices at the measurement dates March 31, 2016 and June 30, 2016. The impairment for the first quarter of 2016 was $207.8 million and was calculated based on the 12-month average

price of $2.41 per MMBtu for natural gas and $46.16 per barrel of crude oil. The impairment for the second quarter of 2016 was $157.9 million and was calculated based on the 12-month average price of $2.24 per MMBtu for natural gas and $42.91 per barrel of crude oil. No ceiling test impairment was required during the six months ended June 30, 2017.

When we sell or convey interests in oil and natural gas properties, we reduce oil and natural gas reserves for the amount attributable to the sold or conveyed interest. We do not recognize a gain or loss on sales of oil and natural gas properties unless those sales would significantly alter the relationship between capitalized costs and proved reserves. Sales proceeds on insignificant sales are treated as an adjustment to the cost of the properties.

(d) Goodwill and Other Intangible Assets

We account for goodwill under the provisions of the Accounting Standards Codification (ASC) Topic 350, *"Intangibles-Goodwill and Other."* Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in business combinations. Goodwill is not amortized, but is tested for impairment annually on October 1 or whenever indicators of impairment exist.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350) (ASU 2017-04) to simplify the accounting for goodwill impairment. The guidance eliminated the need for Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new standard also eliminated the need for a company to perform goodwill impairment test for a reporting unit with a zero or negative carrying amount. We elected to early adopt ASU 2017-04 for the quarter ended March 31, 2017. We did not record any goodwill impairment during the six months ended June 30, 2017 since the carrying value of our reporting unit was negative at June 30, 2017.

(e) New Pronouncements Issued But Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers ("ASU 2015-14"), which approved a one-year delay of the standard's effective date. In accordance with ASU 2015-14, the standard is now effective for annual periods beginning after December 15, 2017, and interim periods therein.

We are currently evaluating the provisions of ASU 2014-09 and assessing the impact, if any, other than additional disclosures, it may have on our financial position and results of operations. As part of our assessment work to date, we have dedicated resources to the implementation and begun contract review and documentation.

The Company is required to adopt the new standards in the first quarter of 2018 using one of two application methods: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company is currently evaluating the available adoption methods.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which requires lessees to recognize at the commencement date for all leases, with the exception of short-term leases, (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We do not expect the adoption of ASU No. 2016-02 will have a material impact on our consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16, pursuant to Staff Announcements at the March 3, 2016, EITF Meeting. Under this ASU, the SEC Staff is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities - Oil and Gas, effective upon adoption of Topic 606. As discussed above, Revenue from Contracts with Customers (Topic 606) is effective for public entities for fiscal years, and interim periods within the fiscal years, beginning after December 15, 2017.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (ASU No. 2016-12). The amendments under this ASU provide clarifying guidance in certain narrow areas and add some practical expedients. These amendments are also effective at the same date that Topic 606 is effective.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU No. 2017-01). The amendments under this ASU provide guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) or business combinations by providing a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, therefore reducing the number of transactions that need to be further evaluated for treatment as a business combination. This ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and should be applied prospectively. The Company is currently evaluating the provisions of ASU 2017-01 and assessing the impact adoption may have on our consolidated financial statements. Currently, we do not expect the adoption of ASU 2017-01 to have a material impact on our consolidated financial statements, however these amendments could result in the recording of fewer business combinations in future periods.

(f) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil, natural gas and NGLs reserves and related cash flow estimates used in impairment tests of oil and natural gas properties and goodwill, the acquisition of oil and natural gas properties, the fair value of derivative contracts and asset retirement obligations, accrued oil, natural gas and NGLs revenues and expenses, as well as estimates of expenses related to depreciation, depletion, amortization and accretion. Actual results could differ from those estimates.

(g) Prior Year Financial Statement Presentation

Certain prior year balances have been reclassified to conform to the current year presentation of balances as stated in this Quarterly Report on Form 10-Q.

2. Chapter 11 Cases

Commencement of Chapter 11 Cases

On February 1, 2017, the Predecessor and certain subsidiaries (such subsidiaries, together with the Predecessor, the “Debtors”) filed voluntary petitions for relief (collectively, the “Bankruptcy Petitions” and, the cases commenced thereby, the “Chapter 11 Cases”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”). The Chapter 11 Cases were administered under the caption “In re Vanguard Natural Resources, LLC, et al.”

The subsidiary Debtors in the Chapter 11 Cases were the Successor; VNG; VO; VNRH; ECFP; ERAC; ERAC II; ERUD; ERUD II; ERAP; ERAP II; EAC; and EOC.

Reorganization Process

We operated our business as debtors-in-possession in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. To assure ordinary course operations during the pendency of the Chapter 11 Cases, the Bankruptcy Court granted certain relief requested by the Debtors, including, among other things and subject to the terms and conditions of such orders, authorizing us to maintain our existing cash management system, to secure debtor-in-possession financing, to remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and to pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law. This relief is designed primarily to minimize the effect of bankruptcy on the Company’s operations, customers and employees. For goods and services provided following the Petition Date, we paid vendors in full under normal terms.

Subject to certain exceptions provided for in section 362 of the Bankruptcy Code, all judicial and administrative proceedings against us or our property were automatically enjoined, or stayed, as of the Petition Date. In addition, the filing of new judicial or administrative actions against us or our property for claims arising prior to the Petition Date were automatically

enjoined. This prohibited, for example, our lenders or noteholders from pursuing claims for defaults under our debt agreements and our contract counterparties from pursuing claims for defaults under our contracts. Accordingly, all of our prepetition liabilities and obligations were settled or compromised under the Bankruptcy Code through our Chapter 11 Cases.

Our operations and ability to execute our business remain subject to the risks and uncertainties described in Item 1A, "Risk Factors" in our 2016 Annual Report. These include risks and uncertainties arising as a result of our Chapter 11 Cases, and the number and nature of our outstanding Common Stock (as defined below) and shareholders, assets, liabilities, officers and directors could change materially because of our Chapter 11 cases. In addition, the descriptions of our prepetition operations, properties and capital plans included in this Quarterly Report on Form 10-Q may not accurately reflect our post-emergence operations, properties and capital plans.

Creditors' Committees — Appointment & Formation

(a) Restructuring Support Parties

Prior to the filing of the Bankruptcy Petitions, on February 1, 2017, we entered into a restructuring support agreement (the "Initial RSA"). The Debtors entered into the Initial RSA with (i) certain holders (the "Consenting 2020 Noteholders") constituting at the time of signing approximately 52% of the 7.875% Senior Notes due 2020 (the "Senior Notes due 2020"); (ii) certain holders (the "Consenting 2019 Noteholders and, together with the Consenting 2020 Noteholders, the "Consenting Senior Noteholders") constituting at the time of signing approximately 10% of the 8.375% Senior Notes due 2019 (the "Senior Notes due 2019," and all claims arising under or in connection with the Senior Notes due 2020 and Senior Notes due 2019, the "Senior Note Claims"); and (iii) certain holders (the "Consenting Second Lien Noteholders" and, Consenting Senior Noteholders), constituting at the time of signing approximately 92% of the 7.0% Senior Secured Second Lien Notes due 2023 (the "Old Second Lien Notes," and all claims and obligations arising under or in connection with the Second Lien Notes, the "Second Lien Note Claims").

On June 6, 2017, certain lenders under the Company's Third Amended and Restated Credit Agreement, dated as of September 30, 2011 (as amended from time to time, the "Reserve-Based Credit Facility"), among them Citibank, N.A., as administrative agent (such lenders, the "Consenting RBL Lenders" and, together with the Consenting Senior Noteholders and Consenting Second Lien Noteholders, the "Restructuring Support Parties"), became parties to the amended Restructuring Support Agreement dated as of May 23, 2017 (the "Amended RSA").

(b) Official Unsecured Creditors Committee

On February 14, 2017, the Office of the United States Trustee appointed the Official Committee of Unsecured Creditors (the "Unsecured Creditors Committee") pursuant to section 1102 of the Bankruptcy Code. The Unsecured Creditors Committee consists of the following three members: (i) UMB Bank, National Association, as Indenture Trustee; (ii) Wilmington Trust, National Association, as Indenture Trustee; and (iii) Encana Oil & Gas (USA), Inc.

(c) Ad Hoc Equity Committee

On March 16, 2017, we filed a motion with the Bankruptcy Court disclosing a Stipulation and Agreed Order entered into on March 15, 2017, by and between the Debtors and certain unaffiliated holders of our Preferred Units and common units (the "Ad Hoc Equity Committee") pursuant to which the Debtors and the Ad Hoc Equity Committee agreed, among other things, that professionals for the Ad Hoc Equity Committee would be funded by the Debtors' estates for services performed within a defined scope and subject to agreed caps on fees and expenses as described in the Stipulation and Agreed Order.

Magnitude of Potential Claims

On March 16, 2017, the Debtors filed with the Bankruptcy Court Schedules and Statements, as defined below, setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. The Schedules and Statements may be subject to further amendment or modification after filing. Certain holders of prepetition claims were required to file proofs of claim by their respective specified deadlines for filing certain proofs of claims in the Debtors' Chapter 11 cases. Differences between amounts scheduled by the Debtors and claims by creditors have been and are being investigated and resolved through the claims resolution process. The claims resolution process continues after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be reasonably estimated.

Schedules and Statements — Claims & Claims Resolution Process

To the best of our knowledge, we notified all of our known current or potential creditors that the Debtors filed Chapter 11 cases. On March 16, 2017, each of the Debtors filed a Schedule of Assets and Liabilities and Statement of Financial Affairs (collectively, the "Schedules and Statements") with the Bankruptcy Court. These documents set forth, among other things, the assets and liabilities of each of the Debtors, including executory contracts to which each of the Debtors was a party, were subject to the qualifications and assumptions included therein, and were subject to amendment or modification over the course of the Chapter 11 Cases.

Many of the claims identified in the Schedules and Statements are listed as disputed, contingent or unliquidated. In addition, there were variances between the amounts for certain claims listed in the Schedules and Statements and the amounts claimed by our creditors. Such variances, as well as other disputes and contingencies will be investigated and resolved through the claims resolution process in our Chapter 11 Cases.

Pursuant to the Federal Rules of Bankruptcy Procedure, creditors who wished to assert prepetition claims against us and whose claim (i) was not listed in the Schedules and Statements or (ii) was listed in the Schedules and Statements as disputed, contingent, or unliquidated, were required to file a proof of claim with the Bankruptcy Court prior to April 30, 2017 for non-governmental creditors and July 31, 2017 for governmental creditors

As of July 31, 2017, approximately 1,040 claims totaling $19.5 billion have been filed with the Bankruptcy Court against the Debtors by approximately 800 claimants. In addition, creditors who have already filed claims may amend or modify their claims in ways we cannot reasonably predict. The amounts of these additional claims and/or amendments or modifications to claims already filed may be material. We expect the process of resolving claims filed against the Debtors to be complex and lengthy. We plan to investigate and evaluate all filed claims in connection with our Plan. As part of the process, we will work to resolve differences in amounts scheduled by the Debtors and the amounts claimed by creditors, including through the filing of objections with the Bankruptcy Court where necessary. Through the claims resolution process as set forth in the Plan, we have identified, and we expect to continue to identify, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. We have filed and will file objections with the Bankruptcy Court as necessary for the claims we believe should be disallowed. Claims that have been allowed or we believe are allowable are reflected in "Liabilities Subject to Compromise."

As discussed above, the claims resolution process continues following our emergence from the Chapter 11 Cases. Accordingly, the ultimate number and amount of claims that will be allowed against the Debtors is not presently known, nor can the ultimate recovery with respect to allowed claims be reasonably estimated.

Restructuring Support Agreement

The Initial RSA and Amended RSA set forth, subject to certain conditions, the commitment of the Debtors and the Restructuring Support Parties to support a comprehensive restructuring of the Debtors' long-term debt (the "Restructuring Transactions") to be effectuated through one or more plans of reorganization (the "Plan") to be filed in the Chapter 11 Cases. A summary of the restructuring transactions agreed to by the Restructuring Support Parties and to be effectuated through the Plan is included below. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Initial RSA and Amended RSA.

Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code

The Initial RSA contemplated the following Restructuring Transactions outlined below:

- Allowed claims ("First Lien Claims") under the Reserve-Based Credit Facility to be paid down with $275.0 million in cash from the proceeds of the Senior Note Rights Offering and Second Lien Investment and to be paid down further with proceeds from non-core asset sales or other available cash. The remaining First Lien Claims to participate in a new Company $1.1 billion reserve-based lending facility (the "New Facility") on terms substantially the same as the Reserve-Based Credit Facility and provided by the same lenders under the Reserve-Based Credit Facility.

- Allowed Second Lien Claims to receive new notes in the current principal amount of approximately $75.6 million, substantially similar to the current Second Lien Notes but providing a 12-month later maturity and a 200 basis point increase to the interest rate.

- Each holder of an allowed Senior Note Claim to receive (a) its pro rata share of 97% of the ownership interests in the reorganized Company (the "New Equity Interests") and (b) the opportunity to participate in the Senior Note Rights Offering.

- If the Plan was accepted by the classes of the general unsecured claims and holders of the Preferred Units, the holders of the Preferred Units to receive their pro rata share of (a) 3% of the New Equity Interests and (b) three and a half year warrants for 3% of the New Equity Interests.

- A $255.75 million Senior Note Rights Offering to holders of Senior Note Claims to purchase New Equity Interests at an agreed discount. Certain holders of the Senior Note Claims to execute a backstop commitment agreement to fully backstop the Senior Note Rights Offering.

- The Second Lien Investors to purchase $19.3 million in New Equity Interests at a 25% discount to the Company's total enterprise value.

The initial terms also provided for the establishment of a management incentive plan at the Company under which 10% of the New Equity Interests would have been reserved for grants made from time to time to the officers and other key employees of the respective reorganized entities.

The initial RSA obligated the Debtors and the Restructuring Support Parties to, among other things, support and not interfere with consummation of the Restructuring Transactions and, as to the Restructuring Support Parties, vote their claims in favor of the Plan.

Second Amended Joint Plan of Reorganization

The following is a summary of the material terms of the Second Amended Joint Plan of Reorganization which was filed on May 31, 2017 and agreed to by the Restructuring Support Parties to the Amended RSA. This summary highlights only certain substantive provisions of this iteration of the Plan and is not intended to be a complete description of that iteration of the Plan. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Second Amended Joint Plan of Reorganization. The Second Amended Joint Plan of Reorganization provided for:

- The Rights Offering, consisting of (i) a $10.2 million rights offering to be conducted in reliance upon the exemption from registration under the Securities Act provided in section 1145 of the Bankruptcy Code, pursuant to which Holders of Senior Notes Claims are entitled to purchase equity in Reorganized VNR Finance, (ii) a $117.7 million rights offering to be conducted in reliance upon the exemption from registration under the Securities Act provided in section 4(a)(2) of the Securities Act, pursuant to which Accredited Investor Eligible Holders of Senior Notes Claims are entitled to purchase equity in Reorganized VNR Finance, and (iii) a $127.9 million equity investment, pursuant to which the Commitment Parties will purchase equity in Reorganized VNR Finance. The Rights Offering Shares equal 84.8% of the New Common Stock, subject to dilution by the GUC Rights Offering, the New Management Incentive Plan, the New Common Stock issuable upon exercise of the New Warrants, and the New Common Stock issued to Encana;

- A fully committed $19.3 million equity investment from the Second Lien Investors for shares of New Common Stock equal to 6.4% of the aggregate New Common Stock as of the Effective Date and subject to dilution as set forth in the Plan;

- A full recovery for Holders of Allowed Lender Claims consisting of (i) cash in the amount of the Credit Agreement Interest plus (ii) cash in the amount of its Pro Rata share of the Glasscock Sale Proceeds. In addition, each such Holder shall receive treatment under either Option 1 or Option 2 below. If the Holder elects (or is deemed to elect, upon its execution of the Exit Facility Credit Agreement) Option 1 on its Ballot, it shall also receive its Option 1 Pro Rata Share of (i) the Lender Paydown, (ii) the Exit Revolving Loans, and (iii) the Exit Term A Loans. If such Holder elects Option 2 on its Ballot, it shall also receive its Option 2 Pro Rata Share of the Exit Term B Loans;

- The issuance of new notes to Holders of Allowed Second Lien Notes Claims in an aggregate principal amount of approximately $78.1 million, plus accrued and unpaid post-petition interest through the Effective Date;

- The GUC Rights Offering is in an amount equal to 21.9% of the total amount of all Allowed General Unsecured Claims and Allowed Encana Claims; *provided* that in no event shall the GUC Rights Offering Amount exceed (a) with respect to Holders of Allowed General Unsecured Claims, $7.7 million (such amount to be reduced, pro rata, for the

proportion of General Unsecured Claims for which an election to participate in the GUC Cash Pool was made) and (b) with respect to Encana, 21.9% of the amount of the Allowed Encana Claims (such amount to be reduced to reflect the same final rate, as a percentage of Allowed Claims, at which Holders of Allowed General Unsecured Claims electing to receive distributions from the GUC Equity Pool are able to subscribe for in the GUC Rights Offering in accordance with the GUC Rights Offering Procedures);

- With respect to holders of VNR Preferred Units, on the Effective Date, except to the extent that a Holder of VNR Preferred Units agrees to less favorable treatment of its VNR Preferred Units, and subject to the terms of the Restructuring Transactions, all VNR Preferred Units shall be cancelled and shall be of no further force and effect, whether surrendered for cancellation or otherwise, and in full and final satisfaction, settlement, release, and discharge of and in exchange for each VNR Preferred Unit, each Holder of VNR Preferred Units shall receive: (a) if Class 6, Class 7, Class 8, Class 9, and Class 12 are each determined to have voted to accept the Plan in accordance with the Bankruptcy Code, such Holder's Pro Rata share of (i) the VNR Preferred Unit Equity Distribution and (ii) VNR Preferred Unit New Warrants; or (b) if Class 6, Class 7, Class 8, Class 9, or Class 12 is determined to have voted to reject the Plan in accordance with the Bankruptcy Code, no distribution; *provided* that each Holder of VNR Preferred Units shall be given the opportunity to elect to waive its recovery, in which case the VNR Preferred Unit Equity Distribution and three year VNR Preferred Unit New Warrants that such Holder would have been entitled to receive shall be cancelled and of no further effect; and

- With respect to holders of VNR Common Units, on the Effective Date, except to the extent that a Holder of VNR Common Units agrees to less favorable treatment of its VNR Common Units, and subject to the terms of the Restructuring Transactions, all VNR Common Units shall be cancelled and shall be of no further force and effect, whether surrendered for cancellation or otherwise, and in full and final satisfaction, settlement, release, and discharge of and in exchange for each VNR Common Unit, each Holder of VNR Common Units shall receive: (a) if Class 6, Class 7, Class 8, Class 9, Class 12, and Class 13 are each determined to have voted to accept the Plan in accordance with the Bankruptcy Code, such Holder's Pro Rata share of three year VNR Common Unit New Warrants; or (b) if Class 6, Class 7, Class 8, Class 9, Class 12, or Class 13 is determined to have voted to reject the Plan in accordance with the Bankruptcy Code, no distribution; *provided* that each Holder of VNR Common Units shall be given the opportunity to elect to waive its recovery, in which case the VNR Common Unit New Warrants that such Holder would have been entitled to receive shall be cancelled and of no further effect.

Prior to the Effective Date, the Debtors were required to distribute waiver election forms to the Holders of VNR Preferred Units and VNR Common Units, pursuant to which the Holders elected to waive and decline any distribution on account of their VNR Preferred Units or VNR Common Units, as applicable. These waiver election forms set forth instructions for such Holders to either (i) electronically deliver their VNR Preferred Unit or VNR Common Unit positions through The Depository Trust Company's Automated Tender Offer Program (if the Holder held its VNR Preferred Units or VNR Common Units through a Nominee) or (ii) mark such election on the form and return the form to Prime Clerk LLC (if the VNR Preferred Units or VNR Common Units, as applicable, were held directly in the Holder's name on the books and records of the stock transfer agent and not through a nominee).

The Amended RSA obligated the Debtors and the Restructuring Support Parties to, among other things, support and not interfere with consummation of the Restructuring Transactions and, as to the Restructuring Support Parties, vote their claims in favor of the Plan.

Modified Second Amended Joint Plan of Reorganization

On July 18, 2017, the Bankruptcy Court entered the *Order Confirming Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* (the "Confirmation Order"), which approved and confirmed the Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Final Plan"). The Final Plan provides for the reorganization of the Debtors as a going concern and will significantly reduce long-term debt and annual interest payments of the reorganized Debtors.

The following is a summary of the material modifications of the Final Plan that were made to the Second Amended Joint of Plan of Reorganization described above. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Final Plan.

- the issuance to holders of the Company's Preferred Units of such holders' pro rata share of (i) New Common Stock and (ii) three and a half year VNR Preferred Unit New Warrants to purchase additional shares of New Common Stock at a strike price of $44.25; and

- the issuance to the Company's common unitholders of such holders' pro rata share of three and a half year VNR Common Unit New Warrants to purchase shares of New Common Stock at a strike price of $61.45, regardless of whether the holders of the Company's common units voted to accept the Plan.

The warrant strike prices were calculated based on the Company's plan equity value of $20.00 per share of New Common Stock, which the Bankruptcy Court confirmed as part of the Plan.

Unless otherwise specified, the treatment set forth in the Final Plan and Confirmation Order will be in full satisfaction of all claims against and equity interests in the Debtors, which will be discharged on the Effective Date. Other than assumed obligations, all of the Debtors' prepetition claims and equity interests will be discharged by the Plan.

Additional information regarding the classification and treatment of claims and equity interests can be found in Article III of the Final Plan.

The Debtors satisfied all conditions precedent under the Final Plan and emerged from bankruptcy on August 1, 2017 as the Effective Date. The Company reorganized as a Delaware corporation named Vanguard Natural Resources, Inc. on the Effective Date. Pursuant to the Final Plan, each of the Company's equity securities outstanding immediately before the Effective Date (including any unvested restricted units held by employees or officers of the Debtor, or options and warrants to purchase such securities) have been canceled and are of no further force or effect as of the Effective Date. Under the Final Plan, the Debtors' new organizational documents became effective on the Effective Date. The reorganized parent's new organizational documents authorize the company to issue new equity, certain of which was issued to holders of allowed claims pursuant to the Plan on the Effective Date. In addition, on the Effective Date, the Company entered into a registration rights agreement with certain equity holders. As of August 1, 2017, the Company had 20.1 million outstanding shares of common stock, $0.001 par value. ("Common Stock").

Emergence from Chapter 11

On the Effective Date, the Debtors substantially consummated the Plan and emerged from their Chapter 11 Cases. As part of the transactions undertaken pursuant to the Plan, the Predecessor transferred all of its membership interests in Vanguard Natural Gas, LLC ("VNG"), a Kentucky limited liability company, the Predecessor's wholly owned first-tier subsidiary to the Successor (formerly known as VNR Finance Corp.). VNG directly or indirectly owned all of the other subsidiaries of the Predecessor. As a result of the foregoing and certain other transactions, the Successor is no longer a subsidiary of the Predecessor and now owns all of the former subsidiaries of the Predecessor. Following the end of the current fiscal year, we expect that the Predecessor will be dissolved. Following the completion of these transactions, the Company became the successor issuer to the Predecessor for purposes of and pursuant to Rule 15d-5 of the Exchange Act.

Prior to the consummation of the transactions undertaken pursuant to the Plan, the Company (as VNR Finance Corp.) was the co-issuer of the Predecessor's debt securities and did not have any independent assets or operations. As described below, the Predecessor's Senior Notes due 2020 and Senior Notes due 2019 were cancelled pursuant to the Plan. However, the Successor issued, and its subsidiaries guaranteed, new second lien notes due 2024 in the aggregate principal amount of $80.7 million in satisfaction of certain claims of the holders of the Old Second Lien Notes co-issued by the Predecessor and Successor.

Exit Facility

VNG, as borrower, has entered into that certain Fourth Amended and Restated Credit Agreement dated as of August 1, 2017 (the "Exit Facility"), by and among VNG as borrower, Citibank, N.A. as administrative agent (the "Administrative Agent") and Issuing Bank, and the lenders party thereto (the "Lenders"). Pursuant to the Credit Agreement, the lenders party thereto agreed to provide VNG with $850.0 million exit senior secured reserve-based revolving credit facility (the "Revolving Loans"). The initial borrowing base available under the Credit Agreement as of the Effective Date is $850.0 million and the aggregate principal amount of Revolving Loans outstanding under the Credit Agreement as of the Effective Date is $850.0 million. The Credit Agreement also includes an additional $125.0 million senior secured term loan (the "Term Loan"). The next borrowing base redetermination is scheduled for August of 2018.

The maturity date of the Exit Facility is February 1, 2021 with respect to the Revolving Loans and May 1, 2021 with respect to the Term Loan. Until the maturity date for the Term Loan, the Term Loan shall bear an interest rate equal to 6.50% for an Alternate Base Rate loan or 7.50% for a Eurodollar loan. Until the maturity date for the Revolving Loans, the Revolving Loans shall bear interest at a rate per annum equal to (i) the alternative base rate plus an applicable margin of 1.75% to 2.75%,

based on the borrowing base utilization percentage under the Exit Facility or (ii) adjusted LIBOR plus an applicable margin of 2.75% to 3.75%, based on the borrowing base utilization percentage under the Exit Facility.

Unused commitments under the Exit Facility will accrue a commitment fee of 0.5%, payable quarterly in arrears.

VNG may elect, at its option, to prepay any borrowing outstanding under the Revolving Loans without premium or penalty (except with respect to any break funding payments which may be payable pursuant to the terms of the Exit Facility). VNG may be required to make mandatory prepayments of the Revolving Loans in connection with certain borrowing base deficiencies.

Additionally, if (i) VNG has outstanding borrowings, undrawn letters of credit and reimbursement obligations in respect of letters of credit in excess of the aggregate revolving commitments or (ii) unrestricted cash and cash equivalents of VNG and the Guarantors (as defined below) exceeds $35.0 million as of the close of business on the most recently ended business day, VNG is also required to make mandatory prepayments, subject to limited exceptions.

The obligations under the Exit Facility are guaranteed by the Successor and all of VNG's subsidiaries (the "Guarantors"), subject to limited exceptions, and secured on a first-priority basis by substantially all of VNG's and the Guarantors' assets, including, without limitation, liens on at least 95% of the total value of VNG's and the Guarantors' oil and gas properties, and pledges of stock of all other direct and indirect subsidiaries of VNG, subject to certain limited exceptions.

The Exit Facility contains certain customary representations and warranties, including, without limitation: organization; powers; authority; enforceability; approvals; no conflicts; financial condition; no material adverse change; litigation; environmental matters; compliance with laws and agreements; no defaults; no borrowing base deficiency; Investment Company Act; taxes; ERISA; disclosure; no material misstatements; insurance; restrictions on liens; locations of businesses and offices; properties and titles; maintenance of properties; gas imbalances; prepayments; marketing of production; swap agreements; use of proceeds; solvency; money laundering; anti-corruption laws and sanctions.

The Exit Facility also contains certain affirmative and negative covenants, including, without limitation: delivery of financial statements; notices of material events; existence and conduct of business; payment of obligations; performance of obligations under the Exit Facility and the other loan documents; operation and maintenance of properties; maintenance of insurance; maintenance of books and records; compliance with laws and regulations; compliance with environmental laws and regulations; delivery of reserve reports; delivery of title information; requirement to grant additional collateral; compliance with ERISA; maintenance of commodity price risk management policy; requirement to maintain commodity swaps; maintenance of treasury management; restrictions on indebtedness; liens; dividends and distributions; repayment of permitted unsecured debt; amendments to certain agreements; investments; change in the nature of business; leases (including oil and gas property leases); sale or discount of receivables; mergers; sale of properties; termination of swap agreements; transactions with affiliates; negative pledges; dividend restrictions; marketing activities; gas imbalances; take-or-pay or other prepayments; swap agreements and transactions, and passive holding company status.

The Exit Facility also contains certain financial covenants, including the maintenance of (i) the ratio of consolidated first lien debt of VNG and the Guarantors as of the date of determination to EBITDA for the most recently ended four consecutive fiscal quarter period for which financial statements are available of (a) 4.75 to 1.00 as of the last of any fiscal quarter ending from July 1, 2018 through December 31, 2018, (b) 4.50 to 1.00 as of the last day of any fiscal quarter ending from January 1, 2019 through December 31, 2019, (c) 4.25 to 1.00 as of the last day of any fiscal quarter ending from January 1, 2020 through September 30, 2020, and (d) 4.00 to 1.00 as of the last day of any fiscal quarter ending thereafter; (ii) an asset coverage ratio of not less than 1.25 to 1.00 as tested on each January 1 and July 1 for the period from August 1, 2017 until August 1, 2018; and (iii) a current ratio, determined as of the last day of each fiscal quarter for the four fiscal-quarter period then ending, commencing with the fiscal quarter ending December 31, 2017, of not less than 1.00:1.00.

The Exit Facility also contains certain events of default, including, without limitation: non-payment; breaches of representations and warranties; non-compliance with covenants or other agreements; cross-default to material indebtedness; judgments; change of control; and voluntary and involuntary bankruptcy.

New Second Lien Notes Indenture

On August 1, 2017, the Company issued approximately $80.7 million aggregate principal amount of new 9.0% Senior Secured Second Lien Notes due 2024 (the "New Notes") to certain eligible holders of their outstanding Old Second Lien Notes issued by the Predecessor and the Successor (the "Existing Notes") in full satisfaction of their claim of approximately $80.7

million related to the Existing Notes held by such holders. The New Notes were issued in accordance with the exemption from the registration requirements of the Securities Act afforded by Section 4(a)(2) of the Securities Act.

The New Notes are governed by an Amended and Restated Indenture, dated as of August 1, 2017 (as amended, the "Amended and Restated Indenture"), by and among the Company, certain subsidiary guarantors of the Company (the "Guarantors") and Delaware Trust Company, as Trustee (in such capacity, the "Trustee") and as Collateral Trustee (in such capacity, the "Collateral Trustee"), which contains affirmative and negative covenants that, among other things, limit the ability of the Company and the Guarantors to (i) incur, assume or guarantee additional indebtedness or issue preferred stock; (ii) create liens to secure indebtedness; (iii) make distributions on, purchase or redeem the Company's common stock or purchase or redeem subordinated indebtedness; (iv) make investments; (v) restrict dividends, loans or other asset transfers from the Company's restricted subsidiaries; (vi) consolidate with or merge with or into, or sell substantially all of its properties to, another person; (vii) sell or otherwise dispose of assets, including equity interests in subsidiaries; (viii) enter into transactions with affiliates; or (ix) create unrestricted subsidiaries. These covenants are subject to important exceptions and qualifications. If the New Notes achieve an investment grade rating from each of Standard & Poor's Ratings Services and Moody's Investors Service, Inc., no default or event of default under the Amended and Restated Indenture exists, and the Company delivers to the Trustee an officers' certificate certifying such events, many of the foregoing covenants will terminate.

The Amended and Restated Indenture also contains customary events of default, including (i) default for thirty (30) days in the payment when due of interest on the New Notes; (ii) default in payment when due of principal of or premium, if any, on the New Notes at maturity, upon redemption or otherwise; and (iii) certain events of bankruptcy or insolvency with respect to the Company or any of restricted subsidiary of the Company that is a significant subsidiary or any group of restricted subsidiaries of the Company that taken together would constitute s significant subsidiary. If an event of default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding New Notes may declare all the New Notes to be due and payable immediately. If an event of default arises from certain events of bankruptcy or insolvency, with respect to the Company, any restricted subsidiary of the Company that is a significant subsidiary or any group of restricted subsidiaries of the Company that, taken together, would constitute a significant subsidiary, all outstanding New Notes will become due and payable immediately without further action or notice.

Interest is payable on the New Notes on February 15 and August 15 of each year, beginning on February 15, 2018. The New Notes will mature on February 15, 2024.

At any time prior to February 15, 2020, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of the New Notes issued under the Amended and Restated Indenture, with an amount of cash not greater than the net cash proceeds of an equity offering, at a redemption price equal to 109% of the principal amount of the New Notes, together with accrued and unpaid interest, if any, to the redemption date; provided that (i) at least 65% of the aggregate principal amount of the New Notes originally issued under the Amended and Restated Indenture remain outstanding after such redemption, and (ii) the redemption occurs within one hundred eighty (180) days of the equity offering.

On or after February 15, 2020, the New Notes will be redeemable, in whole or in part, at redemption prices equal to the principal amount multiplied by the percentage set forth below, plus accrued and unpaid interest:

Year	Percentage
2020	106.75%
2021	104.50%
2022	102.25%
2023 and thereafter	100.00%

In addition, at any time prior to February 15, 2020, the Company may on any one or more occasions redeem all or a part of the New Notes at a redemption price equal to 100% of the principal amount thereof, plus the Applicable Premium (as defined in the Amended and Restated Indenture) as of, and accrued and unpaid interest, if any, to the date of redemption.

Amended and Restated Intercreditor Agreement

On August 1, 2017, Citibank, N.A., as priority lien agent, and the Collateral Trustee entered into an Amended and Restated Intercreditor Agreement, which was acknowledged and agreed to by the Company and the Guarantors (the "Amended and Restated Intercreditor Agreement"), to govern the relationship of holders of the New Notes, the Lenders under the

Company's revolving credit facility and holders of other priority lien, second lien or junior lien obligations that the Company may issue in the future, with respect to the Collateral and certain other matters.

Under the Intercreditor Agreement, the Collateral Trustee may enforce or exercise any rights or remedies with respect to any Collateral, subject to a 180 day standstill period. However, the Collateral Trustee may not commence, or join with another party in commencing, any enforcement action with respect to any second-priority lien unless the first-priority liens have been discharged.

Amended and Restated Collateral Trust Agreement

On August 1, 2017, the Company, the Guarantors, the Trustee and the Collateral Trustee entered into an Amended and Restated Collateral Trust Agreement (the "Amended and Restated Collateral Trust Agreement") pursuant to which the Collateral Trustee will receive, hold, administer, maintain, enforce and distribute all of its liens upon the Collateral for the benefit of the current and future holders of the New Notes and other obligations secured on an equal and ratable basis with the New Notes, if any.

Registration Rights Agreement

On the Effective Date, in accordance with the Plan and that certain Amended and Restated Backstop Commitment and Equity Investment Agreement, dated as of February 24, 2017, as amended and restated on May 23, 2017 (as may have been further amended from time to time, the "Amended and Restated Backstop Commitment Agreement"), the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with certain recipients of shares of New Common Stock distributed on the Effective Date that were party to the Amended and Restated Backstop Commitment Agreement (including certain of their affiliates and related funds), in accordance with the terms set forth in the Plan (collectively, the "Registration Rights Holders").

The Registration Rights Agreement requires the Company to file a shelf registration statement ("Initial Shelf Registration Statement") within ninety (90) calendar days following the Effective Date that includes the Registrable Securities (as defined in the Registration Rights Agreement) whose inclusion has been timely requested, provided, however, that the Company is not required to file or cause to be declared effective an Initial Shelf Registration Statement unless the request from Registration Rights Holders amounts to at least 20% of all Registrable Securities. The Registration Rights Agreement also provides the Registration Rights Holders the ability to demand registrations or underwritten shelf takedowns subject to certain requirements and exceptions.

In addition, if the Company proposes to register shares of New Common Stock in certain circumstances, the Registration Rights Holders will have certain "piggyback" registration rights, subject to restrictions set forth in the Registration Rights Agreement, to include their shares of New Common Stock in the registration statement.

The Registration Rights Agreement also provides that (i) for so long as the Company is subject to the requirements to publicly file information or reports with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, the Company will timely file all information and reports with the SEC and comply with all such requirements and (b) if the Company is not subject to the requirements of Section 13 or 15(d) of the Exchange Act, the Company will make available the information necessary to comply with Section 4(a)(7) of the Securities Act and Rule 144 and Rule 144A, if available with respect to resales of the Registrable Securities under the Securities Act, at all times, all to the extent required from time to time to enable Registration Rights Holders to sell Registrable Securities without registration under the Securities Act pursuant to the abovementioned exemptions or any other rule or regulation hereafter adopted by the SEC.

Warrant Agreement

On the Effective Date, the Company entered into a warrant agreement (the "Warrant Agreement") with American Stock Transfer & Trust Company, LLC, as warrant agent, pursuant to which the Company issued (i) to electing holders of Old Vanguard's (A) 7.875% Series A Cumulative Redeemable Perpetual Preferred Units ("Series A Preferred Units"), (B) 7.625% Series B Cumulative Redeemable Perpetual Preferred Units ("Series B Preferred Units"), and (C) 7.75% Series C Cumulative Redeemable Perpetual Preferred Units ("Series C Preferred Units" and, together with the Series A Preferred Units and Series B Preferred Units, the "Preferred Units"), three and a half year warrants (the "Preferred Unit New Warrants"), which will be exercisable to purchase up to 621,649 shares of the New Common Stock as of the Effective Date, subject to dilution; and (ii) to electing holders of Old Vanguard's common units representing limited liability company interests (the "Common Units"), three and a half year warrants (the "Common Unit New Warrants" and, together with the Preferred Unit New Warrants, the "Warrants") which will be exercisable to purchase up to 640,876 shares of the New Common Stock as of the Effective Date,

subject to dilution. The expiration date of the Warrants will be February 1, 2021. The strike price for the Preferred Unit New Warrants is $44.25, and the strike price for the Common Unit New Warrants is $61.45.

Second Amended and Restated Employment Agreements

On August 1, 2017, the Company entered into amended and restated employment agreements (the "Employment Agreements") with each of Scott W. Smith, Richard A. Robert, and Britt Pence (each, an "Executive" and collectively, the "Executives"). The Employment Agreements were effective on the Effective Date, and supersede prior employment agreements dated January 1, 2016. The initial term of the Employment Agreements ends on January 1, 2019, with a subsequent twelve (12) month term extension automatically commencing on January 1, 2019, provided that neither the Company nor the Executives deliver a timely non-renewal notice prior to the expiration date.

The Employment Agreements provide that (i) Mr. Smith is entitled to an annual base salary of $650,000, which will increase to $700,000 on January 1, 2018; (ii) Mr. Robert is entitled to an annual base salary of $490,000, which will increase to $510,000 on January 1, 2018; and (iii) Mr. Pence is entitled to an annual base salary of $450,000, which will increase to $460,000 on January 1, 2018. In addition, the Company's board of directors (the "Board") has the discretion to increase the base salaries of Messrs. Smith, Robert and Pence at any time. Subject to certain terms and conditions, the Board may not reduce an Executive's base salary without his prior written approval.

Each Executive shall be eligible to receive an annual bonus in an amount to be determined by the Board or compensation committee of the Board (the "Compensation Committee"). Furthermore, within five (5) business days of the Effective Date, the Executives will receive quarterly bonuses that accrued from the quarter ended December 31, 2016 through the Effective Date, with the total bonus amounts payable to them being $609,636 for Mr. Smith, $464,272 for Mr. Robert, and $428,595 for Mr. Pence. Each Executive will also be eligible to receive bonus payments through the year ended December 31, 2017 in accordance with Old Vanguard's 2017 pre-emergence annual cash bonus program. The Employment Agreements provide that Messrs. Smith, Robert and Pence are eligible to participate in the benefit programs generally available to senior executives of the Company, including the management incentive plan ("MIP") to be implemented by the Board, in its sole discretion.

In the event of the Company's Change in Control (as defined in the Employment Agreements), the Executives are entitled to certain change in control payments and benefits under the Employment Agreements. If, during the twelve (12) months immediately following the occurrence of a Change of Control of the Company, the Executive is terminated by the Company without Cause or resigns for Good Reason (each as defined below), the Executive will be entitled to receive within ten (10) business days after the date of his termination, accrued compensation and reimbursements listed in the Employment Agreements, and (ii) on the sixtieth (60th) day following the date of termination, a lump sum payment of an amount equaling two (2) times his then-current base-salary and annual bonus.

Under the Employment Agreements, Messrs. Smith, Robert and Pence are entitled to severance payments and benefits upon certain qualifying terminations. Upon a termination by the Company without Cause or termination by any such Executive for Good Reason (and except with respect to a Change of Control within a year of the Effective Date, as described above), the Executive is entitled to receive on the sixtieth (60th) day following the date of termination, a lump sum payment of an amount equal to two and a half (2.5) times the Executive's then-current base salary. Upon an executive's termination by Disability (as defined below) or death, the Executive is entitled to accrued compensation and reimbursements. As a condition to receiving any of the Change of Control or severance payments and benefits provided in the Employment Agreements, the terminated Executive (or his legal representative, as applicable) must execute and not revoke a customary severance and release agreement, including a waiver of all claims.

The Employment Agreements generally define the term "Cause" to mean (i) the Executive's commission of theft, embezzlement, any other act of dishonesty relating to his employment with the Company or any willful violation of any law, rules, or regulation applicable to the Company, including, but not limited to, those laws, rules, or regulations established by the SEC or any self-regulatory organization having jurisdiction or authority over the Executive or the Company; (ii) the Executive's conviction of, or Executive's plea of guilty or *nolo contendere* to, any felony or any other crime involving fraud, dishonesty, or moral turpitude; (iii) a determination by the Board that the Executive has materially breached his Employment Agreement (other than during any period of Disability) where such breach is not remedied within ten (10) business days after written demand by the Board for substantial performance is actually received by the Executive which specifically identifies the manner in which the Board believes the Executive has so breached; or (iv) the Executive's willful failure to perform the reasonable and customary duties of his position as stated in the Employment Agreement which such failure is not remedied within ten (10) business days after written demand by the Board for substantial performance is actually received by the Executive which specifically identifies the nature of such failure.

The Employment Agreements define the term “Good Reason” to mean the following, without the Executive’s written consent: (a) a material reduction in the Executive’s authority, duties, or responsibilities (excluding any changes to the foregoing resulting from the Company’s emergence from the Chapter 11 Cases); (b) a material reduction in the Executive’s base salary, other than a reduction affecting senior management similarly and in no event more than 10% from the Executive’s base salary in effect on that date; (c) the Executive’s removal from his position as stated in the Employment Agreement, other than for Cause or by death or Disability, to a position that is not at least equivalent in authority and duties (excluding his removal as a member of the Board, as applicable); (d) relocation of the Executive’s principal place of business to a location fifty (50) or more miles from its location as of the date of the Employment Agreement; (e) a material breach by the Company of the Employment Agreement, which materially adversely affects the Executive; (f) the Company’s failure to make any material payment to the Executive required to be made under the Employment Agreement, or (g) the Board or the Compensation Committee (x) fails to make grants of initial awards (“Initial Grants”) under the MIP within ninety (90) days following the Effective Date or (y) fails to grant the Executive an Initial Grant substantially equivalent in value, on the award date, to the lesser of (I) Executive’s past equity awards or (II) grants made at median to similarly situated Executives employed by other companies within the Company’s peer group selected by the Board or a committee thereof based on the recommendation of an independent compensation consultant to the Board or a committee thereof.

The Employment Agreements generally define the term “Disability” to mean the Executive’s inability to substantially perform his duties as an employee of the Company as a result of sickness or injury, and continued inability to perform any such duties for a period of more than 180 consecutive days in any 12 month period.

The Employment Agreements contain standard non-competition, non-solicitation and confidentiality provisions.

Debtor-in-Possession Financing

In connection with the Chapter 11 Cases, on February 1, 2017, the Debtors filed a motion (the “DIP Motion”) seeking, among other things, interim and final approval of the Debtors’ use of cash collateral and debtor-in-possession financing on terms and conditions set forth in a proposed Debtor-in-Possession Credit Agreement (the “DIP Credit Agreement”) among VNG (the “DIP Borrower”), the financial institutions or other entities from time to time parties thereto, as lenders, Citibank N.A., as administrative agent (the “DIP Agent”) and as issuing bank. The initial lenders under the DIP Credit Agreement include lenders under the Company’s existing first-lien credit agreement or the affiliates of such lenders. The Bankruptcy Court entered an interim order approving the DIP Credit Agreement, which contained the following terms:

- a revolving credit facility in the aggregate amount of up to $50.0 million, with $15.0 million available on an interim basis;

- proceeds of the DIP Credit Agreement were able to be used by the DIP Borrower to (i) pay certain costs and expenses related to the Chapter 11 Cases, (ii) make payments provided for in the DIP Motion, including in respect of certain “adequate protection” obligations and (iii) fund working capital needs, capital improvements and other general corporate purposes of the DIP Borrower and its subsidiaries, in all cases subject to the terms of the DIP Credit Agreement and applicable orders of the Bankruptcy Court;

- the maturity date of the DIP Credit Agreement was expected to be the earliest to occur of November 1, 2017, forty-five days following the date of the interim order of the Bankruptcy Court approving the DIP Facility on an interim basis, if the Bankruptcy Court had not entered the final order on or prior to such date, or the effective date of a plan of reorganization in the Chapter 11 Cases. In addition, the maturity date may be accelerated upon the occurrence of certain events set forth in the DIP Credit Agreement;

- interest will accrue at a rate per year equal to the LIBOR rate plus 5.5%;

- in addition to fees to be paid to the DIP Agent, the DIP Borrower was required to pay the DIP Agent for the account of the lenders under the DIP Credit Agreement, an unused commitment fee equal to 1.0% of the daily average of each lender’s unused commitment under the DIP Credit Agreement, which was payable in arrears on the last day of each calendar month and on the termination date for the facility for any period for which the unused commitment fee has not previously been paid;

- the obligations and liabilities of the DIP Borrower and its subsidiaries owed to the DIP Agent and lenders under the DIP Credit Agreement and related loan documents were entitled to joint and several super-priority administrative expense claims against each of the DIP Borrower and its subsidiaries in their respective Chapter 11 Cases; subject to

limited exceptions provided for in the DIP Motion, and were secured by (i) a first priority, priming security interest and lien on all encumbered property of the DIP Borrower and its subsidiaries, subject to limited exceptions provided for in the DIP Motion; (ii) a first priority security interest and lien on all unencumbered property of the DIP Borrower and its subsidiaries, subject to limited exceptions provided for in the DIP Motion and (iii) a junior security interest and lien on all property of the DIP Borrower and its subsidiaries subject to (a) a valid, perfected and non-avoidable lien as of the petition date (other than the first priority and second priority prepetition liens) or (b) a valid and non-avoidable lien perfected subsequent to the petition date, in each case subject to limited exceptions provided for in the DIP Motion;

- the sum of unrestricted cash and cash equivalents of the loan parties and undrawn funds under the DIP Credit Agreement shall not be less than $25.0 million at any time; and

- the DIP Credit Agreement was subject to customary covenants, prepayment events, events of default and other provisions.

Throughout the pendency of the Chapter 11 Cases, the Company did not access funds through the DIP Credit Agreement.

Acceleration of Debt Obligations

The commencement of the Chapter 11 Cases described above constituted an event of default that accelerated the Debtors' obligations under the following debt instruments (the Debt Instruments). Any efforts to enforce such obligations under the Debt Documents were stayed automatically as a result of the filing of the Bankruptcy Petitions and the holders' rights of enforcement in respect of the Debt Documents are subject to the applicable provisions of the Bankruptcy Code.

- $1.25 billion in unpaid principal and approximately $0.2 million of undrawn letters of credit, plus interest, fees, and other expenses arising under or in connection with the Reserve-Based Credit Facility.

- $51.12 million in unpaid principal, plus interest, fees, and other expenses arising under or in connection with the Senior Notes due 2019 issued pursuant to that certain Indenture, dated as of May 27, 2011, as amended, by and among the Eagle Rock Energy Partners, L.P.; Eagle Rock Energy Finance Corp., the guarantors named therein, and U.S. Bank, National Association, as indenture trustee. VO became the issuer of the Senior Notes due 2019 pursuant to the Fourth Supplemental Indenture effective as of October 8, 2015, among VO, the Subsidiary Guarantors named therein, as guarantors and U.S. Bank, National Association. Wilmington Trust, National Association, became the successor indenture trustee to the Senior Notes due 2019 in connection with the Chapter 11 Cases.

- $381.83 million in unpaid principal, plus interest, fees, and other expenses arising in connection with the Senior Notes due 2020 issued pursuant to that certain Indenture, dated as of April 4, 2012, among the Predecessor and Successor, as issuers, the Subsidiary Guarantors named therein, as guarantors, and U.S. Bank, National Association, as trustee. UMB Bank, N.A., became the successor indenture trustee to the Senior Notes due 2020 in June 2016.

- $75.63 million in unpaid principal, plus interest, fees, and other expenses arising in connection with the Second Lien Notes issued pursuant to that certain Indenture, dated as of February 10, 2016, among the Predecessor and Successor, as issuers, the Subsidiary Guarantors named therein, as guarantors, and U.S. Bank, National Association, as trustee. The Delaware Trust Company is the successor indenture trustee to the Second Lien Notes.

Amounts outstanding under our prepetition Reserve-Based Credit Facility and Second Lien Secured Notes were not subject to compromise and have been reclassified as current liabilities in the consolidated balance sheet as of June 30, 2017 due to cross-default provisions as a result of the Bankruptcy Petitions. In addition, as discussed below, the unsecured obligations under our Senior Notes due 2020 and Senior Notes 2019 were included in liabilities subject to compromise in the consolidated balance sheet as of June 30, 2017. Any efforts to enforce such obligations under the related Credit Agreement and Indentures are stayed automatically as a result of the filing of the Petitions and the holders' rights of enforcement in respect of the Credit Agreement and Indentures were subject to the applicable provisions of the Bankruptcy Code.

Liabilities Subject to Compromise

Liabilities subject to compromise represent estimates of known or potential prepetition claims expected to be resolved in connection with our Chapter 11 Cases. Due to the uncertain nature of many of the potential claims, the magnitude of potential claims is not reasonably estimable at this time. Potential claims not currently included with liabilities subject to

compromise in our Consolidated Balance Sheets may be material. In addition, differences between amounts we are reporting as liabilities subject to compromise in this Quarterly Report on Form 10-Q and the amounts attributable to such matters claimed by our creditors or approved by the Bankruptcy Court may be material. We will continue to evaluate our liabilities throughout the Chapter 11 process, and we plan to make adjustments in future periods as necessary and appropriate. Such adjustments may be material.

Under the Bankruptcy Code, we had the right to assume, assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. Rejections of contracts or leases, generally (1) were treated as a prepetition breach of the contract or lease, (2) subject to certain exceptions, relieved the Debtors of performing their future obligations under such contract or lease, and (3) entitled the counterparty thereto to a prepetition general unsecured claim for damages caused by such deemed breach. Assumption of executory contracts or unexpired leases, generally required the Company to cure any existing monetary defaults under such contract or lease and provide adequate assurance of future performance to the counterparty. Accordingly, any description of an executory contract or unexpired lease in this Quarterly Report on Form 10-Q, including any quantification of our obligations under any such contract or lease, is wholly qualified by the rejection rights we had under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and we expressly preserve all of our rights with respect thereto.

The following table summarizes the components of liabilities subject to compromise included in our Consolidated Balance Sheets as of June 30, 2017:

	June 30, 2017
	(in thousands)
Accounts payable	$ 1,942
Accrued liabilities	30,639
Senior notes and accrued interest	443,687
Liabilities subject to compromise	$ 476,268

Interest Expense

We have discontinued recording interest on debt classified as liabilities subject to compromise on the Petition Date. Contractual interest on liabilities subject to compromise not reflected in the consolidated statements of operations was approximately $14.3 million, representing interest expense from the Petition Date through June 30, 2017.

Reorganization Items

We use this category to reflect, where applicable, post-petition expenses, gains and losses that are direct and incremental as a result of the reorganization of the business. We have incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations. The following table summarizes the components included in reorganization items on our consolidated statements of operations for six months ended June 30, 2017:

	Six Months Ended June 30, 2017
	(in thousands)
Professional and legal fees [(1)]	$ 34,808
Deferred financing costs and debt discount [(2)]	16,444
Claims for non-performance of executory contracts [(3)]	28,715
Total Reorganization items	$ 79,967

(1) Includes $13.6 million of accrued reorganization costs as of June 30, 2017 representing unpaid professional and legal fees directly related to the Chapter 11 Cases.
(2) Includes a non-cash charge to write off the unamortized debt issuance costs and debt discounts of $16.4 million related to the Senior Notes due 2019 and Senior Notes due 2020 as these debt instruments were impacted by the bankruptcy reorganization process.

(3) Includes accrued and unpaid amounts representing our current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. However, the Chapter 11 Cases raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements and related notes do not include any adjustments related to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities or any other adjustments that would be required should we be unable to continue as a going concern.

3. Acquisitions and Divestitures

Our acquisitions are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *"Business Combinations"* ("ASC Topic 805"). An acquisition may result in the recognition of a gain or goodwill based on the measurement of the fair value of the assets acquired at the acquisition date as compared to the fair value of consideration transferred, adjusted for purchase price adjustments. Any such gain or any loss resulting from the impairment of goodwill is recognized in current period earnings and classified in other income and expense in the accompanying Consolidated Statements of Operations. The initial accounting for acquisitions may not be complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates. The results of operations of the properties acquired in our acquisitions have been included in the consolidated financial statements since the closing dates of the acquisitions. All our acquisitions were funded with borrowings under our Reserve-Based Credit Facility (defined in Note 4), except for certain acquisitions, in which the Company issued units or exchanged assets as described below.

2017 Divestitures

On April 2017, we entered into a purchase and sale agreement, as amended, with a third party buyer for the sale of a substantial portion our oil and gas properties located in Glasscock County, Texas (the "Asset Sale"). The Asset Sale included the sale of leases with a purchase price of $96.9 million which we closed on May 19, 2017 and in a subsequent transaction on June 30, 2017, we closed the sale of wells related to the assets for an adjusted purchase price of $5.2 million, subject to customary post-closing adjustments. In accordance with the Final Plan as defined in Note 2, all net cash proceeds received from the Asset Sale were used to pay the lenders under the Reserve-Based Credit Facility on August 1, 2017, the Effective Date of the Final Plan.

During the six months ended June 30, 2017, we completed sales of certain of our other properties in several different counties within our operating areas for an aggregate consideration of approximately $5.4 million. All cash proceeds received from the sales of these properties during the period were used to fund the Company's operating and capital expenses as well as to cover the cost of the Chapter 11 Cases.

2016 Acquisitions and Divestitures

In January 2016, we completed the acquisition of a 51% joint venture interest in Potato Hills Gas Gathering System, a gathering system located in Latimer County, Oklahoma, including the acquisition of the compression assets relating to the gathering system, for a total consideration of $7.9 million. As part of the acquisition, Vanguard also acquired the seller's rights as manager under the related joint venture agreement. The acquisition was funded with borrowings under our existing Reserve-Based Credit Facility.

In May 2016, we completed the sale of our natural gas, oil and natural gas liquids properties in the SCOOP/STACK area in Oklahoma to entities managed by Titanium Exploration Partners, LLC for $270.5 million, subject to final post-closing adjustments (the "SCOOP/STACK Divestiture"). The Company used $268.4 million of the cash received to reduce borrowings under our Reserve-Based Credit Facility and $2.1 million to pay for some of the transaction fees related to the sale.

During the year ended December 31, 2016, we completed sales of certain of our other properties in several different counties within our operating areas for an aggregate consideration of approximately $28.2 million. All cash proceeds received from the sales of these properties were used to reduce borrowings under our Reserve-Based Credit Facility.

The SCOOP/STACK Divestiture and the sale of other oil and natural gas properties did not significantly alter the relationship between capitalized costs and proved reserves. As such, no gain or loss on sales of oil and natural gas properties were recognized and the sales proceeds were treated as an adjustment to the cost of the properties.

Pro Forma Operating Results

In accordance with ASC Topic 805, presented below are unaudited pro forma results for the six months ended June 30, 2016 to show the effect on our consolidated results of operations as if the SCOOP/STACK Divestiture completed in 2016 had occurred on January 1, 2015.

The pro forma results reflect the elimination of the results of operations from the oil and natural gas properties divested in the SCOOP/STACK Divestiture.

The pro forma information is based upon these assumptions and is not necessarily indicative of future results of operations:

	Pro Forma	
	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(in thousands, except per unit data)	
Total revenues	$ 67,655	$ 215,426
Net loss attributable to Vanguard unitholders	$ (801,885)	$ (931,913)
Net loss per unit		
Common and Class B units - basic and diluted	$ (9.29)	$ (10.93)

The amount of revenues and excess of revenues over direct operating expenses that were eliminated to reflect the impact of the SCOOP/STACK Divestiture in the pro forma results presented above are as follows:

	Pro Forma	
	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(in thousands)	
Revenues	$ 7,386	$ 17,542
Excess of revenues over direct operating expenses	$ 6,222	$ 15,278

4. Debt

Our financing arrangements consisted of the following as of the date indicated:

Description	Interest Rate	Maturity Date	Amount Outstanding	
			June 30, 2017	December 31, 2016
			(in thousands)	
Senior Secured Reserve-Based Credit Facility	Variable (1)	April 16, 2018	$ 1,248,795	$ 1,269,000
Senior Notes due 2019	8.375% (2)	June 1, 2019	51,120	51,120
Senior Notes due 2020	7.875% (3)	April 1, 2020	381,830	381,830
Senior Notes due 2023	7.00%	February 15, 2023	75,634	75,634
Lease Financing Obligation	4.16%	August 10, 2020 (4)	17,845	20,167
Unamortized discount on Senior Notes			—	(13,167)
Unamortized deferred financing costs			(5,272)	(11,072)
Total debt			$ 1,769,952	$ 1,773,512
Less:				
Long-term debt classified as current			(1,319,157)	(1,753,345)
Liabilities subject to compromise (Note 2)			(432,950)	—
Current portion of Lease Financing Obligation			(4,790)	(4,692)
Total long-term debt			$ 13,055	$ 15,475

(1) Variable interest rate was 3.59% and 3.11% at June 30, 2017 and December 31, 2016, respectively.
(2) Effective interest rate was 21.45% at June 30, 2017 and December 31, 2016.
(3) Effective interest rate was 8.00% at June 30, 2017 and December 31, 2016.
(4) The Lease Financing Obligations expire on August 10, 2020, except for certain obligations which expire on July 10, 2021.

Acceleration of Debt Obligations

The Debtors filing of the Bankruptcy Petitions on the Petition Date constituted an event of default that accelerated our indebtedness under our Reserve-Based Credit Facility, our Senior Notes due 2019, Senior Notes due 2020 and our Senior Secured Second Lien Notes, all of which we describe in further detail below. Any efforts to enforce such obligations under the respective Credit Agreement and Indentures were stayed automatically as a result of the filing of the Bankruptcy Petitions and the holders' rights of enforcement in respect of the Credit Agreement and Indentures are subject to the applicable provisions of the Bankruptcy Code. Amounts outstanding under our prepetition Reserve-Based Credit Facility and Senior Secured Second Lien Notes have been reclassified as current liabilities in the consolidated balance sheet as of June 30, 2017 due to cross-default provisions as a result of the Bankruptcy Petitions. These amounts have not been classified as liabilities subject to compromise as we believe the values of the underlying assets provide sufficient collateral to satisfy such obligations. In addition, the unsecured obligations under our Senior Notes due in 2019 and Senior Notes due 2020 are included in liabilities subject to compromise in the consolidated balance sheet as of June 30, 2017.

We accelerated the amortization of the remaining debt issue discount of $12.8 million and debt issue costs of $3.6 million associated with the Senior Notes due 2019 and Senior Notes due 2020, fully amortizing those amounts as of the Petition Date. We entered into a restructuring agreement with the Lenders under our Reserve-Based Credit Facility, along with the Restructuring Support Agreement with certain holders of the Senior Secured Second Lien Notes, that was approved by the Bankruptcy Court. Accordingly, we have not accelerated the amortization of the remaining debt issue costs related to the Reserve-Based Credit Facility and Senior Secured Second Lien Notes.

Since the commencement of the Bankruptcy Petitions, no interest has been paid to the holders of the Senior Notes due 2019 and Senior Notes due 2020. Also, in accordance with ASC 852, *Reorganizations*, we have accrued interest expense on the Senior Notes due 2019 and Senior Notes due 2020 only up to the Petition Date. The total amount accrued of $10.7 million is reflected as liabilities subject to compromise on the consolidated balance sheet as of June 30, 2017. In addition, contractual interest on liabilities subject to compromise not reflected in the consolidated statements of operations was approximately $14.3 million, representing interest expense from the Petition Date through June 30, 2017. We continue to accrue interest on the Reserve-Based Credit Facility and Senior Secured Second Lien Notes subsequent to the Petition Date since we anticipate such interest will be allowed by the Bankruptcy Court to be paid to the Lenders. During the Chapter 11 Cases, we made interest payments under the Reserve-Based Credit Facility to the extent required by order of the Bankruptcy Court. Also, no interest was paid to the holders of the Senior Secured Second Lien Notes subsequent to the Petition Date.

Additional information regarding the Chapter 11 cases is included in Note 2. *Chapter 11 Cases.*

Senior Secured Reserve-Based Credit Facility

The Company's Third Amended and Restated Credit Agreement (the "Credit Agreement") provided a maximum credit facility of $3.5 billion and a borrowing base of $1.1 billion (the "Reserve-Based Credit Facility"). As of June 30, 2017 there were approximately $1.2 billion of outstanding borrowings and approximately $0.2 million in outstanding letters of credit resulting in a borrowing deficiency of $148.9 million under the Reserve-Based Credit Facility.

The Reserve-Based Credit Facility was secured by a first priority security interest in and lien on substantially all of the Debtors' assets, including the proceeds thereof and after-acquired property. Therefore, upon the acceleration as a consequence of the commencement of the Chapter 11 Cases, we reclassified the amount outstanding under our Reserve-Based Credit Facility to current portion of long-term debt, as the principal became immediately due and payable. However, any efforts to enforce such payment obligations were automatically stayed as a result of the filing of the Bankruptcy Petitions. Pursuant to the Final Plan, we entered into a new Company reserve-based lending facility (the "New Facility") on terms substantially the same as the Reserve-Based Credit Facility and provided by the same lenders under the prepetition Reserve-Based Credit Facility.

Pursuant to the Plan, on the Effective Date, the Predecessor's obligations with respect to the Credit Agreement were canceled and discharged, and the Successor entered into the Exit Facility. See Note 2 for more information.

Debtor-in-Possession Financing

In connection with the Chapter 11 Cases, on February 1, 2017, the Debtors filed a motion (the "DIP Motion") seeking, among other things, interim and final approval of the Debtors' use of cash collateral and debtor-in-possession financing on terms and conditions set forth in a proposed Debtor-in-Possession Credit Agreement (the "DIP Credit Agreement") among VNG (the "DIP Borrower"), the financial institutions or other entities from time to time parties thereto, as lenders, Citibank N.A., as administrative agent (the "DIP Agent") and as issuing bank. The initial lenders under the DIP Credit Agreement included lenders under the Company's existing first-lien credit agreement or the affiliates of such lenders.

Throughout the pendency of the Chapter 11 Cases, the Company did not access funds through the DIP Credit Agreement.

Letters of Credit

At June 30, 2017, we had unused irrevocable standby letters of credit of approximately $0.2 million. The letters are being maintained as security related to the issuance of oil and natural gas well permits to recover potential costs of repairs, modification, or construction to remedy damages to properties caused by the operator. Borrowing availability for the letters of credit was provided under our Reserve-Based Credit Facility. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with marketing counterparties.

8.375% Senior Notes Due 2019

At June 30, 2017, we had $51.1 million outstanding in aggregate principal amount of Senior Notes due 2019. The Senior Notes due 2019 were assumed by VO in connection with the Eagle Rock Merger.

Pursuant to the Plan, on the Effective Date, the Predecessor's obligations with respect to the Senior Notes due 2019 were canceled and discharged. See Note 2 for more information.

7.875% Senior Notes Due 2020

At June 30, 2017, we had $381.8 million outstanding in aggregate principal amount of Senior Notes due 2020. The issuers of the Senior Notes due 2020 were the Predecessor and the prepetition Successor, which at the time had no independent assets or operations.

Pursuant to the Plan, on the Effective Date, the Predecessor's obligations with respect to the Senior Notes due 2020 were canceled and discharged. See Note 2 for more information.

7.0% Senior Secured Second Lien Notes Due 2023

On February 10, 2016, we issued approximately $75.6 million aggregate principal amount of new 7.0% Senior Secured Second Lien Notes due 2023 (the "Senior Secured Second Lien Notes") to certain eligible holders of our outstanding 7.875% Senior Notes due 2020 in exchange for approximately $168.2 million aggregate principal amount of the Senior Notes due 2020 held by such holders.

The exchanges were accounted for as an extinguishment of debt. As a result, we recorded a gain on extinguishment of debt of $89.7 million for the six months ended June 30, 2016, which is the difference between the aggregate fair market value of the Senior Secured Second Lien Notes issued and the carrying amount of Senior Notes due 2020 extinguished in the exchange, net of unamortized bond discount and deferred financing costs, of $165.3 million.

Pursuant to the Plan, on the Effective Date, the Predecessor's obligations with respect to the Old Second Lien Notes were canceled and discharged, and the Company issued the New Notes. See Note 2 for more information.

Lease Financing Obligations

On October 24, 2014, as part of our acquisition of certain natural gas, oil and NGLs assets in the Piceance Basin, we entered into an assignment and assumption agreement with Banc of America Leasing & Capital, LLC as the lead bank, whereby we acquired compressors and related facilities and assumed the related financing obligations (the "Lease Financing Obligations"). Certain rights, title, interest and obligations under the Lease Financing Obligations have been assigned to several lenders and are covered by separate assignment agreements, which expire on August 10, 2020 and July 10, 2021. We have the option to purchase the equipment at the end of the lease term for the current fair market value. The Lease Financing Obligations also contain an early buyout option whereby the Company may purchase the equipment for $16.0 million on February 10, 2019. The lease payments related to the equipment are recognized as principal and interest expense based on a weighted average implicit interest rate of 4.16%.

During the course of the Chapter 11 Cases, the Company assumed the Lease Financing Obligations.

5. Price and Interest Rate Risk Management Activities

In October and December 2016, we monetized substantially all of our commodity and interest rate hedge agreements for total proceeds of approximately $54.0 million. We used the net proceeds from the hedge settlements to make the deficiency payments under our Reserve-Based Credit Facility.

In June 2017, we entered into derivative contracts primarily with counterparties that are also lenders under our Reserve-Based Credit Facility to hedge price risk associated with a portion of our oil, natural gas and NGLs production. While it is never management's intention to hold or issue derivative instruments for speculative trading purposes, conditions sometimes arise where actual production is less than estimated which has, and could, result in over hedged volumes. Pricing for these derivative contracts is based on certain market indexes and prices at our primary sales points.

We have also historically entered into fixed LIBOR interest rate swap agreements with certain counterparties that are lenders under our Reserve-Based Credit Facility, which require exchanges of cash flows that serve to synthetically convert a portion of our variable interest rate obligations to fixed interest rates.

The following tables summarize oil, natural gas, and NGL commodity derivative contracts in place at June 30, 2017.

Fixed-Price Swaps (NYMEX)

	Gas		Oil		NGLs	
Contract Period	MMBtu	Weighted Average Fixed Price	Bbls	Weighted Average WTI Price	Bbls	Weighted Average Fixed Price
August 1, 2017 – December 31, 2017	22,950,000	$ 3.12	1,365,100	$ 45.20	627,300	$ 26.42
January 1, 2018 – December 31, 2018	48,800,000	$ 3.02	3,059,200	$ 46.47	1,350,500	$ 25.37
January 1, 2019 - December 31, 2019	20,637,500	$ 2.86	821,250	$ 47.42	—	$ —
January 1, 2020 - December 31, 2020	11,895,000	$ 2.79	622,200	$ 48.92	—	$ —

Collars

	Gas		Oil	
	Floor Price	Ceiling Price	Floor Price	Ceiling Price

Contract Period	MMBtu	($/MMBtu)	($/MMBtu)	Bbls	($/Bbl)	($/Bbl)
January 1, 2019 - December 31, 2019	4,125,000	$ 2.60	$ 3.00	273,750	$ 42.50	$ 53.60
January 1, 2020 - December 31, 2020	5,490,000	$ 2.60	$ 3.00	219,600	$ 42.50	$ 56.10

Balance Sheet Presentation

Our commodity derivatives and interest rate swap derivatives are presented on a net basis in “derivative assets” and “derivative liabilities” on the Consolidated Balance Sheets as governed by the International Swaps and Derivatives Association Master Agreement with each of the counterparties. The following table summarizes the gross fair values of our derivative instruments, presenting the impact of offsetting the derivative assets and liabilities on our Consolidated Balance Sheets for the periods indicated (in thousands):

	June 30, 2017		
Offsetting Derivative Assets:	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Presented in the Consolidated Balance Sheets**
Commodity price derivative contracts	$ 4,122	$ (4,122)	$ —
Total derivative instruments	$ 4,122	$ (4,122)	$ —

Offsetting Derivative Liabilities:	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts Presented in the Consolidated Balance Sheets**
Commodity price derivative contracts	$ (16,997)	$ 4,122	$ (12,875)
Total derivative instruments	$ (16,997)	$ 4,122	$ (12,875)

	December 31, 2016
	Amount Presented in the Consolidated Balance Sheets
Derivative Liabilities:	
Interest rate derivative contracts	$ (125)
Total derivative instruments	$ (125)

By using derivative instruments to economically hedge exposures to changes in commodity prices and interest rates, we expose ourselves to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit

risk. All of our counterparties were participants in our Reserve-Based Credit Facility (see Note 4. for further discussion), which is secured by our oil and natural gas properties; therefore, we were not required to post any collateral. The maximum amount of loss due to credit risk that we would incur if our counterparties failed completely to perform according to the terms of the contracts, based on the gross fair value of financial instruments, was approximately $4.1 million at June 30, 2017. We minimize the credit risk related to derivative instruments by: (i) entering into derivative instruments with counterparties that our also lenders in our Reserve-Based Credit Facility and (ii) monitoring the creditworthiness of our counterparties on an ongoing basis

Changes in fair value of our commodity and interest rate derivatives for the six months ended June 30, 2017 and the year ended December 31, 2016 are as follows:

	Six Months Ended June 30, 2017	Year Ended December 31, 2016
	(in thousands)	
Derivative liability at beginning of period, net	$ (125)	$ 316,691
Purchases		
Net premiums and fees received for derivative contracts	—	(2,444)
Net losses on commodity and interest rate derivative contracts	(12,838)	(46,939)
Settlements		
Cash settlements received on matured commodity derivative contracts	(7)	(226,876)
Cash settlements paid on matured interest rate derivative contracts	95	13,398
Termination of derivative contracts	—	(53,955)
Derivative liability at end of period, net	$ (12,875)	$ (125)

6. Fair Value Measurements

We estimate the fair values of financial and non-financial assets and liabilities under ASC Topic 820 *"Fair Value Measurements and Disclosures"* ("ASC Topic 820"). ASC Topic 820 provides a framework for consistent measurement of fair value for those assets and liabilities already measured at fair value under other accounting pronouncements. Certain specific fair value measurements, such as those related to share-based compensation, are not included in the scope of ASC Topic 820. Primarily, ASC Topic 820 is applicable to assets and liabilities related to financial instruments, to some long-term investments and liabilities, to initial valuations of assets and liabilities acquired in a business combination, recognition of asset retirement obligations and to long-lived assets written down to fair value when they are impaired. It does not apply to oil and natural gas properties accounted for under the full cost method, which are subject to impairment based on SEC rules. ASC Topic 820 applies to assets and liabilities carried at fair value on the Consolidated Balance Sheets, as well as to supplemental information about the fair values of financial instruments not carried at fair value.

We have applied the provisions of ASC Topic 820 to assets and liabilities measured at fair value on a recurring basis, which includes our commodity and interest rate derivatives contracts, and on a nonrecurring basis, which includes goodwill, acquisitions of oil and natural gas properties and other intangible assets. ASC Topic 820 provides a definition of fair value and a framework for measuring fair value, as well as expanding disclosures regarding fair value measurements. The framework requires fair value measurement techniques to include all significant assumptions that would be made by willing participants in a market transaction.

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 provides a hierarchy of fair value measurements, based on the inputs to the fair value estimation process. It requires disclosure of fair values classified according to the "levels" described below. The hierarchy is based on the reliability of the inputs used in estimating fair value and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The framework for fair value measurement assumes that transparent "observable" (Level 1) inputs generally provide the most reliable evidence of fair value and should be used to measure fair value whenever available. The classification of a fair value measurement is determined based on the lowest level (with Level 3 as the lowest) of significant input to the fair value estimation process.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices for identical instruments in active markets.
Level 2	Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3	Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 assets and liabilities generally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation or for which there is a lack of transparency as to the inputs used.

As required by ASC Topic 820, financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Financing arrangements. The carrying amounts of our bank borrowings outstanding represent their approximate fair value because our current borrowing rates do not materially differ from market rates for similar bank borrowings. We consider this fair value estimate as a Level 2 input. As of June 30, 2017, the fair value of our Senior Notes due 2020 was estimated to be $11.5 million, our Senior Notes due 2019 was estimated to be $3.1 million and our Senior Secured Second Lien Notes was estimated to be $74.3 million. We consider the inputs to the valuation of our Senior Notes and our Senior Secured Second Lien Notes to be Level 1, as fair value was estimated based on prices quoted from a third-party financial institution.

Derivative instruments. Our commodity derivative instruments consist of fixed-price swaps and collars. We account for our commodity derivatives and interest rate derivatives at fair value on a recurring basis. We estimate the fair values of the fixed-price swaps based on published forward commodity price curves for the underlying commodities as of the date of the estimate. We estimate the option value of the contract floors and ceilings using an option pricing model which takes into account market volatility, market prices and contract parameters. The discount rate used in the discounted cash flow projections is based on published LIBOR rates, Eurodollar futures rates and interest swap rates.

As of December 31, 2016, we had one remaining interest rate swap derivative contract, which expired in February 2017. In order to estimate the fair value of our interest rate swaps, we use a yield curve based on money market rates and interest rate swaps, extrapolate a forecast of future interest rates, estimate each future cash flow, derive discount factors to value the fixed and floating rate cash flows of each swap, and then discount to present value all known (fixed) and forecasted (floating) swap cash flows. We consider the fair value estimate for these derivative instruments as a Level 2 input.

Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. Management validates the data provided by third parties by understanding the pricing models used, analyzing pricing data in certain situations and confirming that those securities trade in active markets. Assumed credit risk adjustments, based on published credit ratings, public bond yield spreads and credit default swap spreads, are applied to our commodity derivatives and interest rate derivatives.

Financial assets and financial liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	June 30, 2017	
	Fair Value Measurements Using Level 2	Assets/Liabilities at Fair Value
Liabilities:		
Commodity price derivative contracts	$ (12,875)	$ (12,875)
Total derivative instruments	$ (12,875)	$ (12,875)

	December 31, 2016	
	Fair Value Measurements Using Level 2	Assets/Liabilities at Fair Value
Liabilities:		
Interest rate derivative contracts	$ (125)	$ (125)
Total derivative instruments	$ (125)	$ (125)

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 (unobservable inputs) in the fair value hierarchy:

	Six Months Ended June 30, 2016
	(in thousands)
Unobservable inputs, beginning of period	$ (5,933)
Total gains	6,922
Settlements	(3,225)
Unobservable inputs, end of period	$ (2,236)
Change in fair value included in earnings related to derivatives still held as of June 30,	$ 589

During periods of market disruption, including periods of volatile oil and natural gas prices, there may be certain asset classes that were in active markets with observable data that become illiquid due to changes in the financial environment. In such cases, more derivative instruments, other than the range bonus accumulators, may fall to Level 3 and thus require more subjectivity and management judgment. Further, rapidly changing commodity and unprecedented credit and equity market conditions could materially impact the valuation of derivative instruments as reported within our consolidated financial

statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

We apply the provisions of ASC Topic 350 "*Intangibles-Goodwill and Other*." Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in business combinations. Goodwill is assessed for impairment annually on October 1 or whenever indicators of impairment exist. The goodwill test is performed at the reporting unit level, which represents our oil and natural gas operations in the United States. If indicators of impairment are determined to exist, an impairment charge is recognized if the carrying value of goodwill exceeds its implied fair value. We utilize a market approach to determine the fair value of our reporting unit. Any sharp prolonged decreases in the prices of oil and natural gas as well as any continued declines in the quoted market price of the Company's units could change our estimates of the fair value of our reporting unit and could result in an impairment charge.

Our nonfinancial assets and liabilities that are initially measured at fair value are comprised primarily of assets acquired in business combinations and asset retirement costs and obligations. These assets and liabilities are recorded at fair value when acquired/incurred but not re-measured at fair value in subsequent periods. We classify such initial measurements as Level 3 since certain significant unobservable inputs are utilized in their determination. A reconciliation of the beginning and ending balance of our asset retirement obligations is presented in Note 7, in accordance with ASC Topic 410-20 "*Asset Retirement Obligations.*" During the six months ended June 30, 2017, in connection with new wells drilled, we incurred and recorded asset retirement obligations totaling $0.3 million, at fair value and also recorded a $0.03 million reduction due to a change in estimate as a result of revisions to the timing or the amount of our original undiscounted estimated asset retirement costs during the six months ended June 30, 2017. During the year ended December 31, 2016, in connection with the new wells drilled, we incurred and recorded asset retirement obligations totaling $0.7 million, at fair value. In addition, we recorded a $1.3 million change in estimate as a result of revisions to the timing or the amount of our original undiscounted estimated asset retirement costs during the year ended December 31, 2016. The fair value of additions to the asset retirement obligation liability is measured using valuation techniques consistent with the income approach, converting future cash flows to a single discounted amount. Inputs to the valuation include: (1) estimated plug and abandonment cost per well based on our experience; (2) estimated remaining life per well based on average reserve life per field; (3) our credit-adjusted risk-free interest rate ranging between 4.7% and 5.5%; and (4) the average inflation factor ranging between 1.8% and 2.0%. These inputs require significant judgments and estimates by the Company's management at the time of the valuation and are the most sensitive and subject to change.

7. Asset Retirement Obligations

The asset retirement obligations as of June 30, 2017 and December 31, 2016 reported on our Consolidated Balance Sheets and the changes in the asset retirement obligations for the six months ended June 30, 2017 and the year ended December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
Asset retirement obligations, beginning of period	$ 272,436	$ 271,456
Liabilities added during the current period	299	713
Accretion expense	5,813	12,145
Retirements	(946)	(2,230)
Liabilities related to assets divested	(8,160)	(10,915)
Change in estimate	(29)	1,267
Asset retirement obligation, end of period	269,413	272,436
Less: current obligations	(8,400)	(7,884)
Long-term asset retirement obligation, end of period	$ 261,013	$ 264,552

Each year the Company reviews and, to the extent necessary, revises its asset retirement obligation estimates. During the six months ended June 30, 2017 and year ended December 31, 2016, the Company reviewed actual abandonment costs with previous estimates and as a result, decreased its estimates of future asset retirement obligations by $0.03 million and increased its estimates of future asset retirement obligations by $1.3 million, respectively, to reflect revised estimates to be incurred for plugging and abandonment costs.

8. Commitments and Contingencies

Transportation Demand Charges

As of June 30, 2017, we have contracts that provide firm transportation capacity on pipeline systems. The remaining terms on these contracts range from four months to three years and require us to pay transportation demand charges regardless of the amount of pipeline capacity we utilize.

The values in the table below represent gross future minimum transportation demand charges we are obligated to pay as of June 30, 2017. However, our financial statements will reflect our proportionate share of the charges based on our working interest and net revenue interest, which will vary from property to property.

	June 30, 2017 (in thousands)
July 1, 2017 - December 31, 2017	$ 760
2018	1,009
2019	820
2020	410
Total	$ 2,999

As part of our Chapter 11 Cases, we rejected significant contracts for transportation via the Rockies Express Pipeline and the East Tennessee Natural Gas Pipeline. These rejected contracts total $24.9 million in gross future minimum transportation demand charges and are not included in the table above. We have accrued the amounts due to these parties of $20.0 million representing our current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases. The accruals are reflected as liabilities subject to compromise on the consolidated balance sheet as of June 30, 2017.

Legal Proceedings

We are defendants in certain legal proceedings arising in the normal course of our business. We are also a party to separate legal proceedings relating to (i) our merger with LRR Energy, L.P. (the “LRE Merger Litigation”), and (ii) our exchange (the Debt Exchange) of the Senior Notes due 2020 for the Senior Secured Second Lien Notes (please read Note 4. Debt of the Notes to the Consolidated Financial Statements for further discussion). Since the filing of our 2016 Annual Report on Form 10-K, there have been no material developments with respect to the legal proceedings related to the Debt Exchange litigation.

With respect to the LRE Merger Litigation, the court in the LRE Merger Litigation has denied the defendants’ motion to dismiss and set the lawsuit for a one-week jury trial beginning on February 11, 2019. The parties are currently engaged in the pre-trial discovery process. For more information concerning the LRE Merger Litigation, please see our 2016 Annual Report on Form 10-K.

Pursuant to 11 U.S.C. § 362, our legal proceedings are automatically stayed as to the debtors, subject to reinstatement when either the Chapter 11 Cases are terminated or the automatic stay is lifted. Please see Note 2. Chapter 11 Cases for information regarding our Chapter 11 Cases.

While the outcome and impact of such legal proceedings on the Company cannot be predicted with certainty, management does not believe that it is probable that the outcome of these actions will have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flow. In addition, we are not aware of any legal or governmental proceedings against us, or contemplated to be brought against us, under the various environmental protection statutes to which we are subject.

9. Members’ Deficit and Net Loss per Common and Class B Unit

Effect of Filing on Unitholders

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, prepetition liabilities and post-petition liabilities must be satisfied in full before the holders of our Series A Preferred Units, Series B Preferred Units, Series C Preferred Units and Common and Class B Units are entitled to receive any distribution or retain any property under a plan of reorganization.

Our common units, Class B units and Preferred Units were accounted for at their carrying value through the Effective Date of the reorganization.

Cumulative Preferred Units

The following table summarizes the Company's Cumulative Preferred Units outstanding at June 30, 2017 and December 31, 2016:

				June 30, 2017		December 31, 2016	
	Earliest Redemption Date	Liquidation Preference Per Unit	Distribution Rate	Units Outstanding	Carrying Value (in thousands)	Units Outstanding	Carrying Value (in thousands)
Series A	June 15, 2023	$25.00	7.875%	2,581,873	$ 62,200	2,581,873	$ 62,200
Series B	April 15, 2024	$25.00	7.625%	7,000,000	$ 169,265	7,000,000	$ 169,265
Series C	October 15, 2024	$25.00	7.75%	4,300,000	$ 103,979	4,300,000	$ 103,979
Total Cumulative Preferred Units				13,881,873	$ 335,444	13,881,873	$ 335,444

On February 25, 2016, our board of directors elected to suspend cash distributions to the holders of our common and Class B units and Cumulative Preferred Units effective with the February 2016 distribution. As a result of the Chapter 11 Cases, we stopped accruing dividends on Preferred Units as of the Petition date. As of June 30, 2017, dividends in arrears related to our Preferred Units were $5.1 million, $13.3 million and $8.3 million, respectively.

Pursuant to the Plan, on the Effective Date, the Preferred Units were canceled. See Note 2 for more information.

Common and Class B Units

The common units represent limited liability company interests. Holders of Class B units have substantially the same rights and obligations as the holders of common units.

The following is a summary of the changes in our common units issued during the six months ended June 30, 2017 and the year ended December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Beginning of period	131,009	130,477
Unit-based compensation	(30)	532
End of period	130,979	131,009

There was no change in issued and outstanding Class B units during the six months ended June 30, 2017 or the year ended December 31, 2016.

Pursuant to the Plan, on the Effective Date, the common units and Class B units were canceled. See Note 2 for more information.

Net Loss per Common and Class B Unit

Basic net income per common and Class B unit is computed in accordance with ASC Topic 260 "*Earnings Per Share*" ("ASC Topic 260") by dividing net income attributable to common and Class B unitholders, which reflects all accumulated distributions on Cumulative Preferred Units, including distributions in arrears, by the weighted average number of units outstanding during the period. Diluted net income (loss) per common and Class B unit is computed by adjusting the average number of units outstanding for the dilutive effect, if any, of unit equivalents. We use the treasury stock method to determine the dilutive effect. Class B units participate in distributions; therefore, all Class B units were considered in the computation of basic net income (loss) per unit. The Cumulative Preferred Units have no participation rights and accordingly are excluded from the computation of basic net income (loss) per unit.

For the three months ended June 30, 2017 and 2016, 13,472,608 and 2,633,333 phantom units were excluded from the calculation of diluted earnings per unit, respectively, due to their antidilutive effect as we were in a loss position. For the six

months ended June 30, 2017 and 2016, 13,562,608 and 2,633,333 phantom units were excluded from the calculation of diluted earnings per unit, respectively, due to their antidilutive effect as we were also in a loss position.

Distributions Declared

The following table shows the distribution amount per unit, declared date, record date and payment date of the cash distributions we paid on each of our common and Class B units attributable to each period presented.

Our board of directors elected to suspend cash distributions to the holders of our common and Class B units and Preferred Units effective with the February 2016 distribution.

	Cash Distributions			
Distribution	**Per Unit**	**Declared Date**	**Record Date**	**Payment Date**
2016				
First Quarter				
January	$ 0.0300	February 18, 2016	March 1, 2016	March 15, 2016
2015				
Fourth Quarter				
December	$ 0.0300	January 20, 2016	February 1, 2016	February 12, 2016

10. Unit-Based Compensation

Long-Term Incentive Plan

The Vanguard Natural Resources, LLC Long-Term Incentive Plan (the "VNR LTIP") was adopted by the Board of Directors of the Company to compensate employees and nonemployee directors of the Company and its affiliates who perform services for the Company under the terms of the plan. The VNR LTIP is administered by the compensation committee of the board of directors (the "Compensation Committee") and permits the grant of unrestricted units, restricted units, phantom units, unit options and unit appreciation rights.

Restricted and Phantom Units

A restricted unit is a unit grant that vests over a period of time and that during such time is subject to forfeiture. A phantom unit grant represents the equivalent of one common unit of the Company. The phantom units, once vested, are settled through the delivery of a number of common units equal to the number of such vested units, or an amount of cash equal to the fair market value of such common units on the vesting date to be paid in a single lump sum payment, as determined by the compensation committee in its discretion. The Compensation Committee were able to grant tandem distribution equivalent rights ("DERs") with respect to the phantom units that entitle the holder to receive the value of any distributions made by us on our units while the phantom units were outstanding.

The fair value of restricted unit and phantom unit awards was measured based on the fair market value of the Company units on the date of grant. The values of restricted unit grants and phantom unit grants that were required to be settled in units were recognized as expense over the vesting period of the grants with a corresponding charge to members' equity. When the Company had the option to settle the phantom unit grants by issuing Company units or through cash settlement, the Company recognized the value of those grants utilizing the liability method as defined under ASC Topic 718 based on the Company's historical practice of settling phantom units predominantly in cash. The fair value of liability awards was remeasured at each reporting date through the settlement date with the change in fair value recognized as compensation expense over that period.

Executive Employment Agreements

On March 18, 2016, we and VNRH entered into new amended and restated executive employment agreements (the "2016 Agreements") with each of our three executive officers, Messrs. Smith, Robert and Pence in order to set forth in writing the revised terms of each executive's employment relationship with VNRH. The 2016 Agreements were effective January 1, 2016 and the initial term of the 2016 Agreements ends on January 1, 2019, with a subsequent twelve-month term extension automatically commencing on January 1, 2019 and each successive January 1 thereafter, provided that neither VNRH nor the

executives deliver a timely non-renewal notice prior to a term expiration date.

The 2016 Agreements provide for the executive officers an annual base salary and eligibility to receive an annual performance-based cash bonus award. The annual bonus will be calculated based upon four Company performance components: adjusted EBITDA results, production results, lease operating expenses, and cash general and administrative expenses, as well as a fifth component determined solely in the discretion of our board of directors. As a result of the Chapter 11 Cases, the executive officers did not receive a payout of any compensation related to the performance-based cash bonus award in 2017. However, we recognized total compensation expense related to these arrangements of $0.5 million and $0.7 million for the three months ended June 30, 2017 and 2016, respectively, and $1.0 million and $1.2 million for the six months ended June 30, 2017 and 2016, respectively, which was classified in the selling, general and administrative expenses line item in the Consolidated Statement of Operations. In addition, as of June 30, 2017, we recognized an accrued liability of $1.4 million for the unpaid performance-based cash bonus award including a $0.4 million accrual for the unpaid portion of the 2016 performance-based cash bonus award. The accrual is included in liabilities subject to compromise on the Consolidated Balance Sheets as of June 30, 2017.

Under the 2016 Agreements, the executives were also eligible to receive annual equity-based compensation awards, consisting of restricted units and/or phantom units granted under the VNR LTIP. Any restricted units and phantom units granted to executives under the 2016 Agreements are subject to a three-year vesting period. One-third of the aggregate number of the units vest on each one-year anniversary of the date of grant so long as the executive remains continuously employed with the Company. Both the restricted and phantom units included tandem grant of DERs. Pursuant to the Final Plan, all unvested equity grants outstanding immediately before the Effective Date were canceled and are of no further force or effect as of the Effective Date.

Pursuant to the Plan, on the Effective Date, the Successor entered into the Amended and Restated Employment Agreements with Messrs. Smith, Robert and Pence. See Note 2 for more information.

Unit Grants

In January 2017, the executives were granted a total of 10,611,940 phantom units in accordance with the 2016 Agreements. Also, during the six months ended June 30, 2017, our three independent board members were granted a total of 480,768 phantom units which were intended to vest one year from the date of grant.

Restricted Units

A summary of the status of the non-vested restricted units as of June 30, 2017 is presented below:

	Number of Non-vested Restricted Units		Weighted Average Grant Date Fair Value
Non-vested restricted units at December 31, 2016	647,784	$	19.14
Forfeited	(11,958)	$	17.69
Vested	(257,497)	$	20.80
Non-vested restricted units at June 30, 2017	378,329	$	18.07

At June 30, 2017, there was approximately $2.4 million of unrecognized compensation cost related to non-vested restricted units. The cost is expected to be recognized over an average period of approximately less than a year. Our Consolidated Statements of Operations reflect non-cash compensation related to restricted unit grants of $0.9 million and $1.4 million in the selling, general and administrative expenses line item for the three months ended June 30, 2017 and 2016, respectively, and $1.7 million and $2.6 million for the six months ended June 30, 2017 and 2016, respectively.

Phantom Units

A summary of the status of the non-vested phantom units under the VNR LTIP as of June 30, 2017 is presented below:

	Number of Non-vested Phantom Units	Weighted Average Grant Date Fair Value
Non-vested phantom units at December 31, 2016	3,628,529	$ 2.96
Granted	11,092,708	$ 0.67
Forfeited	(54,562)	$ 2.11
Vested	(956,830)	$ 4.31
Non-vested phantom units at June 30, 2017	13,709,845	$ 1.02

At June 30, 2017, there were approximately $10.7 million of unrecognized compensation cost related to non-vested phantom units. The cost is expected to be recognized over an average period of approximately 1.6 years. Our Consolidated Statements of Operations reflect non-cash compensation related to phantom unit grants of $1.6 million and $1.2 million in the selling, general and administrative expense line item for the three months ended June 30, 2017 and 2016, respectively, and $3.4 million and $2.4 million for the six months ended June 30, 2017 and 2016, respectively.

Effect of Emergence from Bankruptcy on Unit-Based Compensation

Pursuant to the Final Plan, all unvested equity grants outstanding immediately before the Effective Date were canceled and of no further force or effect as of the Effective Date. In addition, on the Effective Date, the VNR LTIP was canceled and extinguished, and participants in the VNR LTIP received no payment or other distribution on account of the VNR LTIP.

11. Shelf Registration Statements

Prior to the entry into the Chapter 11 Cases, the Company had an effective universal shelf registration statement on Form S-3, as amended (File No. 333-210329), filed with the SEC, under which the Company registered an indeterminate amount of common units, Preferred Units, debt securities and guarantees of debt securities. The Company also had on file with the SEC a post-effective shelf registration statement on Form S-3, as amended (File No. 333-207357), under which the Company registered up to 14,593,606 common units. Finally, the Company had previously registered an indeterminate amount of common units, Preferred Units, debt securities and guarantees of debt securities under a registration statement on Form S-3, as amended (File No. 333-202064). Following the Effective Date, the Company filed post-effective amendments to the shelf registration statements to deregister the securities.

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

The historical consolidated financial statements included in this Quarterly Report on Form 10-Q (this "Quarterly Report") reflect all of the assets, liabilities and results of operations of Vanguard Natural Resources, Inc. and its consolidated subsidiaries. The following discussion analyzes the financial condition and results of operations of Vanguard for the six months ended June 30, 2017 and 2016. Unitholders should read the following discussion and analysis of the financial condition and results of operations for Vanguard in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report") and the historical unaudited consolidated financial statements and notes of the Company included elsewhere in this Quarterly Report.

When referring to Vanguard Natural Resources, Inc. (formerly known as VNR Finance Corp. and also referred to as "Successor," "Reorganized Vanguard" or the "Company"), the intent is to refer to Vanguard Natural Resources, Inc. and its consolidated subsidiaries as a whole or an individual basis, depending on the context in which the statements are made. Vanguard Natural Resources, Inc. became the successor reporting company of Vanguard Natural Resources, LLC ("Old Vanguard") pursuant to Rule 15d-5 of the Exchange Act on August 1, 2017. When referring to the "Predecessor" or the "Company" in reference to the period prior to the emergence from bankruptcy, the intent is to refer to Old Vanguard, the predecessor that assigned all of its assets to Reorganized Vanguard pursuant to the Plan (as defined below) on August 1, 2017 (the "Effective Date"), and its consolidated subsidiaries on a whole or on an individual basis, depending on the context in which the statements are made.

Overview

We are an independent oil and gas company focused on the acquisition and development of mature, long-lived oil and natural gas properties in the United States. Through our operating subsidiaries, as of June 30, 2017, we own properties and oil and natural gas reserves primarily located in ten operating basins:

- the Green River Basin in Wyoming;
- the Piceance Basin in Colorado;
- the Permian Basin in West Texas and New Mexico;
- the Gulf Coast Basin in Texas, Louisiana, Mississippi and Alabama;
- the Arkoma Basin in Arkansas and Oklahoma;
- the Big Horn Basin in Wyoming and Montana;
- the Anadarko Basin in Oklahoma and North Texas;
- the Williston Basin in North Dakota and Montana;
- the Wind River Basin in Wyoming; and
- the Powder River Basin in Wyoming.

As of June 30, 2017, based on internal reserve estimates, our total estimated proved reserves were 1,390 Bcfe, of which approximately 66% were natural gas reserves, 18% were oil reserves and 16% were NGLs reserves. All of our estimated reserves were classified as proved developed. As of December 31, 2016, the Company removed all PUD reserves from its total proved reserve estimate due to uncertainty regarding the availability of capital that would be required to develop the PUD reserves. Also, at June 30, 2017, we owned working interests in 11,930 gross (4,337 net) productive wells. Our operated wells accounted for approximately 61% of our total estimated proved reserves at June 30, 2017. Our average net daily production for the six months ended June 30, 2017 and the year ended December 31, 2016 was 381 MMcfe/day and 433 MMcfe/day, respectively. We have interests in approximately 677,869 gross undeveloped leasehold acres surrounding our existing wells.

Bankruptcy Proceedings Under Chapter 11

Commencement of Chapter 11 Cases

On February 1, 2017, the Predecessor and certain subsidiaries (such subsidiaries, together with the Predecessor, the “Debtors”) filed voluntary petitions for relief (collectively, the “Bankruptcy Petitions” and, the cases commenced thereby, the “Chapter 11 Cases”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”). The Chapter 11 Cases were being administered under the caption “In re Vanguard Natural Resources, LLC, et al.”

The subsidiary Debtors in the Chapter 11 Cases were the Successor; VNG; VO; VNRH; ECFP; ERAC; ERAC II; ERUD; ERUD II; ERAP; ERAP II; EAC; and EOC.

Reorganization Process

We operated our business as debtors-in-possession in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. To assure ordinary course operations during the pendency of the Chapter 11 Cases, the Bankruptcy Court granted certain relief requested by the Debtors, including, among other things and subject to the terms and conditions of such orders, authorizing us to maintain our existing cash management system, to secure debtor-in-possession financing, to remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and to pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law. This relief is designed primarily to minimize the effect of bankruptcy on the Company’s operations, customers and employees. For goods and services provided following the Petition Date, we paid vendors in full under normal terms.

Subject to certain exceptions provided for in section 362 of the Bankruptcy Code, all judicial and administrative proceedings against us or our property were automatically enjoined, or stayed, as of the Petition Date. In addition, the filing of new judicial or administrative actions against us or our property for claims arising prior to the Petition Date were automatically enjoined. This prohibited, for example, our lenders or noteholders from pursuing claims for defaults under our debt agreements and our contract counterparties from pursuing claims for defaults under our contracts. Accordingly, all of our prepetition liabilities and obligations were settled or compromised under the Bankruptcy Code through our Chapter 11 Cases.

Our operations and ability to execute our business remain subject to the risks and uncertainties described in Item 1A, “Risk Factors” in our 2016 Annual Report. These include risks and uncertainties arising as a result of our Chapter 11 Cases, and the number and nature of our outstanding Common Stock (as defined below) and shareholders, assets, liabilities, officers and directors could change materially because of our Chapter 11 Cases. In addition, the descriptions of our prepetition operations, properties and capital plans included in this Quarterly Report on Form 10-Q may not accurately reflect our post-emergence operations, properties and capital plans.

Creditors’ Committees - Appointment & Formation

(a) Restructuring Support Parties

Prior to the filing of the Bankruptcy Petitions, on February 1, 2017, we entered into a restructuring support agreement (the “Initial RSA”). The Debtors entered into the Initial RSA with (i) certain holders (the “Consenting 2020 Noteholders”) constituting at the time of signing approximately 52% of the 7.875% Senior Notes due 2020 (the “Senior Notes due 2020”); (ii) certain holders (the “Consenting 2019 Noteholders and, together with the Consenting 2020 Noteholders, the “Consenting Senior Noteholders”) constituting at the time of signing approximately 10% of the 8.375% Senior Notes due 2019 (the “Senior Notes due 2019,” and all claims arising under or in connection with the Senior Notes due 2020 and Senior Notes due 2019, the “Senior Note Claims”); and (iii) certain holders (the “Consenting Second Lien Noteholders” and, Consenting Senior Noteholders), constituting at the time of signing approximately 92% of the 7.0% Senior Secured Second Lien Notes due 2023 (the “Old Second Lien Notes,” and all claims and obligations arising under or in connection with the Second Lien Notes, the “Second Lien Note Claims”).

On June 6, 2017, certain lenders under the Company’s Third Amended and Restated Credit Agreement, dated as of September 30, 2011 (as amended from time to time, the “Reserve-Based Credit Facility”), among them Citibank, N.A., as administrative agent (such lenders, the “Consenting RBL Lenders” and, together with the Consenting Senior Noteholders and Consenting Second Lien Noteholders, the “Restructuring Support Parties”), became parties to the amended Restructuring Support Agreement dated as of May 23, 2017 (the “Amended RSA”).

(b) Official Unsecured Creditors Committee

On February 14, 2017, the Office of the United States Trustee appointed the Official Committee of Unsecured Creditors (the “Unsecured Creditors Committee”) pursuant to section 1102 of the Bankruptcy Code. The Unsecured Creditors Committee consists of the following three members: (i) UMB Bank, National Association, as Indenture Trustee; (ii) Wilmington Trust, National Association, as Indenture Trustee; and (iii) Encana Oil & Gas (USA), Inc.

(c) Ad Hoc Equity Committee

On March 16, 2017, we filed a motion with the Bankruptcy Court disclosing a Stipulation and Agreed Order entered into on March 15, 2017, by and between the Debtors and certain unaffiliated holders of our Preferred Units and common units (the “Ad Hoc Equity Committee”) pursuant to which the Debtors and the Ad Hoc Equity Committee agreed, among other things, that professionals for the Ad Hoc Equity Committee would be funded by the Debtors’ estates for services performed within a defined scope and subject to agreed caps on fees and expenses as described in the Stipulation and Agreed Order.

Magnitude of Potential Claims

On March 16, 2017, the Debtors filed with the Bankruptcy Court Schedules and Statements, as defined below, setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. The Schedules and Statements may be subject to further amendment or modification after filing. Certain holders of prepetition claims were required to file proofs of claim by their respective specified deadlines for filing certain proofs of claims in the Debtors’ Chapter 11 cases. Differences between amounts scheduled by the Debtors and claims by creditors have been and are being investigated and resolved through the claims resolution process. The claims resolution process continues after our

emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be reasonably estimated.

Schedules and Statements - Claims & Claims Resolution Process

To the best of our knowledge, we notified all of our known current or potential creditors that the Debtors filed Chapter 11 Cases. On March 16, 2017, each of the Debtors filed a Schedule of Assets and Liabilities and Statement of Financial Affairs (collectively, the "Schedules and Statements") with the Bankruptcy Court. These documents set forth, among other things, the assets and liabilities of each of the Debtors, including executory contracts to which each of the Debtors was a party, were subject to the qualifications and assumptions included therein, and were subject to amendment or modification over the course of the Chapter 11 Cases.

Many of the claims identified in the Schedules and Statements are listed as disputed, contingent or unliquidated. In addition, there were variances between the amounts for certain claims listed in the Schedules and Statements and the amounts claimed by our creditors. Such variances, as well as other disputes and contingencies will be investigated and resolved through the claims resolution process in our Chapter 11 Cases.

Pursuant to the Federal Rules of Bankruptcy Procedure, creditors who wished to assert prepetition claims against us and whose claim (i) was not listed in the Schedules and Statements or (ii) was listed in the Schedules and Statements as disputed, contingent, or unliquidated, were required to file a proof of claim with the Bankruptcy Court prior to April 30, 2017 for non-governmental creditors and July 31, 2017 for governmental creditors.

As of July 31, 2017, approximately 1,040 claims totaling $19.5 billion have been filed with the Bankruptcy Court against the Debtors by approximately 800 claimants. In addition, creditors who have already filed claims may amend or modify their claims in ways we cannot reasonably predict. The amounts of these additional claims and/or amendments or modifications to claims already filed may be material. We expect the process of resolving claims filed against the Debtors to be complex and lengthy. We plan to investigate and evaluate all filed claims in connection with our Plan. As part of the process, we will work to resolve differences in amounts scheduled by the Debtors and the amounts claimed by creditors, including through the filing of objections with the Bankruptcy Court where necessary. Through the claims resolution process as set forth in the Plan, we have identified, and we expect to continue to identify, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. We have filed and will file objections with the Bankruptcy Court as necessary for the claims we believe should be disallowed. Claims that have been allowed or we believe are allowable are reflected in "Liabilities Subject to Compromise."

As discussed above, the claims resolution process continues following our emergence from the Chapter 11 Cases. Accordingly, the ultimate number and amount of claims that will be allowed against the Debtors is not presently known, nor can the ultimate recovery with respect to allowed claims be reasonably estimated.

Restructuring Support Agreement

The Initial RSA and Amended RSA set forth, subject to certain conditions, the commitment of the Debtors and the Restructuring Support Parties to support a comprehensive restructuring of the Debtors' long-term debt (the "Restructuring Transactions") to be effectuated through one or more plans of reorganization (the "Plan") to be filed in the Chapter 11 Cases. A summary of the restructuring transactions agreed to by the Restructuring Support Parties and to be effectuated through the Plan is included below. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Initial RSA and
Amended RSA.

Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code

The Initial RSA contemplated the following Restructuring Transactions outlined below:

- Allowed claims ("First Lien Claims") under the Reserve-Based Credit Facility to be paid down with $275.0 million in cash from the proceeds of the Senior Note Rights Offering and Second Lien Investment and to be paid down further with proceeds from non-core asset sales or other available cash. The remaining First Lien Claims to participate in a new Company $1.1 billion reserve-based lending facility (the "New Facility") on terms substantially the same as the Reserve-Based Credit Facility and provided by the same lenders under the Reserve-Based Credit Facility.

- Allowed Second Lien Claims to receive new notes in the current principal amount of approximately $75.6 million, substantially similar to the current Second Lien Notes but providing a 12-month later maturity and a 200 basis point increase to the interest rate.

- Each holder of an allowed Senior Note Claim to receive (a) its pro rata share of 97% of the ownership interests in the reorganized Company (the “New Equity Interests”) and (b) the opportunity to participate in the Senior Note Rights Offering.

- If the Plan was accepted by the classes of the general unsecured claims and holders of the Preferred Units, the holders of the Preferred Units to receive their pro rata share of (a) 3% of the New Equity Interests and (b) three and a half year warrants for 3% of the New Equity Interests.

- A $255.75 million Senior Note Rights Offering to holders of Senior Note Claims to purchase New Equity Interests at an agreed discount. Certain holders of the Senior Note Claims to execute a backstop commitment agreement to fully backstop the Senior Note Rights Offering.

- The Second Lien Investors to purchase $19.3 million in New Equity Interests at a 25% discount to the Company’s total enterprise value.

The initial terms also provided for the establishment of a management incentive plan at the Company under which 10% of the New Equity Interests would have been reserved for grants made from time to time to the officers and other key employees of the respective reorganized entities

The initial RSA obligated the Debtors and the Restructuring Support Parties to, among other things, support and not interfere with consummation of the Restructuring Transactions and, as to the Restructuring Support Parties, vote their claims in favor of the Plan.

Second Amended Joint Plan of Reorganization

The following is a summary of the material terms of the Second Amended Joint Plan of Reorganization which was filed on May 31, 2017 and agreed to by the Restructuring Support Parties to the Amended RSA. This summary highlights only certain substantive provisions of this iteration of the Plan and is not intended to be a complete description of that iteration of the Plan. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Second Amended Joint Plan of Reorganization. The Second Amended Joint Plan of Reorganization provided for:

- The Rights Offering, consisting of (i) a $10.2 million rights offering to be conducted in reliance upon the exemption from registration under the Securities Act provided in section 1145 of the Bankruptcy Code, pursuant to which Holders of Senior Notes Claims are entitled to purchase equity in Reorganized VNR Finance, (ii) a $117.7 million rights offering to be conducted in reliance upon the exemption from registration under the Securities Act provided in section 4(a)(2) of the Securities Act, pursuant to which Accredited Investor Eligible Holders of Senior Notes Claims are entitled to purchase equity in Reorganized VNR Finance, and (iii) a $127.9 million equity investment, pursuant to which the Commitment Parties will purchase equity in Reorganized VNR Finance. The Rights Offering Shares equal 84.8% of the New Common Stock, subject to dilution by the GUC Rights Offering, the New Management Incentive Plan, the New Common Stock issuable upon exercise of the New Warrants, and the New Common Stock issued to Encana;

- A fully committed $19.3 million equity investment from the Second Lien Investors for shares of New Common Stock equal to 6.4% of the aggregate New Common Stock as of the Effective Date and subject to dilution as set forth in the Plan;

- A full recovery for Holders of Allowed Lender Claims consisting of (i) cash in the amount of the Credit Agreement Interest plus (ii) cash in the amount of its Pro Rata share of the Glasscock Sale Proceeds. In addition, each such Holder shall receive treatment under either Option 1 or Option 2 below. If the Holder elects (or is deemed to elect, upon its execution of the Exit Facility Credit Agreement) Option 1 on its Ballot, it shall also receive its Option 1 Pro Rata Share of (i) the Lender Paydown, (ii) the Exit Revolving Loans, and (iii) the Exit Term A Loans. If such Holder elects Option 2 on its Ballot, it shall also receive its Option 2 Pro Rata Share of the Exit Term B Loans;

- The issuance of new notes to Holders of Allowed Second Lien Notes Claims in an aggregate principal amount of approximately $78.1 million, plus accrued and unpaid post-petition interest through the Effective Date;

- The GUC Rights Offering is in an amount equal to 21.9% of the total amount of all Allowed General Unsecured Claims and Allowed Encana Claims; *provided* that in no event shall the GUC Rights Offering Amount exceed (a) with respect to Holders of Allowed General Unsecured Claims, $7.7 million (such amount to be reduced, pro rata, for the proportion of General Unsecured Claims for which an election to participate in the GUC Cash Pool was made) and (b) with respect to Encana, 21.9% of the amount of the Allowed Encana Claims (such amount to be reduced to reflect the same final rate, as a percentage of Allowed Claims, at which Holders of Allowed General Unsecured Claims electing to receive distributions from the GUC Equity Pool are able to subscribe for in the GUC Rights Offering in accordance with the GUC Rights Offering Procedures);

- With respect to holders of VNR Preferred Units, on the Effective Date, except to the extent that a Holder of VNR Preferred Units agrees to less favorable treatment of its VNR Preferred Units, and subject to the terms of the Restructuring Transactions, all VNR Preferred Units shall be cancelled and shall be of no further force and effect, whether surrendered for cancellation or otherwise, and in full and final satisfaction, settlement, release, and discharge of and in exchange for each VNR Preferred Unit, each Holder of VNR Preferred Units shall receive: (a) if Class 6, Class 7, Class 8, Class 9, and Class 12 are each determined to have voted to accept the Plan in accordance with the Bankruptcy Code, such Holder's Pro Rata share of (i) the VNR Preferred Unit Equity Distribution and (ii) VNR Preferred Unit New Warrants; or (b) if Class 6, Class 7, Class 8, Class 9, or Class 12 is determined to have voted to reject the Plan in accordance with the Bankruptcy Code, no distribution; *provided* that each Holder of VNR Preferred Units shall be given the opportunity to elect to waive its recovery, in which case the VNR Preferred Unit Equity Distribution and three year VNR Preferred Unit New Warrants that such Holder would have been entitled to receive shall be cancelled and of no further effect; and

- With respect to holders of VNR Common Units, on the Effective Date, except to the extent that a Holder of VNR Common Units agrees to less favorable treatment of its VNR Common Units, and subject to the terms of the Restructuring Transactions, all VNR Common Units shall be cancelled and shall be of no further force and effect, whether surrendered for cancellation or otherwise, and in full and final satisfaction, settlement, release, and discharge of and in exchange for each VNR Common Unit, each Holder of VNR Common Units shall receive: (a) if Class 6, Class 7, Class 8, Class 9, Class 12, and Class 13 are each determined to have voted to accept the Plan in accordance with the Bankruptcy Code, such Holder's Pro Rata share of three year VNR Common Unit New Warrants; or (b) if Class 6, Class 7, Class 8, Class 9, Class 12, or Class 13 is determined to have voted to reject the Plan in accordance with the Bankruptcy Code, no distribution; *provided* that each Holder of VNR Common Units shall be given the opportunity to elect to waive its recovery, in which case the VNR Common Unit New Warrants that such Holder would have been entitled to receive shall be cancelled and of no further effect.

Prior to the Effective Date, the Debtors were required to distribute waiver election forms to the Holders of VNR Preferred Units and VNR Common Units, pursuant to which the Holders elected to waive and decline any distribution on account of their VNR Preferred Units or VNR Common Units, as applicable. These waiver election forms set forth instructions for such Holders to either (i) electronically deliver their VNR Preferred Unit or VNR Common Unit positions through The Depository Trust Company's Automated Tender Offer Program (if the Holder held its VNR Preferred Units or VNR Common Units through a Nominee) or (ii) mark such election on the form and return the form to Prime Clerk LLC (if the VNR Preferred Units or VNR Common Units, as applicable, were held directly in the Holder's name on the books and records of the stock transfer agent and not through a nominee).

The Amended RSA obligated the Debtors and the Restructuring Support Parties to, among other things, support and not interfere with consummation of the Restructuring Transactions and, as to the Restructuring Support Parties, vote their claims in favor of the Plan.

Modified Second Amended Joint Plan of Reorganization

On July 18, 2017, the Bankruptcy Court entered the *Order Confirming Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* (the "Confirmation Order"), which approved and confirmed the Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Final Plan"). The Final Plan provides for the reorganization of the Debtors as a going concern and will significantly reduce long-term debt and annual interest payments of the reorganized Debtors.

The following is a summary of the material modifications of the Final Plan that were made to the Second Amended Joint of Plan of Reorganization described above. Capitalized terms used but not defined in this Report on Form 10-Q are defined in the Final Plan.

- the issuance to holders of the Company's Preferred Units of such holders' pro rata share of (i) New Common Stock and (ii) three and a half year VNR Preferred Unit New Warrants to purchase additional shares of New Common Stock at a strike price of $44.25; and

- the issuance to the Company's common unitholders of such holders' pro rata share of three and a half year VNR Common Unit New Warrants to purchase shares of New Common Stock at a strike price of $61.45, regardless of whether the holders of the Company's common units voted to accept the Plan.

The warrant strike prices were calculated based on the Company's plan equity value of $20.00 per share of New Common Stock, which the Bankruptcy Court confirmed as part of the Plan.

Unless otherwise specified, the treatment set forth in the Final Plan and Confirmation Order will be in full satisfaction of all claims against and equity interests in the Debtors, which will be discharged on the Effective Date. Other than assumed obligations, all of the Debtors' prepetition claims and equity interests will be discharged by the Plan.

Additional information regarding the classification and treatment of claims and equity interests can be found in Article III of the Final Plan.

The Debtors satisfied all conditions precedent under the Final Plan and emerged from bankruptcy on August 1, 2017 as the Effective Date. The Company reorganized as a Delaware corporation named Vanguard Natural Resources, Inc. on the Effective Date. Pursuant to the Final Plan, each of the Company's equity securities outstanding immediately before the Effective Date (including any unvested restricted units held by employees or officers of the Debtor, or options and warrants to purchase such securities) have been canceled and are of no further force or effect as of the Effective Date. Under the Final Plan, the Debtors' new organizational documents became effective on the Effective Date. The reorganized parent's new organizational documents authorize the company to issue new equity, certain of which was issued to holders of allowed claims pursuant to the Plan on the Effective Date. In addition, on the Effective Date, the Company entered into a registration rights agreement with certain equity holders. As of August 1, 2017, the Company had 20.1 million outstanding shares of common stock, $0.001 par value ("Common Stock").

Emergence from Chapter 11

On the Effective Date, the Debtors substantially consummated the Plan and emerged from their Chapter 11 Cases. As part of the transactions undertaken pursuant to the Plan, the Predecessor transferred all of its membership interests in Vanguard Natural Gas, LLC ("VNG"), a Kentucky limited liability company, the Predecessor's wholly owned first-tier subsidiary to the Successor (formerly known as VNR Finance Corp.). VNG directly or indirectly owned all of the other subsidiaries of the Predecessor. As a result of the foregoing and certain other transactions, the Successor is no longer a subsidiary of the Predecessor and now owns all of the former subsidiaries of the Predecessor. Following the end of the current fiscal year, we expect that the Predecessor will be dissolved. Following the completion of these transactions, the Company became the successor issuer to the Predecessor for purposes of and pursuant to Rule 15d-5 of the Exchange Act.

Prior to the consummation of the transactions undertaken pursuant to the Plan, the Company (as VNR Finance Corp.) was the co-issuer of the Predecessor's debt securities and did not have any independent assets or operations. As described below, the Predecessor's Senior Notes due 2020 and Senior Notes due 2019 were cancelled pursuant to the Plan. However, the Successor issued, and its subsidiaries guaranteed, new second lien notes due 2024 in the aggregate principal amount of $80.7 million in satisfaction of certain claims of the holders of the Old Second Lien Notes co-issued by the Predecessor and Successor.

Exit Facility

VNG, as borrower, has entered into that certain Fourth Amended and Restated Credit Agreement dated as of August 1, 2017 (the "Exit Facility"), by and among VNG as borrower, Citibank, N.A. as administrative agent (the "Administrative Agent") and Issuing Bank, and the lenders party thereto (the "Lenders"). Pursuant to the Credit Agreement, the lenders party thereto agreed to provide VNG with $850.0 million exit senior secured reserve-based revolving credit facility (the "Revolving Loans"). The initial borrowing base available under the Credit Agreement as of the Effective Date is $850.0 million and the aggregate principal amount of Revolving Loans outstanding under the Credit Agreement as of the Effective Date is $850.0 million. The Credit Agreement also includes an additional $125.0 million senior secured term loan (the "Term Loan"). The next borrowing base redetermination is scheduled for August of 2018.

The maturity date of the Exit Facility is February 1, 2021 with respect to the Revolving Loans and May 1, 2021 with respect to the Term Loan. Until the maturity date for the Term Loan, the Term Loan shall bear an interest rate equal to 6.50% for an Alternate Base Rate loan or 7.50% for a Eurodollar loan. Until the maturity date for the Revolving Loans, the Revolving Loans shall bear interest at a rate per annum equal to (i) the alternative base rate plus an applicable margin of 1.75% to 2.75%, based on the borrowing base utilization percentage under the Exit Facility or (ii) adjusted LIBOR plus an applicable margin of 2.75% to 3.75%, based on the borrowing base utilization percentage under the Exit Facility.

Unused commitments under the Exit Facility will accrue a commitment fee of 0.5%, payable quarterly in arrears.

VNG may elect, at its option, to prepay any borrowing outstanding under the Revolving Loans without premium or penalty (except with respect to any break funding payments which may be payable pursuant to the terms of the Exit Facility). VNG may be required to make mandatory prepayments of the Revolving Loans in connection with certain borrowing base deficiencies.

Additionally, if (i) VNG has outstanding borrowings, undrawn letters of credit and reimbursement obligations in respect of letters of credit in excess of the aggregate revolving commitments or (ii) unrestricted cash and cash equivalents of VNG and the Guarantors (as defined below) exceeds $35.0 million as of the close of business on the most recently ended business day, VNG is also required to make mandatory prepayments, subject to limited exceptions.

The obligations under the Exit Facility are guaranteed by the Successor and all of VNG's subsidiaries (the "Guarantors"), subject to limited exceptions, and secured on a first-priority basis by substantially all of VNG's and the Guarantors' assets, including, without limitation, liens on at least 95% of the total value of VNG's and the Guarantors' oil and gas properties, and pledges of stock of all other direct and indirect subsidiaries of VNG, subject to certain limited exceptions.

The Exit Facility contains certain customary representations and warranties, including, without limitation: organization; powers; authority; enforceability; approvals; no conflicts; financial condition; no material adverse change; litigation; environmental matters; compliance with laws and agreements; no defaults; no borrowing base deficiency; Investment Company Act; taxes; ERISA; disclosure; no material misstatements; insurance; restrictions on liens; locations of businesses and offices; properties and titles; maintenance of properties; gas imbalances; prepayments; marketing of production; swap agreements; use of proceeds; solvency; money laundering; anti-corruption laws and sanctions.

The Exit Facility also contains certain affirmative and negative covenants, including, without limitation: delivery of financial statements; notices of material events; existence and conduct of business; payment of obligations; performance of obligations under the Exit Facility and the other loan documents; operation and maintenance of properties; maintenance of insurance; maintenance of books and records; compliance with laws and regulations; compliance with environmental laws and regulations; delivery of reserve reports; delivery of title information; requirement to grant additional collateral; compliance with ERISA; maintenance of commodity price risk management policy; requirement to maintain commodity swaps; maintenance of treasury management; restrictions on indebtedness; liens; dividends and distributions; repayment of permitted unsecured debt; amendments to certain agreements; investments; change in the nature of business; leases (including oil and gas property leases); sale or discount of receivables; mergers; sale of properties; termination of swap agreements; transactions with affiliates; negative pledges; dividend restrictions; marketing activities; gas imbalances; take-or-pay or other prepayments; swap agreements and transactions, and passive holding company status.

The Exit Facility also contains certain financial covenants, including the maintenance of (i) the ratio of consolidated first lien debt of VNG and the Guarantors as of the date of determination to EBITDA for the most recently ended four consecutive fiscal quarter period for which financial statements are available of (a) 4.75 to 1.00 as of the last of any fiscal quarter ending from July 1, 2018 through December 31, 2018, (b) 4.50 to 1.00 as of the last day of any fiscal quarter ending from January 1, 2019 through December 31, 2019, (c) 4.25 to 1.00 as of the last day of any fiscal quarter ending from January 1, 2020 through September 30, 2020, and (d) 4.00 to 1.00 as of the last day of any fiscal quarter ending thereafter; (ii) an asset coverage ratio of not less than 1.25 to 1.00 as tested on each January 1 and July 1 for the period from August 1, 2017 until August 1, 2018; and (iii) a current ratio, determined as of the last day of each fiscal quarter for the four fiscal-quarter period then ending, commencing with the fiscal quarter ending December 31, 2017, of not less than 1.00:1.00.

The Exit Facility also contains certain events of default, including, without limitation: non-payment; breaches of representations and warranties; non-compliance with covenants or other agreements; cross-default to material indebtedness; judgments; change of control; and voluntary and involuntary bankruptcy.

New Second Lien Notes Indenture

On August 1, 2017, the Company issued approximately $80.7 million aggregate principal amount of new 9.0% Senior Secured Second Lien Notes due 2024 (the "New Notes") to certain eligible holders of their outstanding Old Second Lien Notes issued by the Predecessor and the Successor (the "Existing Notes") in full satisfaction of their claim of approximately $80.7 million related to the Existing Notes held by such holders. The New Notes were issued in accordance with the exemption from the registration requirements of the Securities Act afforded by Section 4(a)(2) of the Securities Act.

The New Notes are governed by an Amended and Restated Indenture, dated as of August 1, 2017 (as amended, the "Amended and Restated Indenture"), by and among the Company, certain subsidiary guarantors of the Company (the "Guarantors") and Delaware Trust Company, as Trustee (in such capacity, the "Trustee") and as Collateral Trustee (in such capacity, the "Collateral Trustee"), which contains affirmative and negative covenants that, among other things, limit the ability of the Company and the Guarantors to (i) incur, assume or guarantee additional indebtedness or issue preferred stock; (ii) create liens to secure indebtedness; (iii) make distributions on, purchase or redeem the Company's common stock or purchase or redeem subordinated indebtedness; (iv) make investments; (v) restrict dividends, loans or other asset transfers from the Company's restricted subsidiaries; (vi) consolidate with or merge with or into, or sell substantially all of its properties to, another person; (vii) sell or otherwise dispose of assets, including equity interests in subsidiaries; (viii) enter into transactions with affiliates; or (ix) create unrestricted subsidiaries. These covenants are subject to important exceptions and qualifications. If the New Notes achieve an investment grade rating from each of Standard & Poor's Ratings Services and Moody's Investors Service, Inc., no default or event of default under the Amended and Restated Indenture exists, and the Company delivers to the Trustee an officers' certificate certifying such events, many of the foregoing covenants will terminate.

The Amended and Restated Indenture also contains customary events of default, including (i) default for thirty (30) days in the payment when due of interest on the New Notes; (ii) default in payment when due of principal of or premium, if any, on the New Notes at maturity, upon redemption or otherwise; and (iii) certain events of bankruptcy or insolvency with respect to the Company or any of restricted subsidiary of the Company that is a significant subsidiary or any group of restricted subsidiaries of the Company that taken together would constitute s significant subsidiary. If an event of default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding New Notes may declare all the New Notes to be due and payable immediately. If an event of default arises from certain events of bankruptcy or insolvency, with respect to the Company, any restricted subsidiary of the Company that is a significant subsidiary or any group of restricted subsidiaries of the Company that, taken together, would constitute a significant subsidiary, all outstanding New Notes will become due and payable immediately without further action or notice.

Interest is payable on the New Notes on February 15 and August 15 of each year, beginning on February 15, 2018. The New Notes will mature on February 15, 2024.

At any time prior to February 15, 2020, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of the New Notes issued under the Amended and Restated Indenture, with an amount of cash not greater than the net cash proceeds of an equity offering, at a redemption price equal to 109% of the principal amount of the New Notes, together with accrued and unpaid interest, if any, to the redemption date; provided that (i) at least 65% of the aggregate principal amount of the New Notes originally issued under the Amended and Restated Indenture remain outstanding after such redemption, and (ii) the redemption occurs within one hundred eighty (180) days of the equity offering.

On or after February 15, 2020, the New Notes will be redeemable, in whole or in part, at redemption prices equal to the principal amount multiplied by the percentage set forth below, plus accrued and unpaid interest:

Year	Percentage
2020	106.75%
2021	104.50%
2022	102.25%
2023 and thereafter	100.00%

In addition, at any time prior to February 15, 2020, the Company may on any one or more occasions redeem all or a part of the New Notes at a redemption price equal to 100% of the principal amount thereof, plus the Applicable Premium (as defined in the Amended and Restated Indenture) as of, and accrued and unpaid interest, if any, to the date of redemption.

Amended and Restated Intercreditor Agreement

On August 1, 2017, Citibank, N.A., as priority lien agent, and the Collateral Trustee entered into an Amended and Restated Intercreditor Agreement, which was acknowledged and agreed to by the Company and the Guarantors (the "Amended and Restated Intercreditor Agreement"), to govern the relationship of holders of the New Notes, the Lenders under the Company's revolving credit facility and holders of other priority lien, second lien or junior lien obligations that the Company may issue in the future, with respect to the Collateral and certain other matters.

Amended and Restated Collateral Trust Agreement

On August 1, 2017, the Company, the Guarantors, the Trustee and the Collateral Trustee entered into an Amended and Restated Collateral Trust Agreement (the "Amended and Restated Collateral Trust Agreement") pursuant to which the Collateral Trustee will receive, hold, administer, maintain, enforce and distribute all of its liens upon the Collateral for the benefit of the current and future holders of the New Notes and other obligations secured on an equal and ratable basis with the New Notes, if any.

Registration Rights Agreement

On the Effective Date, in accordance with the Plan and that certain Amended and Restated Backstop Commitment and Equity Investment Agreement, dated as of February 24, 2017, as amended and restated on May 23, 2017 (as may have been further amended from time to time, the "Amended and Restated Backstop Commitment Agreement"), the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with certain recipients of shares of New Common Stock distributed on the Effective Date that were party to the Amended and Restated Backstop Commitment Agreement (including certain of their affiliates and related funds), in accordance with the terms set forth in the Plan (collectively, the "Registration Rights Holders").

The Registration Rights Agreement requires the Company to file a shelf registration statement ("Initial Shelf Registration Statement") within ninety (90) calendar days following the Effective Date that includes the Registrable Securities (as defined in the Registration Rights Agreement) whose inclusion has been timely requested, provided, however, that the Company is not required to file or cause to be declared effective an Initial Shelf Registration Statement unless the request from Registration Rights Holders amounts to at least 20% of all Registrable Securities. The Registration Rights Agreement also provides the Registration Rights Holders the ability to demand registrations or underwritten shelf takedowns subject to certain requirements and exceptions.

In addition, if the Company proposes to register shares of New Common Stock in certain circumstances, the Registration Rights Holders will have certain "piggyback" registration rights, subject to restrictions set forth in the Registration Rights Agreement, to include their shares of New Common Stock in the registration statement.

The Registration Rights Agreement also provides that (i) for so long as the Company is subject to the requirements to publicly file information or reports with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, the Company will timely file all information and reports with the SEC and comply with all such requirements and (b) if the Company is not subject to the requirements of Section 13 or 15(d) of the Exchange Act, the Company will make available the information necessary to comply with Section 4(a)(7) of the Securities Act and Rule 144 and Rule 144A, if available with respect to resales of the Registrable Securities under the Securities Act, at all times, all to the extent required from time to time to enable Registration Rights Holders to sell Registrable Securities without registration under the Securities Act pursuant to the abovementioned exemptions or any other rule or regulation hereafter adopted by the SEC.

Warrant Agreement

On the Effective Date, the Company entered into a warrant agreement (the "Warrant Agreement") with American Stock Transfer & Trust Company, LLC, as warrant agent, pursuant to which the Company issued (i) to electing holders of Old Vanguard's (A) 7.875% Series A Cumulative Redeemable Perpetual Preferred Units ("Series A Preferred Units"), (B) 7.625% Series B Cumulative Redeemable Perpetual Preferred Units ("Series B Preferred Units"), and (C) 7.75% Series C Cumulative Redeemable Perpetual Preferred Units ("Series C Preferred Units" and, together with the Series A Preferred Units and Series B Preferred Units, the "Preferred Units"), three and a half year warrants (the "Preferred Unit New Warrants"), which will be exercisable to purchase up to 621,649 shares of the New Common Stock as of the Effective Date, subject to dilution; and (ii) to electing holders of Old Vanguard's common units representing limited liability company interests (the "Common Units"), three and a half year warrants (the "Common Unit New Warrants" and, together with the Preferred Unit New Warrants, the "Warrants") which will be exercisable to purchase up to 640,876 shares of the New Common Stock as of the Effective Date, subject to dilution. The expiration date of the Warrants will be February 1, 2021. The strike price for the Preferred Unit New Warrants is $44.25, and the strike price for the Common Unit New Warrants is $61.45.

Second Amended and Restated Employment Agreements

On August 1, 2017, the Company entered into amended and restated employment agreements (the "Employment Agreements") with each of Scott W. Smith, Richard A. Robert, and Britt Pence (each, an "Executive" and collectively, the "Executives"). The Employment Agreements were effective on the Effective Date, and supersede prior employment agreements dated January 1, 2016. The initial term of the Employment Agreements ends on January 1, 2019, with a subsequent twelve (12) month term extension automatically commencing on January 1, 2019, provided that neither the Company nor the Executives deliver a timely non-renewal notice prior to the expiration date.

The Employment Agreements provide that (i) Mr. Smith is entitled to an annual base salary of $650,000, which will increase to $700,000 on January 1, 2018; (ii) Mr. Robert is entitled to an annual base salary of $490,000, which will increase to $510,000 on January 1, 2018; and (iii) Mr. Pence is entitled to an annual base salary of $450,000, which will increase to $460,000 on January 1, 2018. In addition, the Company's board of directors (the "Board") has the discretion to increase the base salaries of Messrs. Smith, Robert and Pence at any time. Subject to certain terms and conditions, the Board may not reduce an Executive's base salary without his prior written approval.

Each Executive shall be eligible to receive an annual bonus in an amount to be determined by the Board or compensation committee of the Board (the "Compensation Committee"). Furthermore, within five (5) business days of the Effective Date, the Executives will receive quarterly bonuses that accrued from the quarter ended December 31, 2016 through the Effective Date, with the total bonus amounts payable to them being $609,636 for Mr. Smith, $464,272 for Mr. Robert, and $428,595 for Mr. Pence. Each Executive will also be eligible to receive bonus payments through the year ended December 31, 2017 in accordance with Old Vanguard's 2017 pre-emergence annual cash bonus program. The Employment Agreements provide that Messrs. Smith, Robert and Pence are eligible to participate in the benefit programs generally available to senior executives of the Company, including the management incentive plan ("MIP") to be implemented by the Board, in its sole discretion.

In the event of the Company's Change in Control (as defined in the Employment Agreements), the Executives are entitled to certain change in control payments and benefits under the Employment Agreements. If, during the twelve (12) months immediately following the occurrence of a Change of Control of the Company, the Executive is terminated by the Company without Cause or resigns for Good Reason (each as defined below), the Executive will be entitled to receive within ten (10) business days after the date of his termination, accrued compensation and reimbursements listed in the Employment Agreements, and (ii) on the sixtieth (60th) day following the date of termination, a lump sum payment of an amount equaling two (2) times his then-current base-salary and annual bonus.

Under the Employment Agreements, Messrs. Smith, Robert and Pence are entitled to severance payments and benefits upon certain qualifying terminations. Upon a termination by the Company without Cause or termination by any such Executive for Good Reason (and except with respect to a Change of Control within a year of the Effective Date, as described above), the Executive is entitled to receive on the sixtieth (60th) day following the date of termination, a lump sum payment of an amount equal to two and a half (2.5) times the Executive's then-current base salary. Upon an executive's termination by Disability (as defined below) or death, the Executive is entitled to accrued compensation and reimbursements. As a condition to receiving any of the Change of Control or severance payments and benefits provided in the Employment Agreements, the terminated Executive (or his legal representative, as applicable) must execute and not revoke a customary severance and release agreement, including a waiver of all claims.

The Employment Agreements generally define the term "Cause" to mean (i) the Executive's commission of theft, embezzlement, any other act of dishonesty relating to his employment with the Company or any willful violation of any law, rules, or regulation applicable to the Company, including, but not limited to, those laws, rules, or regulations established by the SEC or any self-regulatory organization having jurisdiction or authority over the Executive or the Company; (ii) the Executive's conviction of, or Executive's plea of guilty or *nolo contendere* to, any felony or any other crime involving fraud, dishonesty, or moral turpitude; (iii) a determination by the Board that the Executive has materially breached his Employment Agreement (other than during any period of Disability) where such breach is not remedied within ten (10) business days after written demand by the Board for substantial performance is actually received by the Executive which specifically identifies the manner in which the Board believes the Executive has so breached; or (iv) the Executive's willful failure to perform the reasonable and customary duties of his position as stated in the Employment Agreement which such failure is not remedied within ten (10) business days after written demand by the Board for substantial performance is actually received by the Executive which specifically identifies the nature of such failure.

The Employment Agreements define the term "Good Reason" to mean the following, without the Executive's written consent: (a) a material reduction in the Executive's authority, duties, or responsibilities (excluding any changes to the foregoing resulting from the Company's emergence from the Chapter 11 Cases); (b) a material reduction in the Executive's base salary, other than a reduction affecting senior management similarly and in no event more than 10% from the Executive's base salary in effect on that date; (c) the Executive's removal from his position as stated in the Employment Agreement, other than for Cause or by death or Disability, to a position that is not at least equivalent in authority and duties (excluding his removal as a member of the Board, as applicable); (d) relocation of the Executive's principal place of business to a location fifty (50) or more miles from its location as of the date of the Employment Agreement; (e) a material breach by the Company of the Employment Agreement, which materially adversely affects the Executive; (f) the Company's failure to make any material payment to the Executive required to be made under the Employment Agreement, or (g) the Board or the Compensation Committee (x) fails to make grants of initial awards ("Initial Grants") under the MIP within ninety (90) days following the Effective Date or (y) fails to grant the Executive an Initial Grant substantially equivalent in value, on the award date, to the lesser of (I) Executive's past equity awards or (II) grants made at median to similarly situated Executives employed by other companies within the Company's peer group selected by the Board or a committee thereof based on the recommendation of an independent compensation consultant to the Board or a committee thereof.

The Employment Agreements generally define the term "Disability" to mean the Executive's inability to substantially perform his duties as an employee of the Company as a result of sickness or injury, and continued inability to perform any such duties for a period of more than 180 consecutive days in any 12 month period.

The Employment Agreements contain standard non-competition, non-solicitation and confidentiality provisions.

Debtor-in-Possession Financing

In connection with the Chapter 11 Cases, on February 1, 2017, the Debtors filed a motion (the "DIP Motion") seeking, among other things, interim and final approval of the Debtors' use of cash collateral and debtor-in-possession financing on terms and conditions set forth in a proposed Debtor-in-Possession Credit Agreement (the "DIP Credit Agreement") among VNG (the "DIP Borrower"), the financial institutions or other entities from time to time parties thereto, as lenders, Citibank N.A., as administrative agent (the "DIP Agent") and as issuing bank. The initial lenders under the DIP Credit Agreement included lenders under the Company's existing first-lien credit agreement or the affiliates of such lenders. The Bankruptcy Court entered an interim order approving the DIP Credit Agreement, which contained the following terms:

- a revolving credit facility in the aggregate amount of up to $50.0 million, with $15.0 million available on an interim basis;

- proceeds of the DIP Credit Agreement were able to be used used by the DIP Borrower to (i) pay certain costs and expenses related to the Chapter 11 Cases, (ii) make payments provided for in the DIP Motion, including in respect of certain "adequate protection" obligations and (iii) fund working capital needs, capital improvements and other general corporate purposes of the DIP Borrower and its subsidiaries, in all cases subject to the terms of the DIP Credit Agreement and applicable orders of the Bankruptcy Court;

- the maturity date of the DIP Credit Agreement was expected to be the earliest to occur of November 1, 2017, forty-five days following the date of the interim order of the Bankruptcy Court approving the DIP Facility on an interim basis, if the Bankruptcy Court had not entered the final order on or prior to such date, or the effective date of a plan of reorganization in the Chapter 11 Cases. In addition, the maturity date was able to be accelerated upon the occurrence of certain events set forth in the DIP Credit Agreement;

- interest accrued at a rate per year equal to the LIBOR rate plus 5.5%;

- in addition to fees to be paid to the DIP Agent, the DIP Borrower was required to pay the DIP Agent for the account of the lenders under the DIP Credit Agreement, an unused commitment fee equal to 1.0% of the daily average of each lender's unused commitment under the DIP Credit Agreement, which was payable in arrears on the last day of each calendar month and on the termination date for the facility for any period for which the unused commitment fee has not previously been paid;

- the obligations and liabilities of the DIP Borrower and its subsidiaries owed to the DIP Agent and lenders under the DIP Credit Agreement and related loan documents were entitled to joint and several super-priority administrative expense claims against each of the DIP Borrower and its subsidiaries in their respective Chapter 11 Cases; subject to limited exceptions provided for in the DIP Motion, and were secured by (i) a first priority, priming security interest

and lien on all encumbered property of the DIP Borrower and its subsidiaries, subject to limited exceptions provided for in the DIP Motion; (ii) a first priority security interest and lien on all unencumbered property of the DIP Borrower and its subsidiaries, subject to limited exceptions provided for in the DIP Motion and (iii) a junior security interest and lien on all property of the DIP Borrower and its subsidiaries subject to (a) a valid, perfected and non-avoidable lien as of the petition date (other than the first priority and second priority prepetition liens) or (b) a valid and non-avoidable lien perfected subsequent to the petition date, in each case subject to limited exceptions provided for in the DIP Motion;

- the sum of unrestricted cash and cash equivalents of the loan parties and undrawn funds under the DIP Credit Agreement shall not be less than $25.0 million at any time; and

- the DIP Credit Agreement was subject to customary covenants, prepayment events, events of default and other provisions.

Throughout the pendency of the Chapter 11 Cases, the Company did not access funds through the DIP Credit Agreement.

Executory Contracts

Subject to certain exceptions, under the Bankruptcy Code, the Company and the Chapter 11 Subsidiaries had the right to assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Rejection of an executory contract or unexpired lease was generally treated as a prepetition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Company and the Chapter 11 Subsidiaries of performing their future obligations under such executory contract or unexpired lease but may have given rise to a prepetition general unsecured claim for damages caused by such deemed breach.

Chapter 11 Filing Impact on Creditors and Unitholders

For more information regarding the ultimate recovery to all creditors and/or unitholders, see "—Emergence from Chapter 11" above.

Reorganization Expenses

The Company and the Chapter 11 Subsidiaries have incurred and will continue to incur significant costs associated with the reorganization, principally professional fees. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations.

Recent Developments and Outlook

Historically, the markets for oil, natural gas and NGLs have been volatile, and they are likely to continue to be volatile in the future, especially given current geopolitical and economic conditions. The prices of oil, natural gas and NGLs increased slowly during the six months ended June 30, 2017, following significant decreases during 2015 and most of 2016. The crude oil spot price per barrel during the years ended December 31, 2015 and 2016 ranged from a high of $61.36 to a low of $26.19 and the NYMEX natural gas spot price per MMBtu during the same period ranged from a high of $3.44 to a low of $1.49. NGLs prices also suffered similar volatility. However, the crude oil spot price per barrel during the first six months of 2017 ranged from a low of $42.48 to a high of $54.48 and the NYMEX natural gas spot price per MMBtu during the same period ranged from a a low of $2.44 to a high of $3.71. As of July 31, 2017, the crude oil spot price per barrel was $50.21 and the NYMEX natural gas spot price per MMBtu was $2.87. Among the factors causing such volatility are the domestic and foreign supply of oil and natural gas, the ability of the OPEC members to comply with the agreed upon production cuts and the cooperation of other producing countries to reduce production levels, social unrest and political instability, particularly in major oil and natural gas producing regions outside the United States and the level and growth of consumer product demand.

The overall decline in commodity prices in recent years has had a negative impact on the price of our common and preferred units and ultimately was a significant contributing factor to our filing for bankruptcy protection. During 2016, when our common units were listed on NASDAQ, our common unit price declined from a high of $3.11 on January 4, 2016 to a low of $0.50 on November 18, 2016. This low commodity price environment has had and will continue to have a direct impact on our revenue, cash flow from operations and Adjusted EBITDA until commodity prices improve and stabilize. Sustained low prices or any further declines in prices of oil, natural gas and NGLs could have a material adverse impact on our financial condition, profitability, future growth, and the carrying value of our oil and natural gas properties. Additionally, sustained low

prices or any further decline in prices of oil, natural gas and NGLs could reduce the amount of oil, natural gas and NGLs that we can produce economically, cause us to delay or postpone our planned capital expenditures and result in further impairments to our oil and natural gas properties. To illustrate the impact of a sustained low commodity price environment, we present the following two examples: (1) if we reduced the 12-month average price for natural gas by $1.00 per MMBtu and if we reduced the 12-month average price for oil by $6.00 per barrel, while production costs remained constant (which has historically not been the case in periods of declining commodity prices and declining production), our total proved reserves as of June 30, 2017 would decrease from 1,390 Bcfe to 1,179 Bcfe, based on this price sensitivity generated from an internal evaluation of our proved reserves; and (2) if natural gas prices and oil prices were derived from the 5-year NYMEX forward strip price (using monthly NYMEX settlement prices through December 2022) at July 21, 2017, our total proved reserves as of June 30, 2017 would decrease from 1,390 Bcfe to 1,381 Bcfe. Below is a tabular presentation of the prices depicted in illustration (2) which differ from the SEC 12-month average pricing of $3.02 per MMBtu for natural gas and $48.88 per barrel of crude oil (held constant):

	2017	2018	2019	2020	2021	2022 [1]
Oil ($/Bbl)	$46.09	$47.35	$48.44	$49.61	$50.98	$52.32
Natural Gas ($/MMBtu)	$3.04	$3.00	$2.83	$2.79	$2.82	$2.85

(1) Prices for 2022 and subsequent years were not escalated and were held flat for the remaining lives of the properties. Capital and lease operating expenses were also not inflated and held constant for the remaining lives of the properties.

When comparing these settlement prices to the prices of $3.02 per MMBtu for natural gas and $48.88 per barrel of crude oil used to generate our June 30, 2017 (“2Q17”) reserve report, the average annual prices for oil presented above are lower than the 2Q17 reserve report price through 2018 and higher thereafter and the average annual prices for natural gas are higher than the 2Q17 reserve report price through the end of 2017, and lower thereafter. The impact of the changes in forward prices to gas wells and oil wells, as compared to the 2Q17 reserve report prices, includes (i) an increase in economically recoverable oil volumes, and (ii) even if such volumes did not increase, an increase in realized prices for oil. Because the Company’s asset mix is 66% natural gas paired with a higher rate of decrease in natural gas prices when compared to oil (specifically the year 2018 and forward), the hypothetical decrease in natural gas reserves was greater than the hypothetical increase in oil reserves on an MMcfe basis.

The following table compares the 2Q17 reserve report volumes by product with the strip pricing volumes:

	Net Oil (Bbls)	Net Gas (Mcf)	Net NGL (Bbls)	Net MMcfe
Reserve Report at 2Q17	41,713	919,428	36,699	1,390
July 21, 2017 NYMEX Strip Price	42,624	905,796	36,648	1,381
% Difference	2%	(1)%	—%	(1)%

Management believes that the use of the 5-year NYMEX forward strip price may help provide investors with an understanding of the impact of the currently expected commodity price environment to our proved reserves. However, the use of this 5-year NYMEX forward strip price is not necessarily indicative of management’s overall outlook on future commodity prices. We intend to improve our financial outlook through opportunistic hedging, and profitable drilling and development of new and existing oil and natural gas properties.

We did not have any write-downs of our oil and natural gas properties related to the full cost ceiling limitation during the three months ended June 30, 2017. Commodity prices declined slightly during the second quarter of 2017 and still remain volatile. Whether any further impairments will be necessary, is contingent upon many factors such as the price of oil, natural gas and NGLs for the remainder of 2017, increases or decreases in our reserve base, changes in estimated costs and expenses, and oil and natural gas property acquisitions or divestitures, which could increase, decrease or eliminate the need for such impairments.

In October and December 2016, we monetized substantially all of our outstanding price commodity and interest rate hedges for total proceeds of approximately $54.0 million. The Company used the net proceeds from the hedge settlements to make deficiency payments under its Reserve-Based Credit Facility. In June 2017, we entered into commodity derivative contracts primarily with counterparties that are also lenders under our Reserve-Based Credit Facility to hedge price risk associated with a portion of our oil, natural gas and NGLs production commencing with August 2017 production volumes.

We have implemented a hedging program for approximately 80%, 72%, 26% ,and 21% of our anticipated crude oil production in 2017, 2018, 2019, and 2020, respectively, with 100% in the form of fixed-price swaps in 2017. Approximately 56%, 46%, 22%, and 16% of our anticipated natural gas production in 2017, 2018, 2019, and 2020, respectively, was hedged, with 100% in the form of fixed-price swaps in 2017. NGLs production was under fixed-price swaps for approximately 43% and 37% of anticipated production in 2017 and 2018, respectively. These hedges will provide some cash flow certainty regardless of the volatility in commodity prices.

We currently anticipate a capital expenditures budget of approximately $116 million through the end of 2017. We spent $37.3 million during the six months ended June 30, 2017 and expect to spend approximately $78.7 million during the remainder of 2017. We expect to focus our 2017 capital in two main areas; Green River Pinedale and East Haynesville field. In the Green River Basin we will participate as a non-operated partner in the drilling and completion of vertical natural gas wells in Pinedale Field. In the Gulf Coast Basin East Haynesville Field, we have a rig drilling Haynesville and Smackover wells. Our capital expenditures budget for 2017 is dependent upon future commodity prices and is subject to change. During the six months ended June 30, 2017, we drilled four gross (3.8 net) operated wells. In addition we participated in the drilling of 91 gross (11.2 net) non-operated wells and in the completion of 54 gross (7.1 net) non-operated wells.

Results of Operations

The following table sets forth selected financial and operating data for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 [a]	**2016 [a]**	**2017 [a]**	**2016 [a]**
Revenues:				
Oil sales	$ 41,046	$ 49,941	$ 85,676	$ 85,595
Natural gas sales	51,712	32,431	109,175	69,302
NGLs sales	14,109	11,104	30,773	20,019
Oil, natural gas and NGLs sales	**106,867**	**93,476**	**225,624**	**174,916**
Net losses on commodity derivative contracts	(12,875)	(68,610)	(12,868)	(36,851)
Total revenues	**93,992**	**24,866**	**212,756**	**138,065**
Costs and expenses:				
Production:				
Lease operating expenses	36,823	38,515	75,305	80,842
Production and other taxes	9,138	9,476	19,203	18,144
Depreciation, depletion, amortization, and accretion	25,328	38,786	51,056	86,839
Impairment of oil and natural gas properties	—	157,894	—	365,658
Non-cash compensation	2,456	2,578	5,086	4,975
Other selling, general and administrative expenses	7,321	10,830	14,986	19,455
Total costs and expenses	**$ 81,066**	**$ 258,079**	**$ 165,636**	**$ 575,913**
Other income (expense):				
Interest expense (excludes contractual interest expense of $8.6 million and $14.3 million for the three and six months ended June 30, 2017, respectively)	$ (13,832)	$ (23,932)	$ (30,273)	$ (49,636)
Net gains (losses) on interest rate derivative contracts	—	(2,135)	30	(6,825)
Net loss on acquisitions or divestitures of oil and natural gas properties	—	(1,665)	—	(1,665)
Gain on extinguishment of debt	—	—	—	89,714
Other	255	196	311	252
Reorganization items	(53,221)	—	(79,967)	—

(a) During the three and six months ended June 30, 2017 and June 30, 2016, we divested certain oil and natural gas properties and related assets. As such, there are no operating results from these properties included in our operating results from the closing date of the divestitures forward.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Revenues

Oil, natural gas and NGLs sales increased $13.4 million to $106.9 million during the three months ended June 30, 2017 as compared to the same period in 2016. The key oil, natural gas and NGLs revenue measurements were as follows:

	Three Months Ended June 30,		Percentage Increase / (Decrease)
	2017 [a]	2016 [a]	
Average realized prices, excluding hedges:			
Oil (Price/Bbl)	$ 42.52	$ 39.44	8 %
Natural Gas (Price/Mcf)	$ 2.21	$ 1.17	89 %
NGLs (Price/Bbl)	$ 16.19	$ 13.05	24 %
Average realized prices, including hedges[b]:			
Oil (Price/Bbl)	$ 42.52	$ 55.90	(24)%
Natural Gas (Price/Mcf)	$ 2.21	$ 2.89	(24)%
NGLs (Price/Bbl)	$ 16.19	$ 14.22	14 %
Average NYMEX prices:			
Oil (Price/Bbl)	$ 48.31	$ 45.54	6 %
Natural Gas (Price/Mcf)	$ 3.18	$ 1.95	63 %
Total production volumes:			
Oil (MBbls)	965	1,266	(24)%
Natural Gas (MMcf)	23,362	27,820	(16)%
NGLs (MBbls)	871	851	2 %
Combined (MMcfe)	34,382	40,524	(15)%
Average daily production volumes:			
Oil (Bbls/day)	10,608	13,913	(24)%
Natural Gas (Mcf/day)	256,729	305,716	(16)%
NGLs (Bbls/day)	9,575	9,353	2 %
Combined (Mcfe/day)	377,822	445,314	(15)%

(a) During the three months ended June 30, 2017 and 2016, we divested certain oil and natural gas properties and related assets. As such, there are no operating results from these properties included in our operating results from the closing date of the divestitures forward.
(b) Excludes the premiums paid, whether at inception or deferred, for derivative contracts that settled during the period and the fair value of derivative contracts acquired as part of prior period business combinations that apply to contracts settled during the period.

The increase in oil, natural gas and NGLs sales during the three months ended June 30, 2017 compared to the same period in 2016 was due primarily to the increase in the average realized oil, natural gas and NGLs prices, excluding hedges.

Natural gas revenues increased by 59% from $32.4 million in the second quarter of 2016 to $51.7 million in the second quarter of 2017 as a result of a $1.04 per Mcf, or 89%, increase in average realized natural gas price, excluding hedges. The increase in average realized pricing was partially offset by a 4,458 MMcf decrease in our natural gas production, primarily due to the divestitures of oil and natural gas properties completed during 2016 and 2017.

NGLs revenues also increased 27% during the second quarter of 2017 compared to the same period in 2016 due to an $3.14 per Bbl increase in our average realized NGLs price, excluding hedges.

Oil revenues decreased by 18% from $49.9 million in the second quarter of 2016 to $41.0 million in the second quarter of 2017, primarily due to a 301 MBbls, or 24%, decrease in our oil production volumes due to the divestitures of oil and natural gas properties completed during 2016 and 2017. The decrease in our oil production volumes was partially offset by a $3.08 per Bbl increase in average realized oil price, excluding hedges. The increase in average realized oil price is primarily due to a higher average NYMEX price, which increased from $45.54 per Bbl in the second quarter of 2016 to $48.31 per Bbl in the second quarter of 2017.

Overall, our total production for the three months ended June 30, 2017 decreased by 15% on an Mcfe basis compared to the same period in 2016. On an Mcfe basis, crude oil, natural gas and NGLs accounted for 17%, 68% and 15%, respectively, of our production during the three months ended June 30, 2017 compared to 19%, 69% and 12%, respectively, of our production during the same period in 2016.

Hedging and Price Risk Management Activities

During the three months ended June 30, 2017, we recognized a $12.9 million net loss on commodity derivative contracts. Our hedging program historically helped mitigate the volatility in our operating cash flow. Depending on the type of derivative contract used, hedging generally achieves this by the counterparty paying us when commodity prices are below the hedged price and we pay the counterparty when commodity prices are above the hedged price. In either case, the impact on our operating cash flow is approximately the same. However, because our hedges are currently not designated as cash flow hedges, there can be a significant amount of volatility in our earnings when we record the change in the fair value of all of our derivative contracts. As commodity prices fluctuate, the fair value of those contracts will fluctuate and the impact is reflected in our consolidated statement of operations in the net gains or losses on commodity derivative contracts line item. However, these fair value changes that are reflected in the consolidated statement of operations reflect the value of the derivative contracts to be settled in the future and do not take into consideration the value of the underlying commodity. If the fair value of the derivative contract goes down, it means that the value of the commodity being hedged has gone up, and the net impact to our cash flow when the contract settles and the commodity is sold in the market will be approximately the same. Conversely, if the fair value of the derivative contract goes up, it means the value of the commodity being hedged has gone down and again the net impact to our operating cash flow when the contract settles and the commodity is sold in the market will be approximately the same for the quantities hedged.

Costs and Expenses

Lease operating expenses include expenses such as labor, field office, vehicle, supervision, maintenance, tools and supplies and other customary charges. Lease operating expenses decreased by $1.7 million to $36.8 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, mainly due to a $0.9 million decrease in lease operating expenses related to the divestiture of oil and natural gas properties in the SCOOP/STACK area in Oklahoma completed during 2016 and our other smaller divestitures in 2016 and 2017. In addition, we had a decrease of $0.8 million in maintenance and repair expenses on existing wells and lower lease operating expenses as a result of cost reduction initiatives including price negotiations with field vendors.

Production and other taxes include severance, ad valorem and other taxes. Severance taxes are a function of volumes and revenues generated from production. Ad valorem taxes vary by state or county and are based on the value of our reserves. Production and other taxes decreased slightly by $0.3 million for the three months ended June 30, 2017 as compared to the same period in 2016.

Depreciation, depletion, amortization, and accretion decreased by approximately $13.5 million to $25.3 million for the three months ended June 30, 2017 from approximately $38.8 million for the three months ended June 30, 2016, primarily due to a lower depletion base as a result of the non-cash ceiling impairment charges recorded during 2016 and the divestitures of oil and natural gas properties completed in 2016 and 2017.

An impairment of oil and natural gas properties of $157.9 million was recognized during the quarter ended June 30, 2016 as a result of a decline in oil and natural gas prices at the measurement date, June 30, 2016. The second quarter 2016 impairment was calculated based on the 12-month average price of $2.24 per MMBtu for natural gas and $42.91 per barrel of crude oil. There was no ceiling test impairment during the three months ended June 30, 2017.

Selling, general and administrative expenses include the costs of our employees, related benefits, office leases, professional fees and other costs not directly associated with field operations. These expenses decreased $3.5 million to $7.3 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 primarily due to a decrease in office expenses during 2017 as a result of contract rejections in connection with the Chapter 11 Cases. In addition,

non-cash compensation expense for the three months ended June 30, 2017 decreased by $0.1 million as compared to the same period in 2016.

Other Income and Expense

Interest expense decreased to $13.8 million for the three months ended June 30, 2017 from $23.9 million for the three months ended June 30, 2016 primarily due to lower average outstanding debt under our Reserve-Based Credit Facility during the three months ended June 30, 2017 compared to the same period in 2016. In addition, we discontinued recording interest on debt classified as liabilities subject to compromise as of the Petition Date.

Reorganization Items

We have incurred and will continue to incur significant costs associated with the reorganization in connection with the Chapter 11 Cases. These costs are being expensed as incurred, and are expected to significantly affect our results of operations. Reorganization items includes expenses, gains and losses that are the result of the reorganization and restructuring of the business. Professional fees included in reorganization items, represent professional fees for post-petition expenses. Deferred financing costs and unamortized discounts are related to the Senior Notes, and are included in reorganization items as we believe these debt instruments will be impacted by the Chapter 11 Cases. Claims for non-performance of executory contracts include accrued and unpaid amounts representing our current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases. Reorganization items totaled $53.2 million for the three months ended June 30, 2017. See Note 2 to the consolidated financial statements for further details.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenues

Oil, natural gas and NGLs sales increased $50.7 million to $225.6 million during the six months ended June 30, 2017 as compared to the same period in 2016. The key oil, natural gas and NGLs revenue measurements were as follows:

	Six Months Ended June 30,		Percentage Increase / (Decrease)
	2017 [a]	2016 [a]	
Average realized prices, excluding hedges:			
Oil (Price/Bbl)	$ 43.78	$ 32.82	33 %
Natural Gas (Price/Mcf)	$ 2.32	$ 1.23	89 %
NGLs (Price/Bbl)	$ 18.00	$ 10.24	76 %
Average realized prices, including hedges:			
Oil (Price/Bbl)	$ 43.79	$ 51.05	(14)%
Natural Gas (Price/Mcf)	$ 2.32	$ 2.87	(19)%
NGLs (Price/Bbl)	$ 18.00	$ 11.85	52 %
Average NYMEX prices:			
Oil (Price/Bbl)	$ 50.11	$ 39.20	28 %
Natural Gas (Price/Mcf)	$ 3.24	$ 2.03	60 %
Total production volumes:			
Oil (MBbls)	1,957	2,608	(25)%
Natural Gas (MMcf)	47,022	56,211	(16)%
NGLs (MBbls)	1,710	1,954	(12)%
Combined (MMcfe)	69,020	83,585	(17)%
Average daily production volumes:			
Oil (Bbls/day)	10,811	14,331	(25)%
Natural Gas (Mcf/day)	259,788	308,852	(16)%
NGLs (Bbls/day)	9,445	10,737	(12)%
Combined (Mcfe/day)	381,327	459,256	(17)%

(a) During the six months ended June 30, 2017 and 2016, we divested certain oil and natural gas properties and related assets. As such, there are no operating results from these properties included in our operating results from the closing date of the divestitures forward.
(b) Excludes the premiums paid, whether at inception or deferred, for derivative contracts that settled during the period and the fair value of derivative contracts acquired as part of prior period business combinations that apply to contracts settled during the period.

The increase in oil, natural gas and NGLs sales during the six months ended June 30, 2017 compared to the same period in 2016 was due primarily to the increase in average realized oil, natural gas and NGLs prices. Oil revenues remained relatively flat at $85.7 million for the six months ended June 30, 2017 compared to the same period in 2016, as a result of a $10.96 per Bbl, or 33%, increase in average realized oil price, excluding hedges, but offset by a 651 MBbls, or 25%, decrease in our oil production volumes. The increase in average realized oil price is primarily due to a higher average NYMEX price, which increased from $39.20 per Bbl in the first six months of 2016 to $50.11 per Bbl during the first six months of 2017. Natural gas revenues increased by 58% from $69.3 million in the first six months of 2016 to $109.2 million in the first six months of 2017 as a result of a $1.09 per Mcf, or 89%, increase in average realized natural gas price, excluding hedges. The increase in price was partially offset by a 9,189 MMcf decrease in our natural gas production. NGLs revenues also increased 54% during the first six months of 2017 compared to the same period in 2016 due to a $7.76 per Bbl increase in our average realized NGLs price, excluding hedges, offset by a 244 MBbls decrease in NGLs production volumes. Overall, our total production for the six months ended June 30, 2017 decreased by 17% on an Mcfe basis compared to the same period in 2016 primarily due to the divestitures of oil and natural gas properties completed during 2016 and 2017. On an Mcfe basis, crude oil, natural gas and NGLs accounted for 17%, 68% and 15%, respectively, of our production during the six months ended June 30, 2017 compared to 19%, 67% and 14%, respectively, of our production during the same period in 2016.

Hedging and Price Risk Management Activities

During the six months ended June 30, 2017, we recognized a $12.9 million net loss on commodity derivative contracts. Our hedging program is intended to help mitigate the volatility in our operating cash flow. Depending on the type of derivative contract used, hedging generally achieves this by the counterparty paying us when commodity prices are below the hedged price and we pay the counterparty when commodity prices are above the hedged price. In either case, the impact on our operating cash flow is approximately the same. However, because our hedges are currently not designated as cash flow hedges, there can be a significant amount of volatility in our earnings when we record the change in the fair value of all of our derivative contracts. As commodity prices fluctuate, the fair value of those contracts will fluctuate and the impact is reflected in our consolidated statement of operations in the net gains or losses on commodity derivative contracts line item. However, these fair value changes that are reflected in the consolidated statement of operations reflect the value of the derivative contracts to be settled in the future and do not take into consideration the value of the underlying commodity. If the fair value of the derivative contract goes down, it means that the value of the commodity being hedged has gone up, and the net impact to our cash flow when the contract settles and the commodity is sold in the market will be approximately the same. Conversely, if the fair value of the derivative contract goes up, it means the value of the commodity being hedged has gone down and again the net impact to our operating cash flow when the contract settles and the commodity is sold in the market will be approximately the same for the quantities hedged.

Costs and Expenses

Lease operating expenses include expenses such as labor, field office, vehicle, supervision, maintenance, tools and supplies and other customary charges. Lease operating expenses decreased by $5.5 million to $75.3 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, mainly due to a $1.7 million decrease in lease operating expenses related to the divestiture of oil and natural gas properties in the SCOOP/STACK area in Oklahoma completed during 2016 and all our other divestitures completed in 2016 and 2017. In addition, we also have a decrease of $3.8 million in maintenance and repair expenses on existing wells and lower lease operating expenses as a result of cost reduction initiatives including price negotiations with field vendors.

Production and other taxes include severance, ad valorem and other taxes. Severance taxes are a function of volumes and revenues generated from production. Ad valorem taxes vary by state or county and are based on the value of our reserves. Production and other taxes increased by $1.1 million for the six months ended June 30, 2017 as compared to the same period in 2016 primarily due to higher wellhead revenues as a result of the increase in our average realized pricing. As a percentage of wellhead revenues, production, severance and ad valorem taxes decreased from 10.4% for the six months ended June 30, 2016 to 8.5% for the six months ended June 30, 2017. The percentage was lower during the six months ended June 30, 2017 primarily due to the true-up of production and ad valorem taxes from prior periods based on actual tax assessments.

Depreciation, depletion, amortization, and accretion decreased by approximately $35.8 million to $51.1 million for the six months ended June 30, 2017 from approximately $86.8 million for the six months ended June 30, 2016, primarily due to a lower depletion base as a result of the non-cash ceiling impairment charges recorded during 2016 and the divestitures of oil and gas properties completed in 2016 and 2017.

We recorded a non-cash ceiling test impairment of oil and natural gas properties for the six months ended June 30, 2016 of $365.7 million as a result of a decline in oil and natural gas prices at the measurement dates, March 31, 2016 and June 30, 2016. The impairment for the first quarter of 2016 was $207.8 million and was calculated based on the 12-month average price of $2.41 per MMBtu for natural gas and $46.16 per barrel of crude oil. The impairment for the second quarter of 2016 was $157.9 million and was calculated based on the 12-month average price of $2.24 per MMBtu for natural gas and $42.91 per barrel of crude oil. There was no ceiling test impairment during the six months ended June 30, 2017.

Selling, general and administrative expenses include the costs of our employees, related benefits, office leases, professional fees and other costs not directly associated with field operations. These expenses decreased $4.5 million to $15.0 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to a decrease in office expenses during the first six months of 2017 as a result of contract rejections in connection with the Chapter 11 Cases. The decrease in selling, general and administrative expenses was offset by an increase of $0.1 million in non-cash compensation expense for the six months ended June 30, 2017 as compared to the same period in 2016, primarily due to phantom unit awards granted to our executives and board members in January 2017.

Other Income and Expense

Interest expense decreased to $30.3 million for the six months ended June 30, 2017 from $49.6 million for the six months ended June 30, 2016 primarily due to lower average outstanding debt under our Reserve-Based Credit Facility during the six months ended June 30, 2017 compared to the same period in 2016.

In addition, since the commencement of the Bankruptcy Petitions, no interest has been paid to the holders of the Senior Notes due 2019 and Senior Notes due 2020. Also, in accordance with ASC 852, *Reorganizations*, we have accrued interest expense on the Senior Notes due 2019 and Senior Notes due 2020 only up to the Petition Date. The total amount accrued of $10.7 million is reflected as liabilities subject to compromise on the consolidated balance sheet as of June 30, 2017. In addition, contractual interest on liabilities subject to compromise not reflected in the consolidated statements of operations was approximately $14.3 million, representing interest expense from the Petition Date through June 30, 2017. We continue to accrue interest on the Reserve-Based Credit Facility and Senior Secured Second Lien Notes subsequent to the Petition Date since such interest was allowed by the Bankruptcy Court to be paid to the Lenders. During the Chapter 11 Cases, we paid all interest payments due under the Reserve-Based Credit Facility to the extent required by order of the Bankruptcy Court. Also, no interest has been paid to the holders of the Senior Secured Second Lien Notes subsequent to the Petition Date.

Reorganization Items

We have incurred and will continue to incur significant costs associated with the reorganization in connection with the Chapter 11 Cases. These costs are being expensed as incurred, and are expected to significantly affect our results of operations. Reorganization items include expenses, gains and losses that are the result of the reorganization and restructuring of the business. Professional fees included in reorganization items, represent professional fees for post-petition expenses. Deferred financing costs and unamortized discounts are related to the Senior Notes, and are included in reorganization items as we believe these debt instruments will be impacted by the Chapter 11 Cases. Claims for non-performance of executory contracts include accrued and unpaid amounts representing our current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases. Reorganization items totaled $80.0 million for the six months ended June 30, 2017. See Note 2 to the consolidated financial statements for further details.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to select and apply accounting policies that best provide the framework to report our results of operations and financial position. The selection and application of those policies requires management to make difficult subjective or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

As of June 30, 2017, our critical accounting policies were consistent with those discussed in our 2016 Annual Report.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil, natural gas and NGLs reserves and related cash flow estimates used in recording the acquisition of oil and natural gas properties and in impairment tests of oil and natural gas properties and goodwill, the fair value of derivative contracts and asset retirement obligations, accrued oil, natural gas and NGLs revenues and expenses, as well as estimates of expenses related to depreciation, depletion, amortization and accretion. Actual results could differ from those estimates.

Liquidity and Capital Resources

Overview

Historically, we have obtained financing through proceeds from bank borrowings, cash flow from operations and from the public equity and debt markets to provide us with the capital resources and liquidity necessary to operate our business. To date, the primary use of capital has been for the acquisition and development of oil and natural gas properties. Our future success in growing reserves, production and cash flow will be highly dependent on the capital resources available to us and our success in drilling for and acquiring additional reserves.

Liquidity After Filing Under Chapter 11 of the United States Bankruptcy Code

Subject to certain exceptions under the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the Bankruptcy Petitions. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the Debtors' property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a prepetition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

The Bankruptcy Court has approved payment of certain prepetition obligations, including payments for employee wages, salaries and certain other benefits, customer programs, taxes, certain utilities, insurance, surety bond premiums as well as payments to critical vendors and possessory lien vendors.

In addition to the cash requirements necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with our Chapter 11 Cases and expect that we may continue to incur significant professional fees and costs following our emergence from the Chapter 11 Cases. The Company believes it has sufficient liquidity to fund anticipated cash requirements through the Chapter 11 Cases for minimum operating and capital expenditures and for working capital purposes and excluding principal and interest payments on our outstanding debt. As such, the Company expects to pay vendor, royalty and surety obligations on a go-forward basis according to the terms of our current contracts and consistent with applicable court orders approving such payments.

Cash Flow from Operations

Net cash provided by operating activities was $73.9 million during the six months ended June 30, 2017, compared to $91.6 million during the six months ended June 30, 2016. Changes in working capital increased total cash flows by $6.7 million for the six months ended June 30, 2017 and decreased total cash flows by $58.5 million in the same period in 2016. Contributing to the increase in working capital during 2017 was a $14.8 million decrease in accounts receivable related to the timing of receipts from production and a $0.4 million decrease in other assets substantially related to prepaid drilling costs actually spent during the period. The increase was offset by a $8.9 million net decrease in accounts payable, oil and natural gas revenue payable and accrued expenses and other current liabilities that resulted primarily from the timing effects of payments. The change in the fair value of our derivative contracts are non-cash items and therefore did not impact our liquidity or cash flows provided by operating activities during the six months ended June 30, 2017 and 2016.

Our cash flow from operations is subject to many variables, the most significant of which is the volatility of oil, natural gas and NGLs prices. Oil, natural gas and NGLs prices are determined primarily by prevailing market conditions, which are dependent on regional and worldwide economic activity, weather, and other factors beyond our control. Future cash flow from operations will depend on our ability to maintain and increase production through our drilling program and acquisitions, respectively, as well as the prices received for production. We have historically entered into derivative contracts to reduce the impact of commodity price volatility on operations. During 2016, we primarily used fixed-price swaps, basis swap contracts and other hedge option contracts to hedge oil and natural gas prices. We monetized all of our commodity derivative contracts in

2016 but have entered into new commodity derivative contracts in June 2017. See Note 5. *Price and Interest Rate Risk Management Activities* in the Notes to Consolidated Financial Statements and Part I—Item 3—Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk, for further discussion.

Cash Flow from Investing Activities

Net cash provided by investing activities was approximately $67.4 million for the six months ended June 30, 2017, compared to $244.7 million during the same period in 2016. Net cash provided by investing activities during the first six months of 2017 was primarily from $107.7 million in proceeds from the sale of oil and natural gas properties. In addition, we paid $17.9 million for the drilling and development of oil and natural gas properties and $22.3 million for deposits and prepayments related to the drilling and development of oil and natural gas properties. Net cash provided by investing activities during the six months ended June 30, 2016 primarily included $285.6 million in proceeds from the sale of oil and natural gas properties. Also during the first six months of 2016 cash used in investing activities included $28.0 million for the drilling and development of oil and natural gas properties, $7.5 million for the acquisition of a 51% joint venture interest in the Potato Hills Gas Gathering System, and $5.3 million for deposits and prepayments related to the acquisition and drilling and development of oil and natural gas properties.

Cash Flow from Financing Activities

Net cash used in financing activities was approximately $23.0 million and $305.1 million for the six months ended June 30, 2017 and 2016, respectively. Cash used in financing activities during the six months ended June 30, 2017 primarily included $22.7 million in net repayments of our long-term debt. Net cash used in financing activities during the six months ended June 30, 2016 included $283.7 million in net repayments of our long-term debt and $18.6 million cash paid to preferred, common and Class B unitholders in the form of distributions.

Debt and Credit Facilities

Acceleration of Debt Obligations

The Debtors filing of the Bankruptcy Petitions on the Petition Date constituted an event of default that accelerated our indebtedness under our Reserve-Based Credit Facility, our Senior Notes due 2019, Senior Notes due 2020 and our Old Second Lien Notes, all of which we describe in further detail below. Any efforts to enforce such obligations under the respective Credit Agreement and Indentures were stayed automatically as a result of the filing of the Bankruptcy Petitions and the holders' rights of enforcement in respect of the Credit Agreement and Indentures were subject to the applicable provisions of the Bankruptcy Code. Amounts outstanding under our prepetition Reserve-Based Credit Facility and Senior Secured Second Lien Notes were reclassified as current liabilities in the consolidated balance sheet as of June 30, 2017 due to cross-default provisions as a result of the Bankruptcy Petitions. These amounts have not been classified as liabilities subject to compromise as we believe the value of the underlying assets provides sufficient collateral to satisfy such obligations. In addition, the unsecured obligations under our Senior Notes due in 2019 and Senior Notes due 2020 are included in liabilities subject to compromise in the consolidated balance sheet as of June 30, 2017.

We accelerated the amortization of the remaining debt issue discount of $12.8 million and debt issue costs of $3.6 million associated with the Senior Notes due 2019 and Senior Notes due 2020, fully amortizing those amounts as of the Petition Date. We entered into a restructuring agreement with the Lenders under our Reserve-Based Credit Facility, along with the Restructuring Support Agreement with certain holders of the Senior Secured Second Lien Notes, which was approved by the Bankruptcy Court. Accordingly, we have not accelerated the amortization of the remaining debt issue costs related to the Reserve-Based Credit Facility and Senior Secured Second Lien Notes.

Since the commencement of the Bankruptcy Petitions, no interest has been paid to the holders of the Senior Notes due 2019 and Senior Notes due 2020. Also, in accordance with ASC 852, *Reorganizations*, we have accrued interest expense on the Senior Notes due 2019 and Senior Notes due 2020 only up to the Petition Date. The total amount accrued of $10.7 million is reflected as liabilities subject to compromise on the consolidated balance sheet as of June 30, 2017. In addition, contractual interest on liabilities subject to compromise not reflected in the consolidated statements of operations was approximately $14.3 million, representing interest expense from the Petition Date through June 30, 2017. We continued to accrue interest on the Reserve-Based Credit Facility and Old Second Lien Notes subsequent to the Petition Date since such interest was allowed by the Bankruptcy Court to be paid to the Lenders.. During the Chapter 11 Cases, we paid all interest payments due under the Reserve-Based Credit Facility to the extent required by order of the Bankruptcy Court. Also, no interest was paid to the holders of the Old Second Lien Notes subsequent to the Petition Date.

Senior Secured Reserve-Based Credit Facility

The Company's Third Amended and Restated Credit Agreement (the "Credit Agreement") provides a maximum credit facility of $3.5 billion and a borrowing base of $1.1 billion (the "Reserve-Based Credit Facility"). As of June 30, 2017 there were approximately $1.2 billion of outstanding borrowings and approximately $0.2 million in outstanding letters of credit resulting in a borrowing deficiency of $148.9 million under the Reserve-Based Credit Facility.

The Reserve-Based Credit Facility was secured by a first priority security interest in and lien on substantially all of the Debtors' assets, including the proceeds thereof and after-acquired property. Therefore, upon the acceleration as a consequence of the commencement of the Chapter 11 Cases, we reclassified the amount outstanding under our Reserve-Based Credit Facility to current portion of long-term debt, as the principal became immediately due and payable. However, any efforts to enforce such payment obligations were automatically stayed as a result of the filing of the Bankruptcy Petitions. Pursuant to the Final Plan, we entered into a new Company reserve-based lending facility (the "New Facility") on terms substantially the same as the Reserve-Based Credit Facility and provided by the same lenders under the Reserve-Based Credit Facility.

Letters of Credit

At June 30, 2017, we have unused irrevocable standby letters of credit of approximately $0.2 million. The letters are being maintained as security related to the issuance of oil and natural gas well permits to recover potential costs of repairs, modification, or construction to remedy damages to properties caused by the operator. Borrowing availability for the letters of credit is provided under our Reserve-Based Credit Facility. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with marketing counterparties.

8.375% Senior Notes Due 2019

At June 30, 2017, we had $51.1 million outstanding in aggregate principal amount of 8.375% senior notes due in 2019 (the "Senior Notes due 2019"). The Senior Notes due 2019 were assumed by VO in connection with the Eagle Rock Merger.

7.875% Senior Notes Due 2020

At June 30, 2017, we had $381.8 million outstanding in aggregate principal amount of 7.875% senior notes due in 2020 (the "Senior Notes due 2020"). The issuers of the Senior Notes due 2020 were the Predecessor and Successor.

7.0% Senior Secured Second Lien Notes Due 2023

On February 10, 2016, we issued approximately $75.6 million aggregate principal amount of new 7.0% Senior Secured Second Lien Notes due 2023 (the "Old Second Lien Notes") to certain eligible holders of our outstanding Senior Notes due 2020 in exchange for approximately $168.2 million aggregate principal amount of the Senior Notes due 2020 held by such holders.

The exchanges were accounted for as an extinguishment of debt. As a result, we recorded a gain on extinguishment of debt of $89.7 million during 2016, which is the difference between the aggregate fair market value of the Senior Secured Second Lien Notes issued and the carrying amount of Senior Notes due 2020 included in the exchange, net of unamortized bond discount and deferred financing costs, of $165.3 million.

Lease Financing Obligations

On October 24, 2014, as part of acquisition of certain natural gas, oil and NGLs assets in the Piceance Basin (the "Piceance Acquisition"), we entered into an assignment and assumption agreement with Banc of America Leasing & Capital, LLC as the lead bank, whereby we acquired compressors and related facilities, and assumed the related financing obligations (the "Lease Financing Obligations"). Certain rights, title, interest and obligations under the Lease Financing Obligations have been assigned to several lenders and are covered by separate assignment agreements, which expire on August 10, 2020 and July 10, 2021. We have the option to purchase the equipment at the end of the lease term for the current fair market value. The Lease Financing Obligations also contain an early buyout option whereby the Company may purchase the equipment for $16.0 million on February 10, 2019. The lease payments related to the equipment are recognized as principal and interest expense based on a weighted average implicit interest rate of 4.16%.

Off-Balance Sheet Arrangements

At June 30, 2017, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on our financial position or results of operations.

Contingencies

We regularly analyze current information and accrue for probable liabilities on the disposition of certain matters, as necessary. Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been

incurred and the amount can be reasonably estimated.

Commitments and Contractual Obligations

A summary of our contractual obligations as of June 30, 2017 is provided in the following table (in thousands):

	Payments Due by Year						
	2017	2018	2019	2020	2021	After 2021	Total
Management base salaries	$ 795	$ 1,670	$ —	$ —	$ —	$ —	$ 2,465
Asset retirement obligations [1]	5,022	6,758	7,095	7,450	7,823	235,266	269,413
Derivative liabilities	3,728	7,560	3,643	2,066	—	—	16,997
Reserve-Based Credit Facility [2][3]	1,248,795	—	—	—	—	—	1,248,795
Senior Notes and interest [3][4]	526,600	—	—	—	—	—	526,600
Operating leases	613	1,202	1,149	1,136	1,169	5,707	10,976
Development commitments [5]	13,351	—	—	—	—	—	13,351
Firm transportation agreements [6]	760	1,009	820	410	—	—	2,999
Lease financing obligations [7]	2,721	5,442	5,442	4,359	1,278	—	19,242
Other future obligations	234	468	308	—	—	—	1,010
Total	$ 1,802,619	$ 24,109	$ 18,457	$ 15,421	$ 10,270	$ 240,973	$ 2,111,848

(1) Represents the discounted future plugging and abandonment costs of oil and natural gas wells and decommissioning of our Elk Basin, Big Escambia Creek and Fairway gas plants. Please read Note 7. *Asset Retirement Obligations* of the Notes to the Consolidated Financial Statements for additional information regarding our asset retirement obligations.
(2) This table does not include interest to be paid on the principal balances shown as the interest rates on our financing arrangements are variable.
(3) As previously discussed, the commencement of the Chapter 11 Cases on February 1, 2017 constitutes an event of default that accelerated our indebtedness under our Reserve-Based Credit Facility, our Senior Notes due 2019, Senior Notes due 2020, and our Old Second Lien Notes. Accordingly, all amounts due under our Reserve-Based Credit Facility and Old Second Lien Notes were reclassified as current liabilities, and our unsecured obligations under our Senior Notes due 2019 and Senior Notes due 2020 are included in liabilities subject to compromise in the consolidated balance sheet as of June 30, 2017.
(4) Consists of the Senior Notes due 2019, the Senior Notes due 2020, the Old Second Lien Notes and the related interest thereon. Since the commencement of the Bankruptcy Petitions, no interest has been paid to the holders of the Senior Notes due 2019 and Senior Notes due 2020. Also, in accordance with ASC 852, *Reorganizations*, we have accrued interest expense on the Senior Notes due 2019 and Senior Notes due 2020 only up to the Petition Date.
(5) Represents authorized expenditures for drilling, completion and major workover projects.
(6) Represents transportation demand charges. Please read Note 8. *Commitments and Contingencies* of the Notes to the Consolidated Financial Statements for additional information regarding our firm transportation agreements.
(7) The Lease Financing Obligations are calculated based on the aggregate present value of minimum future lease payments. The amounts presented include interest payable for each year.

Non-GAAP Financial Measure

Adjusted EBITDA

We present Adjusted EBITDA in addition to our reported net income (loss) attributable to Vanguard unitholders in accordance with GAAP. Adjusted EBITDA is a non-GAAP financial measure that is defined as net income (loss) attributable to Vanguard unitholders plus:

- Net income (loss) attributable to non-controlling interest.

The result is net income (loss) which includes the non-controlling interest. From this we add or subtract the following:

- Net interest expense;
- Depreciation, depletion, amortization, and accretion;
- Impairment of oil and natural gas properties;
- Net gains or losses on commodity derivative contracts;
- Cash settlements on matured commodity derivative contracts;
- Net gains or losses on interest rate derivative contracts;
- Gain on extinguishment of debt;
- Net gains or losses on acquisitions of oil and gas properties;
- Texas margin taxes;
- Compensation related items, which include unit-based compensation expense, unrealized fair value of phantom units granted to officers and cash settlement of phantom units granted to officers;
- Reorganization items;
- Transaction costs incurred on acquisitions, mergers and divestitures; and
- Non-controlling interest amounts attributable to each of the items above which revert the calculation back to an amount attributable to the Vanguard unitholders.

Adjusted EBITDA is a significant performance metric used by management as a tool to measure (prior to the establishment of any cash reserves by our board of directors, debt service and capital expenditures) the cash distributions we could pay our unitholders. Specifically, this financial measure indicates to investors whether or not we are generating cash flow at a level that can sustain or support an increase in our monthly distribution rates. Adjusted EBITDA is also used as a quantitative standard by our management and by external users of our financial statements such as investors, research analysts and others to assess the financial performance of our assets without regard to financing methods, capital structure or historical cost basis; the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness; and our operating performance and return on capital as compared to those of other companies in our industry.

Our Adjusted EBITDA should not be considered as an alternative to net income (loss), operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. Our Adjusted EBITDA excludes some, but not all, items that affect net income and operating income and these measures may vary among other companies. Therefore, our Adjusted EBITDA may not be comparable to similarly titled measures of other companies. For example, we fund premiums paid for derivative contracts, acquisitions of oil and natural gas properties, including the assumption of derivative contracts related to these acquisitions, and other capital expenditures primarily with proceeds from debt or equity offerings or with borrowings under our Reserve-Based Credit Facility. For the purposes of calculating Adjusted EBITDA, we consider the cost of premiums paid for derivatives and the fair value of derivative contracts acquired as part of a business combination as investments related to our underlying oil and natural gas properties; therefore, they are not deducted in arriving at our Adjusted EBITDA. Our Consolidated Statements of Cash Flows, prepared in accordance with GAAP, present cash settlements on matured derivatives and the initial cash outflows of premiums paid to enter into derivative contracts as operating activities. When we assume derivative contracts as part of a business combination, we allocate a part of the purchase price and assign them a fair value at the closing date of the acquisition. The fair value of the derivative contracts acquired is recorded as a derivative asset or liability and presented as cash used in investing activities in our Consolidated Statements of Cash Flows. As the volumes associated with these derivative contracts, whether we entered into them or we assumed them, are settled, the fair value is recognized in operating cash flows. Whether these cash settlements on derivatives are received or paid, they are reported as operating cash flows which may increase or decrease the amount we have available to fund distributions.

As noted above, for purposes of calculating Adjusted EBITDA, we consider both premiums paid for derivatives and the fair value of derivative contracts acquired as part of a business combination as investing activities. This is similar to the way

the initial acquisition or development costs of our oil and natural gas properties are presented in our Consolidated Statements of Cash Flows; the initial cash outflows are presented as cash used in investing activities, while the cash flows generated from these assets are included in operating cash flows. The consideration of premiums paid for derivatives and the fair value of derivative contracts acquired as part of a business combination as investing activities for purposes of determining our Adjusted EBITDA differs from the presentation in our consolidated financial statements prepared in accordance with GAAP which (i) presents premiums paid for derivatives entered into as operating activities and (ii) the fair value of derivative contracts acquired as part of a business combination as investing activities.

For the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, Adjusted EBITDA attributable to Vanguard unitholders decreased 42%, from $199.5 million to $115.4 million. The following table presents a reconciliation of consolidated net loss to Adjusted EBITDA (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss attributable to Vanguard unitholders	$ (53,867)	$ (260,789)	$ (62,791)	$ (406,072)
Add: Net income (loss) attributable to non-controlling interests	(5)	40	12	64
Net loss	$ (53,872)	$ (260,749)	$ (62,779)	$ (406,008)
Plus:				
Interest expense	13,832	23,932	30,273	49,636
Depreciation, depletion, amortization, and accretion	25,328	38,786	51,056	86,839
Impairment of oil and natural gas properties	—	157,894	—	365,658
Change in fair value of commodity derivative contracts [(a)]	12,875	133,780	12,875	171,253
Premiums paid, whether at inception or deferred, for derivative contracts that settled during the period [(a)]	—	823	—	1,699
Fair value of derivative contracts acquired that apply to contracts settled during the period [(a)]	—	3,866	—	6,375
Net (gains) losses on interest rate derivative contracts [(b)]	—	2,135	(30)	6,825
Gain on extinguishment of debt	—	—	—	(89,714)
Net loss on acquisition of oil and natural gas properties	—	1,665	—	1,665
Texas margin taxes	(436)	(699)	(792)	(2,634)
Compensation related items	2,456	2,578	5,086	4,975
Reorganization items	53,221	—	79,967	—
Transaction costs incurred on acquisitions, mergers and divestitures	—	2,779	—	3,123
Adjusted EBITDA before non-controlling interest	53,404	106,790	115,656	199,692
Adjusted EBITDA attributable to non-controlling interest	(116)	(116)	(232)	(232)
Adjusted EBITDA attributable to Vanguard unitholders	$ 53,288	$ 106,674	$ 115,424	$ 199,460

(a) These items are included in the net losses on commodity derivative contracts line item in the consolidated statements of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net cash settlements received on matured commodity derivative contracts	$ —	$ 69,859	$ 7	$ 142,476
Change in fair value of commodity derivative contracts	(12,875)	(133,780)	(12,875)	(171,253)
Premiums paid, whether at inception or deferred, for derivative contracts that settled during the period	—	(823)	—	(1,699)
Fair value of derivative contracts acquired that apply to contracts settled during the period	—	(3,866)	—	(6,375)
Net losses on commodity derivative contracts	$ (12,875)	$ (68,610)	$ (12,868)	$ (36,851)

(b) Net gains (losses) on interest rate derivative contracts as shown on the consolidated statements of operations is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cash settlements paid on interest rate derivative contracts	$ —	$ (2,123)	$ (95)	$ (4,727)
Change in fair value of interest rate derivative contracts	—	(12)	125	(2,098)
Net gains (losses) on interest rate derivative contracts	$ —	$ (2,135)	$ 30	$ (6,825)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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, natural gas and NGLs prices and interest rates. The disclosures are not meant to be precise indicators of exposure, but rather indicators of potential exposure. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk sensitive instruments were entered into for purposes other than speculative trading. Conditions sometimes arise where actual production is less than estimated, which has, and could result in over-hedged volumes. For a detailed discussion of the risk factors that relate to our potential exposure to market risks, please refer to Part I—Item 1A—Risk Factors in our 2016 Annual Report on Form 10-K.

Commodity Price Risk

Our primary market risk exposure is in the prices we receive for our oil, natural gas and NGLs production. Realized pricing is primarily driven by prevailing spot market prices at our primary sales points and the applicable index prices. Pricing for oil, natural gas and NGLs production has been volatile and unpredictable for several years, and we expect this volatility to continue in the future. The prices we receive for production depend on many factors outside our control. In addition, the potential exists that if commodity prices decline to a certain level, the borrowing base for our Reserve-Based Credit Facility can be decreased at the borrowing base redetermination date to an amount lower than the amount of debt currently outstanding and, because it would be uneconomical, production could decline to levels below our hedged volumes. Furthermore, the risk that we will be required to write-down the carrying value of our oil and natural gas properties increases when oil and natural gas prices are low or volatile. In addition, write-downs may occur if we experience substantial downward adjustments to our estimated proved reserves, or if estimated future development costs increase.

We routinely enter into derivative contracts with respect to a portion of our projected oil and natural gas production through various transactions that mitigate the volatility of future prices received as follows:

- *Fixed-price swaps* - where we will receive a fixed-price for our production and pay a variable market price to the contract counterparty.
- *Collars* - where we pay the counterparty if the market price is above the ceiling price (short call) and the counterparty pays us if the market price is below the floor (long put) on a notional quantity.

In deciding which type of derivative instrument to use, our management considers the relative benefit of each type against any cost that would be incurred, prevailing commodity market conditions and management’s view on future commodity pricing. The amount of oil and natural gas production which is hedged is determined by applying a percentage to the expected amount of production in our most current reserve report in a given year. Typically, management intends to hedge 75% to 85% of projected oil and natural gas production up to a four year period. These activities are intended to support our realized commodity prices at targeted levels and to manage our exposure to oil and natural gas price fluctuations. We have also entered into fixed-price swaps derivative contracts to cover a portion of our NGLs production to reduce exposure to fluctuations in NGLs prices. However, a liquid, readily available and commercially viable market for hedging NGLs has not developed in the same way that exists for crude oil and natural gas. The current direct NGL hedging market is constrained in terms of price, volume, duration and number of counterparties, which limits our ability to hedge our NGL production effectively or at all. It is never management’s intention to hold or issue derivative instruments for speculative trading purposes. Management will consider liquidating a derivative contract, if they believe that they can take advantage of an unusual market condition allowing them to realize a current gain and then have the ability to enter into a new derivative contract in the future at or above the commodity price of the contract that was liquidated.

In October and December 2016, the Company monetized substantially all of our outstanding price commodity and interest rate hedges for total proceeds of approximately $54.0 million. The Company used the net proceeds from the hedge settlements to make deficiency payments under its Reserve-Based Credit Facility. In June 2017, we entered into derivative contracts primarily with counterparties that are also lenders under our Reserve-Based Credit Facility to hedge price risk associated with a portion of our oil, natural gas and NGLs production, commencing with August 2017 production volumes.

At June 30, 2017, the fair value of commodity derivative contracts was a liability of approximately $12.9 million, of which $4.7 million settles during the next twelve months.

The following tables summarize oil, natural gas and NGLs commodity derivative contracts in place at June 30, 2017.

	August 1 - December 31, 2017	Year 2018	Year 2019	Year 2020
Gas Positions:				
Fixed-Price Swaps:				
Notional Volume (MMBtu)	22,950,000	48,800,000	20,637,500	11,895,000
Fixed Price ($/MMBtu)	$ 3.12	$ 3.02	$ 2.86	$ 2.79
Collars:				
Notional Volume (MMBtu)	—	—	4,125,000	5,490,000
Floor Price ($/MMBtu)	$ —	$ —	$ 2.60	$ 2.60
Ceiling Price ($/MMBtu)	$ —	$ —	$ 3.00	$ 3.00

	August 1 - December 31, 2017	Year 2018	Year 2019	Year 2020
Oil Positions:				
Fixed-Price Swaps (West Texas Intermediate):				
Notional Volume (Bbls)	1,365,100	3,059,200	821,250	622,200
Fixed Price ($/Bbl)	$ 45.20	$ 46.47	$ 47.42	$ 48.92
Collars:				
Notional Volume (Bbls)	—	—	273,750	219,600
Floor Price ($/Bbl)	$ —	$ —	$ 42.50	$ 42.50
Ceiling Price ($/Bbl)	$ —	$ —	$ 53.60	$ 56.10

	August 1 - December 31, 2017	Year 2018
NGLs Positions:		
Fixed-Price Swaps:		
Mont Belvieu Ethane		
Notional Volume (Bbls)	107,100	219,000
Fixed Price ($/Bbl)	$ 10.50	$ 11.55
Mont Belvieu Propane		
Notional Volume (Bbls)	244,800	547,500
Fixed Price ($/Bbl)	$ 24.15	$ 22.16
Mont Belvieu N. Butane		
Notional Volume (Bbls)	91,800	182,500
Fixed Price ($/Bbl)	$ 29.40	$ 27.09
Mont Belvieu Isobutane		
Notional Volume (Bbls)	61,200	146,000
Fixed Price ($/Bbl)	$ 29.19	$ 27.41
Mont Belvieu N. Gasoline		
Notional Volume (Bbls)	122,400	255,500
Fixed Price ($/Bbl)	$ 41.27	$ 41.69

Interest Rate Risks

At June 30, 2017, we had debt outstanding of $1.8 billion. The amount outstanding under our Reserve-Based Credit Facility at June 30, 2017 was approximately $1.25 billion and is subject to interest at floating rates based on LIBOR. If the debt remains the same, a 10% increase in LIBOR would result in an estimated $1.5 million increase in annual interest expense.

Historically, we entered into interest rate swaps, which require exchanges of cash flows that serve to synthetically convert a portion of our variable interest rate obligations to fixed interest rates. The Company recorded changes in the fair value of its interest rate derivatives in current earnings under net gains or losses on interest rate derivative contracts. At June 30, 2017, the Company had no outstanding interest rate hedge agreements.

Counterparty Risk

At June 30, 2017, based upon all of our open derivative contracts shown above and their respective mark to market values, we had the following current and long-term derivative liabilities shown by counterparty with their current Standard & Poor's financial strength rating in parentheses (in thousands):

	Current Liabilities	Long-Term Liabilities	Total Amount Due From/(Owed To) Counterparty at June 30, 2017
ABN AMRO (A+)	$ (3,825)	$ (4,242)	$ (8,067)
Citibank (A+)	(841)	(2,768)	(3,609)
Huntington Bank (A-)	(28)	(1,171)	(1,199)
Total	$ (4,694)	$ (8,181)	$ (12,875)

In order to mitigate the credit risk of financial instruments, we enter into master netting agreements with our counterparties. The master netting agreement is a standardized, bilateral contract between a given counterparty and us. Instead of treating each financial transaction between the counterparty and us separately, the master netting agreement enables the counterparty and us to aggregate all financial trades and treat them as a single agreement. This arrangement is intended to benefit us in two ways: (1) default by a counterparty under one financial trade can trigger rights to terminate all financial trades with such counterparty; and (2) netting of settlement amounts reduces our credit exposure to a given counterparty in the event of close-out.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) promulgated under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this Quarterly Report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2017 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are defendants in certain legal proceedings arising in the normal course of our business. We are also a party to separate legal proceedings relating to (i) our merger with LRR Energy, L.P. (the "LRE Merger Litigation"), and (ii) our exchange (the Debt Exchange) of the Senior Notes due 2020 for the Old Second Lien Notes (please read Note 4. Debt of the Notes to the Consolidated Financial Statements for further discussion). Since the filing of the Company's 2016 Annual Report on Form 10-K, there have been no material developments with respect to the legal proceedings related to the Debt Exchange litigation.

With respect to the LRE Merger Litigation, the court in the LRE Merger Litigation has denied the defendants' motion to dismiss and set the lawsuit for a one-week jury trial beginning on February 11, 2019. The parties are currently engaged in the pre-trial discovery process. For more information concerning the LRE Merger Litigation, please see our 2016 Annual Report on Form 10-K.

Pursuant to 11 U.S.C. § 362, the Company's legal proceedings were automatically stayed as to the debtors through the Effective Date. Please see Note 2. Chapter 11 Cases under Item 1. Unaudited Consolidated Financial Statements, for information regarding our Chapter 11 Cases.

While the outcome and impact of such legal proceedings on the Company cannot be predicted with certainty, management does not believe that it is probable that the outcome of these actions will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow. In addition, we are not aware of any legal or governmental proceedings against us, or contemplated to be brought against us, under the various environmental protection statutes to which we are subject.

Item 1A. Risk Factors

Our business faces many risks. Any of the risks discussed in this Quarterly Report or our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our securities, please refer to Part I—Item 1A—Risk Factors in our 2016 Annual Report on Form 10-K. There have been no material changes to the risk factors set forth in our 2016 Annual Report on Form 10-K.

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

On the Effective Date, the Company issued the following in accordance with the Plan:

- 678,464 shares of New Common Stock were issued pro rata to holders of claims arising under the Senior Notes;
- 1,283,333 shares of New Common Stock were issued pro rata to holders of the Old Second Lien Notes in exchange for a fully committed $19.25 million investment;
- 678,405 shares of New Common Stock were issued to participants in the 1145 rights offering extended by the Debtors to certain holders of claims arising under the Senior Notes (including certain of the commitment parties party to the Backstop Commitment Agreement);
- 7,846,595 shares of New Common Stock were issued to participants who were eligible to participate in the accredited investor rights offering extended by the Debtors to certain holders of claims arising under the Senior Notes (including certain of the commitment parties party to the Backstop Commitment Agreement);
- 1,023,000 shares of New Common Stock were issued to commitment parties under the Amended and Restated Backstop Commitment Agreement in respect of the premium due thereunder;
- 8,525,000 shares of New Common Stock were issued to commitment parties under the Amended and Restated Backstop Commitment Agreement in connection with their backstop obligation thereunder together

with 1,482,021 shares of New Common Stock reflecting shares purchased by such commitment parties in respect of unsubscribed shares in the rights offerings; and

- 20,983 shares of New Common Stock were issued to holders of Old Vanguard's Preferred Units.

With the exception of New Common Stock described in the second, fourth and sixth bullets above, New Common Stock will be issued under the Plan pursuant to an exemption from the registration requirements of the Securities Act under Section 1145 of the Bankruptcy Code (an "1145 Exemption"). New Common Stock described in the second, fourth and sixth bullets above will be issued under the exemption from registration requirements of the Securities Act provided by Section 4(a)(2) thereof.

As of the Effective Date, there were 20.1 million shares of New Common Stock issued and outstanding.

Pursuant to the Plan, the Company will also issue the following series of Warrants pursuant to an 1145 Exemption:

- To electing holders of Old Vanguard's Preferred Units, three and a half year Preferred Unit New Warrants, which will be exercisable to purchase up to 621,649.49 shares of the New Common Stock as of the Effective Date, subject to dilution. The expiration date of the Preferred Unit New Warrants will be February 1, 2021, and the strike price is $44.25; and

- To electing holders of Old Vanguard's Common Units, three and a half year Common Unit New Warrants, which will be exercisable to purchase up to 640,875.75 shares of the New Common Stock as of the Effective Date, subject to dilution. The expiration date of the Common Unit New Warrants will be February 1, 2021, and the strike price is $61.45.

The Debtors distributed waiver election notices (the "Waiver Election Notices") to holders of Old Vanguard's Preferred Units and Common Units. The Company will delay the issuance of the Warrants to give such holders time to respond to the Waiver Election Notices.

A maximum of 44,220 shares of New Common Stock will be reserved to distribute to general unsecured creditors electing to have their general unsecured claims paid in New Common Stock, and will be issued thereto under an 1145 Exemption. If the elections of such general unsecured claims are found to be invalid, then ninety-seven percent (97%) of the remaining unissued shares will be issued pro rata to holders of claims arising under the Senior Notes and three percent (3%) of the remaining unissued shares will be issued pro rata to holders of Old Vanguard's Preferred Units, in each case on account of their claims under the Plan pursuant to the 1145 Exemption.

The Company expects listing of the New Common Stock to commence on the OTCQX for the end of the third quarter of 2017.

Item 3. Defaults Upon Senior Securities

The filing of the voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code on February 1, 2017 constituted an event of default that accelerated the Company's indebtedness under the Company's Reserve-Based Credit Facility, its Senior Notes due 2019, Senior Notes due 2020 and its Old Second Lien Notes. Accordingly, all amounts due under our Reserve-Based Credit Facility and Old Second Lien Notes were reclassified as current liabilities, and our unsecured obligations under our Senior Notes due 2019 and Senior Notes due 2020 are included in liabilities subject to compromise in the consolidated balance sheet as of June 30, 2017. Any efforts to enforce such obligations under the related Credit Agreement and Indentures were stayed automatically as a result of the filing of the Bankruptcy Petitions and the holders' rights of enforcement in respect of the Credit Agreement and Indentures are subject to the applicable provisions of the Bankruptcy Code.

In accordance with the Plan, on the Effective Date, the obligations of the Debtors with respect to the following indebtedness were cancelled and discharged:

- Third Amended and Restated Credit Agreement dated as of September 30, 2011, by and among VNG as borrower, Citibank, N.A. as administrative agent, and the lenders party thereto;

- The 7.0% Senior Secured Second Lien Notes due February 15, 2023, issued under the Indenture, dated as of February 10, 2016, among the Predecessor and the Successors, as issuers, the subsidiary guarantors named

therein, as guarantors, and Delaware Trust Company, as trustee, as amended, supplemented or modified from time to time;

- Indenture, dated as of May 27, 2011, by and among Vanguard Operating, LLC (previously Eagle Rock Energy Partners, L.P. and Energy Rock Energy Finance Corp.), as issuer, the guarantors named therein, and Wilmington Trust, N.A., as trustee, relating to the Senior Notes due June 1, 2019, as amended, restated, or otherwise supplemented from time to time; and

- Indenture, dated as of April 4, 2012, among the Predecessor and the Successor, as issuers, the subsidiary guarantors named therein, as guarantors, and UMB Bank, N.A., as trustee, relating to the 7.875% Senior Notes due April 1, 2020, as amended, supplemented or modified from time to time.

On the Effective Date, except as otherwise specifically provided for in the Plan, the obligations of the Debtors, the guarantees, the indentures relating to the Senior Notes and any other certificate, share, note, bond, indenture, purchase right, option, warrant, or other instrument or document directly or indirectly evidencing or creating any indebtedness or obligation of or ownership interest in any of the Debtors giving rise to any claim or equity interest (except as provided under the Plan), were cancelled as to the Debtors and their affiliates, and the reorganized Company and its affiliates ceased to have any obligations thereunder.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(b) Item 407(c)(3) of Regulation S-K

On the Effective Date and pursuant to the Plan, the Company adopted the Amended and Restated Bylaws (the “Bylaws”). The Bylaws provide that a stockholder of record of the Company (“Record Stockholder”) at the time of the giving of the notice described below who is entitled to vote at an annual meeting of the stockholders and who has complied with the notice procedures described below, may nominate persons for election to the board of directors at the annual meeting.

Unless otherwise required by applicable law or the Certificate of Incorporation, from and after the date on which the Company completes a Public Listing or an IPO (as each term is defined in the Bylaws), only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company, except as may be otherwise provided in the instrument of designation of any series of preferred stock of the Company with respect to the right of holders of preferred stock of the Company to nominate and elect a specified number of directors of the Company, who shall be nominated as provided therein. For the avoidance of doubt, the stockholder nomination provisions in the Bylaws shall not apply prior to completion of a Public Listing or an IPO.

Nominations of persons for election to the Board of Directors shall be made only at an annual or special meeting of stockholders of the Company called for the purpose of electing directors and must be (i) specified in the notice of meeting (or any supplement or amendment thereto) and (ii) made by (A) the Board of Directors or a duly authorized committee of the Board of Directors (or at the direction thereof) or (B) made by any stockholder of the Corporation (1) who is a stockholder of record on the date of the giving of the notice provided for in the Bylaws and at the time of the meeting and is entitled to vote at such meeting and (2) who complies with the notice procedures set forth in the Bylaws.

In addition to any other applicable requirements, for a nomination to be made by a stockholder of the Company, such stockholder must have given timely notice thereof in proper written form to the Secretary. To be timely, a stockholder’s notice to the Secretary must be delivered to or mailed and received by the Secretary at the principal executive office of the Corporation: (i) in the case of an annual meeting of the stockholders of the Corporation, no fewer than ninety (90) nor more than one hundred twenty (120) days prior to the first (1st) anniversary of the immediately preceding annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting was mailed or public announcement of the date of the annual meeting was made, whichever occurs first, and (ii) in the case of a special meeting of stockholders of the Company called for the purpose of electing directors, not less than sixty (60) days prior

to the meeting; provided, however, that in the event that less than seventy (70) days' notice of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the earlier of the day on which such notice or public announcement of the date of the meeting was mailed or made (as applicable). Notwithstanding anything to the contrary in the immediately preceding sentence, in the event that the number of directors to be elected to the Board of Directors is increased, a stockholder's notice required by the Bylaws shall also be considered timely, but only with respect to nominees for any new positions created by such increase and only if otherwise timely notice of nomination for all other directorships was delivered by such stockholder in accordance with the requirements of the immediately preceding sentence, if it shall be delivered to the Secretary at the principal executive office of the Company not later than the close of business on the tenth (10th) day following the day on which notice to the stockholders of the Company was given or public announcement was made by the Company naming all of the nominees for director or specifying the size of the increase in the number of directors to serve on the Board of Directors, even if such tenth (10th) day shall be later than the date for which a nomination would otherwise have been required to be delivered to be timely. In no event shall the public announcement of an adjournment or postponement of an announced meeting commence a new time period (or extend any time period) for the giving of a stockholders notice as provided in the Bylaws.

To be in proper written form, a stockholder's notice to the Secretary pursuant must set forth (i) as to each person whom the stockholder of the Company proposes to nominate for election as a director, (A) the name, age, business address, and residence address of such person, (B) the principal occupation or employment of the person, (C) the class or series and number of shares of capital stock of the Company which are directly or indirectly (including through any derivative arrangement) owned beneficially or of record by the person, and (D) any other information relating to the person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with a solicitation of proxies for an election of directors pursuant to the Exchange Act and the rules and regulations promulgated thereunder if the Company were a reporting company under the Exchange Act, and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the director nomination is made (A) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner; (B) the class or series and number of shares of capital stock of the Company which are owned (1) beneficially and (2) of record by such stockholder and by such beneficial owner, (C) a description of all arrangements or understandings between such stockholder or such beneficial owner and any other person or entity (including, without limitation, their names) in connection with the ownership of the capital stock of the Company and the nomination of such nominee(s), and any material interest of such stockholder or such beneficial owner in such nomination(s), (D) whether either such stockholder or beneficial owner intends to deliver a form of proxy to holders of the Company's voting shares to elect such nominee or nominees, (E) a representation that the stockholder giving the notice is a holder of record of stock of the Company entitled to vote at such meeting and that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (F) if the Company is then subject to Section 14(a) of the Exchange Act, any other information relating to such stockholder and beneficial owner, if any, required to be disclosed in a proxy statement or other filing required to be made in connection with a solicitation of proxies for an election of directors pursuant to the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected. The Company may require any nominee to furnish such other information (which may include meeting to discuss the information) as may reasonably be required by the Company to determine the eligibility of such nominee to serve as a director of the Company.

If the chairman of a meeting of the stockholders of the Company determines that a nomination was not made in accordance with the foregoing procedures, the chairman of the meeting shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Nothing in the Bylaws shall be deemed to affect any rights of the holders of any series of preferred stock of the Company to elect directors pursuant to any applicable provisions of the Certificate of Incorporation.

Item 6. Exhibits

Each exhibit identified below is filed as a part of this Report.

EXHIBIT INDEX

Exhibit No.	Exhibit Title	Incorporated by Reference to the Following
2.1	Second Amended Chapter 11 Joint Plan of Reorganization of Vanguard Natural Resources, LLC, et al., dated May 31, 2017.	Exhibit 2.1 to Form 8-K filed June 8, 2017 (File No. 001-33756)
10.1	Restructuring Support Agreement, dated as of February 1, 2017, reflecting amendments implemented by Amendment dated May 23, 2017, among the Company, the Restructuring Support Parties, and the Commitment Parties thereto.	Exhibit 10.1 to Form 8-K filed June 8, 2017 (File No. 001-33756)
10.2	Amended and Restated Backstop Commitment Agreement, dated May 23, 2017, reflecting amendments implemented by Amendment dated May 23, 2017, among the Company, the Restructuring Support Parties, and the Commitment Parties thereto	Exhibit 10.2 to Form 8-K filed June 8, 2017 (File No. 001-33756)
10.3	Amended and Restated Equity Commitment Agreement, dated as of May 23, 2017, among the Company and the Investors party thereto	Exhibit 10.3 to Form 8-K filed June 8, 2017 (File No. 001-33756)
10.4	Amended and Restated Purchase and Sale Agreement between Vanguard Operating, LLC as Seller, and OXY USA INC., as Buyer Dated March 20, 2017.	Filed herewith
10.5	Fourth Amended and Restated Credit Agreement, dated as of August 1, 2017, by and among Vanguard Natural Gas, LLC, Citibank N.A., as Administrative Agent and the financial institutions thereto	Exhibit 10.1 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.6	First Lien Pledge and Security Agreement, dated as of August 1, 2017, by and among Vanguard Natural Resources, Inc., Vanguard Natural Gas, LLC and Citibank, N.A., as administrative agent	Exhibit 10.2 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.7	Second Lien Pledge and Security Agreement, dated as of August 1, 2017, by and among Vanguard Natural Resources, Inc. and Delaware Trust Company, as collateral agent	Exhibit 10.3 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.8	Second Lien Pledge and Security Agreement, dated as of August 1, 2017, by and among certain subsidiaries and affiliates of Vanguard Natural Resources, Inc. and Delaware Trust Company, as collateral agent.	Exhibit 10.4 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.9	Intercreditor Agreement, dated as of August 1, 2017, by and among Citibank, N.A., as priority lien agent, and Delaware Trust Company, as second lien collateral trustee, and acknowledged and agreed to by Vanguard Natural Gas, LLC, Vanguard Natural Resources, Inc. and the other grantors party thereto	Exhibit 10.5 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.10	Collateral Trust Agreement, dated as of August 1, 2017, by and among Vanguard Natural Resources, Inc., the grantors and guarantors named therein and Delaware Trust Company as trustee and as collateral trustee	Exhibit 10.6 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.11	Registration Rights Agreement, dated as of August 1, 2017, between Vanguard Natural Resources, Inc. and certain parties thereto	Exhibit 10.7 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.12	Warrant Agreement, dated as of August 1, 2017, between Vanguard Natural Resources, Inc., as Issuer, and American Stock Transfer &	Exhibit 10.8 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)

	Trust Company, LLC, as warrant agent	
10.13	Second Amended and Restated Employment Agreement of Scott W. Smith, dated August 1, 2017	Exhibit 10.9 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
10.14	Second Amended and Restated Employment Agreement of Richard A. Robert, dated August 1, 2017	Exhibit 10.10 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)

10.15	Second Amended and Restated Employment Agreement of Britt Pence, dated August 1, 2017	Exhibit 10.11 to Form 8-K15D5 filed August 2, 2017 (File No. 001-33756)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a -14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a -14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Schema Document	Filed herewith
101.CAL	XBRL Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Definition Linkbase Document	Filed herewith
101.LAB	XBRL Label Linkbase Document	Filed herewith
101.PRE	XBRL Presentation Linkbase Document	Filed herewith

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.

VANGUARD NATURAL RESOURCES, INC.
(Registrant)

Date: August 9, 2017

/s/ Richard A. Robert
Richard A. Robert
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EX-10.4 2 ex104oxy-vanguardleasehold.htm EXHIBIT 10.4

PURCHASE AND SALE AGREEMENT

between

VANGUARD OPERATING, LLC

as Seller,

and

OXY USA INC.,

as Buyer

Dated March 20, 2017

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PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated March 20, 2017 (the "Execution Date"), is by and between Vanguard Operating, LLC, a Delaware limited liability company ("Seller"), and OXY USA Inc., a Delaware corporation ("Buyer"). Seller and Buyer are individually referred to as a "Party" and collectively, the "Parties."

RECITALS

Seller and certain of its Affiliates are debtors and debtors in possession (together, the "Debtors") under Title 11 of the United States Code, 11 U.S.C. §§ 101, et seq. (the "Bankruptcy Code"), having filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code commencing on February 1, 2017 (the "Petition Date") in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "Bankruptcy Court"), where the Debtors' bankruptcy cases are jointly administered under Case No. 17-30560 (collectively, the "Bankruptcy Case");

Seller owns and desires to sell, and Buyer desires to purchase, Seller's interests in certain oil and gas leases and related assets that constitute the Assets, as more fully described and defined in Section 2.2, on the terms and conditions set forth in this Agreement and in accordance with Sections 363 and 365 of the Bankruptcy Code;

This Agreement amends and restates in its entirety the first amended and restated Purchase and Sale Agreement, dated March 20, 2017 and executed by the Parties on April 12, 2017 (the "A&R PSA"), which amended and restated in its entirety the original Purchase and Sale Agreement executed by the Parties on March 20, 2017 (the "Original PSA"); and

Seller's ability to consummate the transactions set forth in this Agreement is subject to, among other things, the entry of an order by the Bankruptcy Court approving the transactions set forth in this Agreement.

AGREEMENT

In consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

ARTICLE 1
DEFINED TERMS

1.1 General Definitions. As used herein the following terms shall have the indicated meaning:

"A&R PSA" is defined in the recitals.

"AAA" means the American Arbitration Association.

"Accounting Expert" is defined in Section 12.1(a).

"AFE" is defined in Section 6.18.

"Affiliate" of any designated Person means any Person which, directly or indirectly, controls, or is controlled by or is under common control with, such designated Person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Allocated Properties" is defined in Section 3.4.

"Allocated Property" is defined in Section 3.4.

"Allocated Value" is defined in Section 3.4.

"Asset Taxes" means all Property Taxes and Severance Taxes.

"Assets" is defined in Section 2.2.

"Assumed Contracts" is defined in Section 2.2(c).

"Assumed Liabilities" is defined in Section 14.1.

"Background Materials" is defined in Section 7.8.

"Bankruptcy Case" is defined in the recitals.

"Bankruptcy Code" is defined in the recitals.

"Bankruptcy Court" is defined in the recitals.

"Bidding Procedures Order" means the Order (A) Approving Bidding Procedures for Sale of Certain Oil and Gas Assets, (B) Approving Form and Manner of Notices Thereof, (C) Approving Bid Protections for Stalking Horse Purchaser, (D) Scheduling Dates to Conduct Auction and Hearing to Consider Final Approval of Sale, Including Treatment of Executory Contracts and Unexpired Leases, and (E) Granting Related Relief, entered by the Bankruptcy Court on April 13, 2017 [Docket No. 583].

"Break-Up Fee" means 3% of the unadjusted Purchase Price, payable in accordance with Section 2.4.

"Business Day" means any day other than a Saturday, Sunday or a day on which national banks in Houston, Texas are generally closed.

"Buyer Indemnified Parties" is defined in Section 14.2(a).

"Casualty Loss" is defined in Section 5.9.

"Claim" is defined in Section 14.3(c).

"Claim Notice" is defined in Section 14.3(b).

"Closing" is defined in Section 11.1.

"Closing Amount" is defined in Section 3.3.

"Closing Date" is defined in Section 11.1.

"Code" means the Internal Revenue Code of 1986, as amended.

"Competing Transaction" means, other than the transaction pursuant to this Agreement or a transaction that includes the consummation of the transaction contemplated by this Agreement prior to or contemporaneously with the closing of such transaction, any (a) sale, transfer or other disposition, directly or indirectly, of all or any portion of the Assets, (b) issuance, sale, transfer or other disposition by Seller of any class of equity securities, ownership interests or voting securities of Seller, (c) merger, consolidation, recapitalization, business combination or other similar transaction involving Seller, (d) other restructuring, reorganization or liquidation of Seller, (e) state court foreclosure action as to all or any portion of the Assets, or (f) successful credit bid transaction by any of Seller's lenders with respect to the Assets, in each case, in accordance with the Bidding Procedures Order; provided, a Competing Transaction shall not include (i) a plan of reorganization that is confirmed pursuant to 11 U.S.C. § 1129 in which the right to elect or appoint, directly or indirectly, either (A) a majority of the managing members of Seller or (B) a majority of the directors (or managing members, if applicable) of any Person that has the right to elect or appoint a majority of the managing members of Seller, is unimpaired under such plan and (ii) any item contemplated in clauses (b), (c) or (d) of this definition that does not have the effect of preventing, limiting or restricting Buyer from purchasing, or Seller from selling to Buyer, the Assets pursuant to this Agreement.

"Contract" means any contract, agreement, indenture, note, bond, loan, lease, sublease, conditional sales contract, mortgage, license, sublicense, franchise agreement, obligation, promise, undertaking, commitment or other binding arrangement (in each case, whether written or oral) that is related to the Assets, but expressly excluding the Leases.

"Contract Deadline" is defined in Section 2.7(b).

"Cooperating Party" is defined in Section 13.5.

"CPT" means prevailing Central Time.

"Cure Amount" means the amount necessary (a) to cure a monetary default by Seller in accordance with the terms of an executory contract or unexpired lease of the Debtors and (b) to permit Seller to assume such executory contract or unexpired lease under Section 365(a) of the Bankruptcy Code.

"Debt Contract" means any indenture, mortgage, loan, credit or similar agreement entered into by Seller or its Affiliates creating indebtedness on the part of Seller or its Affiliates for borrowed money or the deferred purchase price of property acquired by, or for services rendered to, Seller or its Affiliates.

"Debtors" is defined in the recitals.

"Defect Notice Deadline" means 5:00 p.m., CPT, on the day that is the later of (a) 15 days after the Objection Deadline and (b) 30 days after the Execution Date, or, in either case, if such day is not a Business Day, the next Business Day.

"Defensible Title" is defined in Section 5.1.

"Deposit" is defined in Section 3.1(a).

"Designated Area" means the geographical areas located inside the boundaries shown on the map attached as Exhibit A-1.

"Electing Party" is defined in Section 13.5.

"Encana" is defined in Section 2.2(i).

"Encana Complaint" means the complaint filed by Encana on February 23, 2017, in the Encana Adversary Proceeding.

"Encana Contract" means that certain Midland Basin Prospect Drilling and Development Agreement, dated May 9, 2014, by and among Vanguard Permian, LLC, Encore Energy Partners Operators, LLC and Athlon Holdings LP.

"Encana Adversary Proceeding" means that certain adversary proceeding, styled *Encana Oil & Gas (USA) Inc. v. Vanguard Operating, LLC*, Adv. Pro. No. 17-30560, pending in the Bankruptcy Court.

"Environmental Law" means any statute, rule, regulation, code or order, issued by any Governmental Body relating to the protection of the environment (including natural resources) or the release or disposal of waste materials, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. §§ 9601 et seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. § 6901 et seq.), the Clean Water Act (33 U.S.C. §§ 466 et seq.), the Safe Drinking Water Act (14 U.S.C. §§ 1401-1450), the Oil Pollution Act (33 U.S.C. §§ 2702-2761), the Federal Water Pollution Control Act (33 U.S.C. § 1251 et seq.), the Emergency Planning and Community Right to Know Act (U.S.C. 42 §§ 301-313), the Hazardous Materials Transportation Act (49 U.S.C. §§ 1801 et seq.), the Toxic Substances Control Act (15 U.S.C. §§ 2601-2629), the Clean Air Act (42 U.S.C. § 7401 et seq.) as amended, the Clean Air Act Amendments of 1990 and all other federal, state and local Laws, rules, regulations, orders and memoranda of understanding relating to reclamation of land, wetlands and waterways or relating to use, storage, emissions, discharges, cleanup, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or Hazardous Materials on or into the workplace or the environment (including ambient air, waterways, wetlands, surface water, ground water (tributary and non-tributary), land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or handling of Hazardous Materials.

"Escrow Agent" means Delaware Trust Company.

"Escrow Agreement" means the Escrow Agreement between Buyer, Seller and the Escrow Agent, dated April 17, 2017.

"Excluded Assets" is defined in Section 2.3.

"Excluded Well Incident" means with respect to the Excluded Wells, a fire, explosion or sabotage; incident involving loss of life or injury; any violation of applicable Laws (including Environmental Laws); or a notice of any environmental or safety violation from any Governmental Body, including any notice of violation relating to any release or spill.

"Excluded Wells" is defined in Section 2.3(a).

"Execution Date" is defined in the preamble to this Agreement.

"Expense Reimbursement Amount" means an aggregate amount equal to the reasonable and documented out-of-pocket costs, fees, and expenses of Buyer for which Buyer has provided Seller reasonable supporting documentation (including legal, accounting, and other consulting fees and expenses, other than any success or similar fees payable to any financial advisors, consultants or other Persons) incurred in connection with the transactions contemplated by this Agreement, including, without limitation, (a) the negotiation and execution of this Agreement and (b) carrying out its obligations under this Agreement prior to the Closing; *provided, however,* that such Expense Reimbursement Amount shall not exceed $500,000.

"Final Order" means (a) an order or a judgment of the Bankruptcy Court, as entered on the docket in the Bankruptcy Cases (or any related adversary proceeding or contested matter) or the docket of any other court of competent jurisdiction, or (b) an order or a judgment of any other court having jurisdiction over any appeal from (or petition seeking certiorari or other review of) any order or judgment entered by the Bankruptcy Court (or any other court of competent jurisdiction, including in an appeal taken) in the Bankruptcy Cases (or in any related adversary proceeding or contested matter), in each case that is in full force and effect and has not been reversed, stayed, modified, amended, rescinded, or vacated and as to which the time to appeal, or seek certiorari or move for a new trial, reargument, or rehearing has expired according to applicable Law and no appeal or petition for certiorari or other proceedings for a new trial, reargument, or rehearing has been timely taken, or as to which any appeal that has been taken or any petition for certiorari that has been or may be timely filed has been withdrawn or resolved by the highest court to which the order or judgment was appealed or from which certiorari was sought or the new trial, reargument, or rehearing shall have been denied, resulted in no modification of such order, or has otherwise been dismissed with prejudice; provided, however, that the possibility a motion under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Federal Rules of Bankruptcy Procedure, may be filed relating to such order shall not prevent such order from being a Final Order.

"Fundamental Representations" means the representations and warranties of Seller in Sections 6.1 through 6.6.

"Governmental Body" means any government or governmental or regulatory body thereof, or political subdivision thereof, whether foreign, federal, state or local, or any agency, instrumentality or authority thereof or any court or arbitrator (public or private), including the Bankruptcy Court.

"Hazardous Materials" means any (a) chemical, constituent, material, pollutant, contaminant, substance, or waste that is regulated by any Governmental Body or may form the basis of liability under any Environmental Law; (b) asbestos containing material, lead-based paint, polychlorinated biphenyls, mercury, NORM or radon; and (c) petroleum, Hydrocarbons, or petroleum products.

"Hedging Contract" means any contract to which Seller or any of its Affiliates is a party with respect to any swap, forward, future, put, call, floor, cap, collar option or derivative transaction or option or similar agreement, whether exchange traded, "over-the-counter" or otherwise, involving, or settled by reference to, one or more rates, currencies, commodities (including Hydrocarbons), equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions.

"Hydrocarbons" means all oil, gas, natural gas liquids and other hydrocarbons and products produced in association therewith.

"Income Taxes" means (a) all Taxes based upon, measured by, or calculated with respect to (i) gross or net income or gross or net receipts or profits (including margin and franchise Taxes and any capital gains, alternative minimum Taxes, net worth and any Taxes on items of Tax preference, but not including ad valorem, property, sales,

use, goods and services, severance, production, real or personal property transfer or other similar Taxes), or (ii) multiple bases (including corporate margin, franchise, doing business or occupation Taxes) if one or more of the bases upon which such Tax may be based, measured by, or calculated with respect to, is described in clause (a)(i) above, and (b) withholding Taxes measured with reference to or as a substitute for any Tax described in clause (a) above.

"Indemnified Party" is defined in Section 14.3(b).

"Indemnifying Party" is defined in Section 14.3(b).

"Lands" is defined in Section 2.2(a).

"Law" means any federal, state, local, municipal, foreign, international, or multinational law, order, constitution, ordinance, or rule, including rules of common law, regulation, statute, treaty, or other legally enforceable directive or requirement.

"Leases" is defined in Section 2.2(a).

"Like-Kind Exchange" is defined in Section 13.5.

"Losses" means all losses, costs, fees, payments, expenses (including court costs, reasonable fees and expenses of attorneys, technical experts and expert witnesses and the costs of investigation), liabilities, obligations, damages, demands, suits, claims, causes of action, settlements, judgments, penalties, fines and sanctions of every kind and character (including civil fines) arising from, related to or reasonably incident to matters indemnified against; excluding, however, any special, consequential, punitive or exemplary damages, or loss of profits incurred by a Party hereto; provided however, that any special, consequential, punitive or exemplary damages, and loss of profits recovered by a third party against a Party entitled to indemnity pursuant to this Agreement shall be included in the Losses recoverable hereunder.

"Material Agreements" is defined in Section 6.13(a).

"Net Acres" means as computed separately with respect to each Lease identified on Exhibit A-2, (a) the gross number of mineral acres in the lands covered by that Lease, *multiplied* by (b) the undivided fee simple mineral interest (expressed as a percentage) in the lands covered by that Lease (as determined by aggregating the fee simple mineral interests owned by each lessor of that Lease in the lands), *multiplied* by (c) Seller's undivided percentage interest that is burdened with the obligation to bear and pay costs and expenses in that Lease; *provided* that if the items in (b) or (c) vary as to different tracts covered by that Lease, a separate calculation shall be done for each such tract.

"Net Casualty Loss" is defined in Section 5.9.

"NORM" means Naturally Occurring Radioactive Material.

"Notice of Title Defects" is defined in Section 5.3.

"NRI" is defined in Section 5.1(a).

"Objection Deadline" means the deadline set forth in the Bidding Procedures Order to file and serve objections to the Agreement and/or the sale and conveyance of the Assets from Seller to Buyer.

"Operating Agreements" is defined in Section 8.9(g).

"Original PSA" is defined in the recitals.

"Pending Claims" means the claims set forth in that certain letter, dated June 22, 2016, from Occidental Permian Ltd. to Vanguard Permian, LLC.

"Permits" means all environmental and other governmental (whether federal, state, local or tribal) certificates, consents, permits (including conditional use permits), licenses, orders, approvals, authorizations, franchises and related instruments or rights relating to the ownership, operation or use of the Assets.

"Permitted Encumbrances" is defined in Section 5.2.

"Person" means any natural person, corporation, company, limited liability company, partnership, joint venture, trust, proprietorship or other entity, organization or association of any kind and shall include all Governmental Bodies.

"Petition Date" is defined in the recitals.

"Proceeding" means any proceeding, action, arbitration, audit, hearing, investigation, request for information, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"Property Taxes" means all ad valorem real property, personal property, and all other Taxes and similar obligations, and any penalties, additions to Tax, and interest levied or assessed thereon, assessed against the Assets or based upon or measured by the ownership of the Assets, and including ad valorem taxes imposed on oil and gas leaseholds capable of producing oil and gas, but not including Income Taxes, Severance Taxes or Transfer Taxes.

"Purchase Price" is defined in Section 3.1.

"Records" is defined in Section 2.2(f).

"Royalties" means all royalties, overriding royalties, net profits interests, production payments, carried interests, reversionary interests, back-in interests and other similar burdens upon, measured by or payable out of production.

"Sale Order" means the order of the Bankruptcy Court, which is not subject to a pending stay, in form and substance reasonably acceptable to Buyer, approving this Agreement and all of the terms and conditions hereof and approving and authorizing Seller to consummate the transactions contemplated hereby pursuant to Sections 105, 363 and 365 of the Bankruptcy Code and providing, among other things, substantially as follows: (a) the Assets sold to Buyer pursuant to this Agreement will be transferred to Buyer free and clear of all liens, interests, encumbrances (other than encumbrances created by Buyer and Permitted Encumbrances), including all rights and obligations arising under or relating to midstream or gas gathering contracts (including any crude oil purchase contracts and gas purchase contracts) and claims (including any claims or causes of action based on successor liability); (b) Seller shall assume and assign to Buyer the Assumed Contracts in accordance with the terms and conditions of this Agreement; (c) Seller shall pay the Cure Costs so as to permit the assumption and assignment of the Assumed Contracts; (d) the Assumed Contracts shall be in full force and effect from and after Closing and any non-debtor Persons being barred and enjoined from asserting against Buyer or its assets, among other things, defaults, breaches or Claims of pecuniary losses existing as of Closing or by reason of the Closing; (e) Buyer has acted in "good faith" within the meaning of Section 363(m) or other applicable section of the Bankruptcy Code and is entitled to the protections in Section 363(m) of the Bankruptcy Code; (f) this Agreement was negotiated, proposed and entered into by the Parties without collusion, in good faith and from arm's length bargaining positions and is not subject to avoidance under Section 363(n) of the Bankruptcy Code; (g) the Bankruptcy Court will retain jurisdiction to resolve any controversy or claim arising out of or relating to this Agreement, or the breach hereof as provided in Section 15.10 hereof; (h) this Agreement and the transactions contemplated hereby may be specifically enforced against Seller or any Chapter 7 or Chapter 11 trustee of Seller's estate and this Agreement and the transactions contemplated hereby are not subject to rejection or avoidance (whether through any avoidance, fraudulent transfer, preference or recovery, claim, action or proceeding arising under Chapter 5 of the Bankruptcy Code or under any similar state or federal Law or any other cause of action) by Seller, any Chapter 7 or Chapter 11 trustee of Seller's bankruptcy estate or any other person or entity or impairment or discharge under the Plan or any subsequent order of the Bankruptcy Court entered in the Bankruptcy Cases and (i) the Bankruptcy Court

shall waive any stay that would otherwise be applicable to the immediate effectiveness of such order, including, pursuant to Federal Rule of Bankruptcy Procedure 6004(g) and 6006(d).

"Seller Indemnified Parties" is defined in Section 14.2(b).

"Seller Taxes" means with respect to Seller (a) any Income Taxes imposed by any applicable Law on Seller, any of its direct or indirect owners or Affiliates or any consolidated, combined or unitary group of which any of the foregoing is or was a member; (b) Seller's share of any Asset Taxes allocable to Seller under Section 13.1 (taking into account, and without duplication of, (i) such Asset Taxes effectively borne by Seller as a result of the adjustments to the Purchase Price made pursuant to Section 3.3, and (ii) Seller's share of any payments made from one Party to another in respect of Asset Taxes pursuant to Section 13.1); (c) any Taxes imposed on or with respect to the ownership or operation of the Excluded Assets or that are attributable to any asset or business of Seller that is not part of the Assets; (d) Seller's share of any Taxes (other than the Taxes described in clauses (a), (b) or (c) of this definition) attributable to the ownership or operation of the Assets for any Tax period (or portion thereof) ending prior to the Closing Date; and (e) Seller's share of any Transfer Taxes allocated to Seller under this Agreement.

"Settlement Statement" is defined in Section 3.3.

"Severance Taxes" means all extraction, production, excise, net proceeds, severance, windfall profit, and all other Taxes and similar obligations, and any penalties, additions to Tax, and interest levied or assessed thereon, with respect to the Assets that are based upon or measured by production of Hydrocarbons or the receipt of proceeds therefrom, but not including Property Taxes, Income Taxes, and Transfer Taxes.

"Special Warranty" is defined in Section 5.2.

"Specified Assets" is defined in Section 2.3(b).

"Straddle Period" means any Tax period beginning before and ending on or after the Closing Date.

"Subsequent Asset Notice" is defined in Section 2.9.

"Subsequent Asset Period" is defined in Section 2.9.

"Subsequent Assets" is defined in Section 2.9.

"Surface Rights" means all valid and subsisting easements, licenses, servitudes, rights-of-way, surface leases or other surface rights that directly relate to or are otherwise directly applicable to any of the Assets, including the easements, permits, licenses, servitudes, rights-of-way, surface leases, and surface rights described on Exhibit A-3.

"Tax" or "Taxes" means (a) any and all taxes, including any interest, penalties or other additions to tax, that may become payable in respect thereof, imposed by any Governmental Body, which taxes shall include all Income Taxes, profits taxes, taxes on gains, alternative minimum taxes, estimated taxes, payroll taxes, employee withholding taxes, unemployment insurance taxes, social security taxes, welfare taxes, disability taxes, Severance Taxes, license charges, taxes on stock, sales taxes, harmonized sales taxes, use taxes, ad valorem taxes, value added taxes, excise taxes, goods and services taxes, franchise taxes, gross receipts taxes, occupation taxes, Property Taxes, land transfer taxes, stamp taxes, environmental taxes, Transfer Taxes, workers' compensation taxes, windfall taxes, net worth taxes, and other taxes, fees, duties, levies, customs, tariffs, imposts, assessments and charges of the same or of a similar nature to any of the foregoing, and (b) any liability in respect of any item described in clause (a) above, that arises by reason of a contract, assumption, transferee or successor liability, operation of law (including by reason of participation in a consolidated, combined or unitary Tax Return) or otherwise.

"Tax Return" means any and all returns, reports, information returns, declarations, statements, certificates, bills, schedules, claims for refund or other written information of or with respect to any Tax, including any and all

attachments, amendments, and supplements thereto.

"Termination Date" is defined in Section 10.1(a).

"Title Defect" means any encumbrance, encroachment, irregularity, defect in or objection to the real property title of Seller to an Allocated Property, that alone or in combination with other defects renders title to such Allocated Property less than Defensible Title; provided that the claims asserted by Encana in the Encana Adversary Proceeding solely with respect to the Specified Assets shall not be considered or claimed as Title Defects.

"Title Defect Adjustment" is defined in Section 5.4(c).

"Title Defect Deductible Amount" means an amount equal to 2% of the Purchase Price.

"Title Defect Exclusion" is defined in Section 5.4(b).

"Title Defect Threshold" means $25,000.

"Title Defect Value" is defined in Section 5.3.

"Title Expert" is defined in Section 5.6(a).

"Transfer Taxes" means any sales, use, excise, stock, stamp, documentary, filing, recording, registration, authorization and similar taxes, fees and charges, but not including any Asset Taxes or Income Taxes.

"Wellbores" is defined in Section 2.3(a).

"WI" is defined in Section 5.1(b).

1.2 Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein, references in this Agreement to a particular agreement, instrument or document also refer to and include all renewals, extensions, amendments, modifications, supplements or restatements of any such agreement, instrument or document.

ARTICLE 2
PURCHASE AND SALE; BANKRUPTCY MATTERS

2.1 Purchase and Sale. At the Closing, Seller agrees to sell and convey to Buyer, and Buyer agrees to purchase and receive from Seller, the Assets, pursuant to the terms and conditions of this Agreement.

2.2 Assets. "Assets" means all of Seller's and its Affiliates' right, title and interest in and to the following interests, excluding the Excluded Assets:

a. The oil, gas and mineral leases, subleases, other leaseholds, fee mineral interests and other interests in the lands located in the Designated Area set forth on Exhibit A-1, including those leases described on Exhibit A-2, and any amendments, extensions, acreage designations, ratifications, and/or partial releases affecting such leases, whether or not such instruments are described on Exhibit A-2**,** together with (i) all rights, privileges, benefits and powers conferred upon the holder of the Leases with respect to the use and occupation of the lands covered thereby, (ii) all rights, options, titles and interests of Seller and its Affiliates, including rights to obtain or otherwise earn any interest in the Leases or within the lands covered by the Leases or any acreage pooled, communitized or unitized therewith (the "Lands") and (iii) all Royalties and any other Hydrocarbon production interests in the Lands (all such leases and interests, collectively, the "Leases").

b. All rights that are derived under or from the Leases in existing and effective unitization, voluntary

pooling and communitization agreements, pooling declarations and pooling orders covering any of the Lands, and all tenements, hereditaments and appurtenances belonging to the Leases and such pooled or areas or units.

c. All Contracts set forth on Section 2.2(c) of the Disclosure Schedule, as such Schedule may be amended pursuant to Section 2.7 (collectively, the "Assumed Contracts").

d. All Permits appurtenant to and used or held for use in connection with the ownership, use or operation of the Assets (or lands pooled, communitized or unitized therewith).

e. All Surface Rights.

f. All of the files, records, land surveys, data and information primarily relating to the items described in Sections 2.2(a) through 2.2(e) maintained by or in the possession of Seller or its Affiliates (such copies are herein collectively called the "Records"), including lease files, land contract files, division order files, title records (including abstracts of title, title opinions and title curative documents), correspondence and environmental records.

g. All liens and security interests in favor of Seller or its Affiliates, whether choate or inchoate, under any Law or contract to the extent arising from, or relating to, the ownership, operation, or sale or other disposition on or after the Closing Date of any of the Assets.

h. All rights of Seller and its Affiliates to audit the records of any Person and to receive refunds or payments of any nature, and all amounts of money relating thereto, relating to periods on or after the Closing Date, to the extent relating to the obligations assumed by Buyer pursuant to this Agreement or with respect to which Buyer has an obligation to indemnify Seller.

i. All rights, claims, and causes of action (including warranty and similar claims, indemnity claims, and defenses) of Seller or any of its Affiliates to the extent such rights, claims, and causes of action relate to any of the Assets or the Assumed Liabilities; provided, that claims against Encana Oil & Gas USA Inc., and its affiliates (collectively, "Encana") relating to the Specified Assets and any causes of action under Chapter 5 of the Bankruptcy Code shall be Excluded Assets.

j. All claims for refund of Taxes (other than Seller Taxes) or other costs or expenses borne by Buyer attributable to periods on or after the Closing Date.

2.3 Excluded and Reserved Assets. Notwithstanding the foregoing, the Assets and Records shall not include, and there is excepted, reserved and excluded from the sale contemplated hereby the following (collectively, the "Excluded Assets"):

a. subject to Section 2.10, all interests of Seller in the existing oil and gas wells, water, carbon dioxide, observation, injection, disposal wells and other wells located on the Lands or lands pooled or unitized therewith and the wellbores thereof, including the oil and gas wells specifically described on Exhibit B, whether producing or non-producing, shut-in, temporarily abandoned or permanently abandoned, together with all Hydrocarbons produced therefrom (the "Wellbores"), and the rights and obligations under the Leases covering rights in the Wellbores, insofar and only insofar as such Leases entitle the owner of such Wellbores to Hydrocarbons produced from such Wellbores (subject to Section 2.3(b)) and all equipment, machinery, tools, fixtures and improvements, including well equipment, casing, rods, tanks, boilers, buildings, tubing, pumps, motors, machinery, compression equipment, flow lines, pipelines, gathering systems, processing and separation facilities, materials and other items operational or nonoperational, existing on the Closing Date, used or held for use in connection with or related to such wells (collectively, the "Excluded Wells");

b. notwithstanding any claims, causes of action, orders or judgments associated with, or settlements of, the Encana Adversary Proceeding or rejection of the Encana Contract to the contrary, the acreage and associated assets

to the extent specifically listed on Section 2.3(b) of the Disclosure Schedule and the rights and obligations under the Leases with respect to such acreage and associated assets (collectively, the "Specified Assets");

c. any claims for refund of Seller Taxes or other costs or expenses borne by Seller or Seller's predecessors in title attributable to the periods prior to the Closing Date;

d. all titled vehicles and other rolling stock;

e. all communications and work-product covered by the attorney-client or attorney work-product privileges;

f. all proprietary and non-proprietary logs, well files, production data and seismic, geophysical, geochemical, and interpretative data and information;

g. (i) all corporate, financial, and tax data and records of Seller that relate to Seller's businesses generally, (ii) any data and records to the extent disclosure or transfer is prohibited or subjected to payment of a fee or other consideration by any license agreement or other agreement with a Person other than Affiliates of Seller, or by applicable Law, and for which no consent to transfer has been received or for which Buyer has not agreed in writing to pay the fee or other consideration, as applicable; provided that Seller shall use commercially reasonable efforts to cause the waiver of any such restrictions, (iii) any data and records relating to the sale of the Assets, including bids received from, and records relating to Seller's negotiations with, Buyer or with Persons other than Buyer, (iv) any data and records to the extent constituting or relating to the Excluded Assets and (v) employee information, internal valuation data, business plans, business studies, transaction proposals and related correspondence, and similar records and information;

h. Seller's intellectual property, including proprietary computer software, computer software licensed from third parties, patents, pending patent applications, trade secrets, copyrights, names, marks and logos;

i. all deposits, cash, checks in process of collection, cash equivalents, accounts and notes receivable and other funds attributable to any periods before the Closing Date, and security or other deposits made with third parties prior to the Closing Date;

j. all Hedging Contracts and Debt Contracts of Seller and its Affiliates;

k. any equipment, materials, spare parts, tools and other personal property that may have been previously used on the Leases, but that are presently stored or warehoused at Seller's or third party site not located on the Lands;

l. all reserve reports prepared by Seller or its consultants, and all reserve reporting and classification information and supporting materials with respect to Seller's determination or reporting of its reserves, other than the information furnished to Buyer as part of the sale package materials or presentations by Seller;

m. all Contracts that are not Assumed Contracts, including all midstream or gas gathering contracts (including any crude oil purchase contracts and gas purchase contracts); and

n. Seller's rights under this Agreement.

2.4 Approval of Break-Up Fee and Expense Reimbursement Amount. In consideration for Buyer having expended considerable time and expense in connection with this Agreement and the negotiation thereof and the identification and quantification of assets of Seller, which time and expense has provided an actual and necessary benefit to the Seller's Chapter 11 estate, upon the valid termination of this Agreement in accordance with the provisions of Article 10, Seller shall pay to Buyer the Break-Up Fee and Expense Reimbursement Amount, as set forth in Article

2.5 Competing Transactions. This Agreement is subject to approval by the Bankruptcy Court and the consideration by Seller of higher or better competing bids submitted in accordance with the Bidding Procedures Order with respect to a Competing Transaction. Seller is permitted to cause its respective representatives and Affiliates to market the Assets for a Competing Transaction solely in accordance with the Bidding Procedures Order. In addition, after the entry of the Bidding Procedures Order, Seller shall have the responsibility and obligation to respond to any inquiries or offers to purchase all or any part of the Assets and perform any and all other acts related thereto that are required under the Bankruptcy Code or other applicable Law, including supplying information relating to the business and the assets of Seller to prospective buyers. Seller is permitted to disclose in the virtual data room created for other prospective buyers the aggregate Title Defect Values claimed by Buyer. Between the Execution Date and the entry of the Bidding Procedures Order, and following completion of the auction contemplated by the Bidding Procedures Order, Seller is not permitted to, and shall cause its respective representatives and Affiliates not to, initiate contact with, solicit or encourage submission of any inquiries, proposals or offers by, any Person (in addition to Buyer and its Affiliates, agents and representatives) in connection with any Competing Transaction. In addition, Seller shall not after completion of the auction contemplated in the Bidding Procedures Order respond to any inquiries or offers for any Competing Transaction, including supplying information relating to the Assets of Seller to prospective buyers. Notwithstanding anything to the contrary in this Section 2.5, the restrictions in the preceding two sentences shall not apply following the auction contemplated in the Bidding Procedures Order to any Person submitting a bid for a Competing Transaction at the auction contemplated in the Bidding Procedures Order if such Person prevails at the auction in accordance with the terms of the Bidding Procedures Order. In no event shall Buyer be required to serve as a back-up bidder to any other bid or Competing Transaction.

2.6 Bankruptcy Court Approval.

a. The execution and delivery of this Agreement by the Seller and the Seller's ability to consummate the transactions set forth in this Agreement are subject, among other things, to the entry of the Sale Order.

b. In the event an appeal is taken or a stay pending appeal is requested from the Bidding Procedures Order or the Sale Order, Seller shall promptly notify Buyer of such appeal or stay request and shall provide to Buyer promptly a copy of the related notice of appeal or order of stay. Seller shall also provide Buyer with written notice of any motion or application filed in connection with any appeal from either of such orders.

c. From and after the Execution Date and prior to the Closing or the termination of this Agreement in accordance with Article 10, subject to the requirements of the Bidding Procedures Order including, without limitation, the conduct of the auction contemplated therein, Seller shall not take any action which is intended to (or is reasonably likely to), or fail to take any action the intent (or the reasonably likely result) of which failure to act is to, result in the reversal, voiding, modification or staying of the Bidding Procedures Order, the Sale Order or this Agreement.

2.7 Assumption and Rejection of Contracts.

a. Subject to the approval of the Bankruptcy Court, the Assumed Contracts will be assumed by Seller and assigned to Buyer on the Closing Date in accordance with Section 365 of the Bankruptcy Code and Section 14.1. Seller will pay the Cure Amounts, if any, with respect to the Assumed Contracts in accordance with the provisions herein.

b. No later than the day that is two Business Days after the Execution Date, Seller will provide Buyer with a written schedule containing all of Seller's Contracts relating to the Assets along with a reasonable good faith estimate of the Cure Amounts for each Contract. On or prior to the day that is five Business Days after Seller's delivery of such estimate (the "Contract Deadline"), Buyer may, by written notice to Seller, amend Section 2.2(c) of the Disclosure Schedule. Only the Assumed Contracts listed on Section 2.2(c) of the Disclosure Schedule, as amended, as of the expiration of the Contract Deadline, will be assumed and assigned to Buyer at Closing; *provided* that the Parties,

upon their mutual written consent, have the right to amend Section 2.2(c) of the Disclosure Schedule at any time prior to the Closing Date.

c. In the absence of a dispute regarding the Cure Amount for an Assumed Contract, Seller will pay the Cure Amount for such Assumed Contract to applicable counterparty thereto on the Closing Date (or as soon thereafter as reasonably practicable), or upon such other terms as Seller (with the consent of Buyer) and the counterparty to an Assumed Contract may otherwise agree.

d. In the event of a dispute regarding (i) the Cure Amount for any Contract to be assumed and assigned or (ii) the ability of Buyer or Seller to provide "adequate assurance of future performance" (within the meaning of Section 365 of the Bankruptcy Code) under any Contract to be assumed and assigned, the assumption thereof will be conditioned upon resolution of such dispute by the Bankruptcy Court. Seller (with the consent of Buyer) or Buyer, as applicable, reserves the right either to reject or nullify the assumption and assignment of any Contract no later than the day that is three Business Days after a final order determining the Cure Amount or any request for adequate assurance of future performance.

e. Notwithstanding anything in this Agreement to the contrary, a Contract that is validly rejected or otherwise not assumed and assigned to Buyer pursuant to this Section 2.7 will constitute an Excluded Asset.

2.8 Bankruptcy Filings. From and after the Execution Date and until the Closing Date, Seller shall use commercially reasonable efforts to deliver to Buyer copies of all pleadings, motions, notices, statements, schedules, applications, reports and other papers that relate, in whole or in part, to this Agreement and the transactions contemplated hereby, or to Buyer or their respective agents or representatives, that are to be filed by Seller in the Bankruptcy Case in advance of their filing, in each case, if reasonably practicable under the circumstances before the filing of such papers.

2.9 Subsequent Assets.

i. The Parties acknowledge that they are initially excluding the Specified Assets from the transactions contemplated by this Agreement out of an abundance of caution and such exclusion is not an admission that Encana is entitled to any of the Specified Assets. Seller may dispute or seek to avoid Encana's interests in some or all of the Specified Assets and if (a) (i) the Bankruptcy Court determines by Final Order that Encana is not entitled to any or all of the Specified Assets, or (ii) Seller and Encana reach a settlement in the Encana Adversary Proceeding approved by Final Order of the Bankruptcy Court which provides that Encana is not entitled to any or all of the Specified Assets and (b) as a result of such settlement or Final Order, it is established that Seller owns the NRI and WI with respect to all or any portion of the Net Acres, in each case as set forth in Section 2.3(b) of the Disclosure Schedule under the header "VNR Original Interest (Before ECA)" (any such tracts, the "Subsequent Assets"), then Seller will provide to Buyer a copy of such Final Order or agreement, as applicable (the "Subsequent Asset Notice").

ii. If Buyer receives the Subsequent Asset Notice prior to the later of (i) 120 days after the Execution Date and (ii) the Closing Date (the period between the Execution Date and the later of such dates being the "Subsequent Asset Period"), then the following shall apply so long as (a) such Subsequent Assets are free and clear of any and all liens, encumbrances, mortgages, claims and production payments and any defects or irregularities (other than Permitted Encumbrances) and (b) the representations in Article 6 are true and correct in all material respects with respect to such Subsequent Assets as of the date such Subsequent Assets are to be sold to Buyer:

i. if Closing has not yet occurred, the Subsequent Assets, less any Excluded Wells, at Buyer's option, will be included in the transactions contemplated herein, the Subsequent Assets will be considered "Assets" for all purposes of this Agreement, and the Purchase Price will be increased by $26,028.16 per Net Acre of Subsequent Assets;

ii. If Closing has occurred, but Buyer receives a Subsequent Assets Notice prior to the expiration of the Subsequent Asset Period, then (i) within 15 days of Buyer's receipt of the Subsequent Asset Notice, Buyer shall have the option to purchase from Seller (and if so exercised, Seller will sell to Buyer) such Subsequent Assets, less any Excluded Wells,

for a purchase price of $26,028.16 per Net Acre and such sale of the Subsequent Assets will be consummated pursuant to an Assignment, Bill of Sale and Conveyance in the form attached as Exhibit E, (ii) the Subsequent Assets will be considered "Assets" for all purposes of this Agreement as of the Closing Date and (iii) the Subsequent Asset Period shall be deemed to be extended until such sale has been consummated.

i. Prior to the expiration of the Subsequent Asset Period, Seller shall not (i) conduct any drilling or development activities on the Specified Assets, (ii) enter into any contracts that would be binding on Buyer were it to acquire the Subsequent Assets, or (iii) take any action that would be in violation of the covenants set forth in Section 8.1 as if such Section 8.1 applied with respect to the Specified Assets.

ii. For the avoidance of doubt, subject to the terms and conditions of this Section 2.9, the maximum amount of Net Acres that could be included as Subsequent Assets hereunder is 655.5 Net Acres, and the maximum purchase price for all Subsequent Assets that Buyer could elect to purchase pursuant to this Section 2.9 would be $17,061,457.

2.10 Purchase of Wells. If Buyer is the successful bidder at the auction for the Assets, within 5 Business Days following entry of the Sale Order by the Bankruptcy Court, Buyer and Seller shall execute the Purchase and Sale Agreement attached as Exhibit G for the purchase of certain Wells. Upon closing of the transactions contemplated in such Purchase and Sale Agreement, the Wells and other assets purchased by Buyer pursuant to such Purchase and Sale Agreement will no longer be considered "Excluded Assets" or "Excluded Wells" hereunder.

ARTICLE 3
PURCHASE PRICE

3.1 Purchase Price. The base consideration to be provided by Buyer to Seller at Closing for the Assets shall be a payment of $96,863,139 (the "Purchase Price"). The Purchase Price shall be paid by Buyer to Seller as follows:

a. no later than three Business Days after the Bidding Procedures Order has been approved by the Bankruptcy Court, an amount equal to $15,666,400 by means of a completed federal funds wire transfer as an earnest money deposit (the "Deposit"), which shall be wired to and held by the Escrow Agent in accordance herewith and the terms of the Escrow Agreement, and

b. at Closing, the Closing Amount.

Seller shall notify Buyer of the account for the payment of the Closing Amount at least two (2) Business Days prior to the Closing Date. Escrow fees charged by the Escrow Agent pursuant to the Escrow Agreement shall be paid one-half by Seller and one-half by Buyer. Buyer and Seller shall execute the Escrow Agreement on the date that Buyer is required to make the Deposit pursuant to Section 3.1(a).

3.2 Deposit. The Deposit shall be disbursed by Escrow Agent as follows:

a. if Closing occurs, to Seller at Closing (and credited to the Purchase Price);

b. if this Agreement is terminated by Seller pursuant to Section 10.1(d) or Section 10.1(f) and Seller is not in material default or material breach under this Agreement, to Seller; or

c. if this Agreement is terminated for any reason (other than by Seller pursuant to Section 10.1(d) or Section 10.1(f) and for which Seller is entitled to the Deposit under Section 3.2(b)), to Buyer.

Seller's retention of the Deposit in accordance with Section 3.2(b) shall constitute liquidated damages under this Agreement and the sole and exclusive remedy available to Seller in the event of any termination of this

Agreement in accordance with Section 10.1(d) or Section 10.1(f). Seller and Buyer acknowledge and agree that (A) Seller's actual damages upon the event of such a termination are difficult to ascertain with any certainty, (B) the retention of the Deposit is a fair and reasonable estimate by the Parties of such aggregate actual damages of Seller, and (C) such liquidated damages do not constitute a penalty.

3.3 Adjustments to Purchase Price. The Purchase Price shall be adjusted according to this Section 3.3 without duplication. For all adjustments known or capable of reasonable estimation as of Closing, the Purchase Price shall be adjusted at Closing pursuant to a "Settlement Statement." A draft of the Settlement Statement will be prepared by Seller in good faith using the best information available and provided to Buyer five Business Days prior to Closing. Buyer shall propose any changes it desires to make to the Settlement Statement furnished by Seller within three Business Days after receipt thereof. The Parties shall attempt to agree upon any such changes but if they do not agree, the Settlement Statement as prepared by Seller shall control, subject to Section 12.1. The Settlement Statement shall set forth the Purchase Price as adjusted as provided in this Article, which amount, less the Deposit, shall be paid at Closing and is referred to as the "Closing Amount." The Closing Amount shall be paid at Closing as detailed in Section 3.1 and the Parties will instruct the Escrow Agent to pay all amounts in the Escrow Account (other than any amounts paid into the Escrow Account pursuant to Section 5.4(b)(i)) to Seller to such accounts as directed by Seller in accordance with the terms of this Agreement. The Parties acknowledge that there will be no further adjustment to the Purchase Price following Closing, except as provided in Section 12.1.

a. Upward Adjustments. The Purchase Price shall be adjusted upward by the following, without duplication:

(i) amounts owed by Buyer to Seller under Article 13;

(ii) any Asset Taxes allocable to Buyer in accordance with Section 13.1 that are actually paid or payable by or on behalf of Seller or its Affiliates; and

(iii) the amount of any other upward adjustment specifically provided for in this Agreement or mutually agreed upon by the Parties.

b. Downward Adjustments. The Purchase Price shall be adjusted downward by the following, without duplication:

(i) an amount equal to the sum of the Title Defect Adjustment and all Title Defect Exclusions;

(ii) the amount of any reduction under Section 5.7 or Section 5.8;

(iii) the amount of any Net Casualty Loss under Section 5.9;

(iv) amounts owed by Seller to Buyer under Article 13;

(v) any Asset Taxes allocable to Seller in accordance with Section 13.1 that are actually paid or payable by or on behalf of Buyer or its Affiliates; and

(vi) the amount of any other downward adjustment specifically provided for in this Agreement or mutually agreed upon by the Parties.

3.4 Allocated Values. The Purchase Price is allocated to the Leases as set forth on Exhibit D. Each Lease to which a value is separately allocated on Exhibit D is herein called an "Allocated Property" (and two or more such properties are herein collectively called "Allocated Properties") and such separate value is herein called the "Allocated Value" of such Allocated Property.

ARTICLE 4
DUE DILIGENCE INSPECTION

4.1 Due Diligence. Between the Execution Date and the Closing Date, Seller shall make the Records, the Seller-operated Assets and reasonably appropriate Seller's personnel available to Buyer and its representatives for interview, inspection and review, as applicable, to permit Buyer to perform its due diligence review as hereinafter provided.

4.2 Records. The Records, the Seller-operated Assets and reasonably appropriate Seller's personnel will be made available for Buyer's inspection through Closing. Buyer may interview the appropriate Seller's personnel and inspect the Records and other Assets and such additional information only to the extent that it may do so without violating any obligation of confidence or contractual commitment of Seller to a third party (and upon Buyer's request, Seller shall use reasonable efforts to obtain the consent of third party operators to give Buyer and its representatives reasonable access to any such Records and similar information with respect to Assets not operated by Seller or its Affiliates, provided that Seller shall not be required to make payments or undertake obligations in favor any third parties in order to obtain such consent).

4.3 No Representation or Warranty. Except for the representations and warranties contained in this Agreement, Seller does not make any warranty or representation of any kind as to the accuracy, completeness or materiality of any Records or any information contained therein. Buyer agrees that any conclusions drawn from the Records shall be the result of its own independent review and judgment.

ARTICLE 5
TITLE MATTERS

5.1 Defensible Title. The term "Defensible Title" means, with respect to each Lease, such record title of Seller in and to the Lease that, subject to and except for the Permitted Encumbrances:

a. entitles Seller to receive not less than the net revenue interest ("NRI") described in Exhibit D share of production allocated to such Lease (except as such NRI may be reduced after the Execution Date in accordance with Section 8.1(h) due to the exercise of non-consent rights under applicable operating and similar agreements or applicable state Law);

b. obligates Seller to bear a percentage of the costs and expenses allocated to such Lease in an amount not greater than the working interest percentage ("WI") described in Exhibit D, without a corresponding increase in the NRI (except as such WI may be adjusted after the Execution Date in accordance with Section 8.1(h) due to the exercise of non-consent rights under applicable operating and similar agreements or applicable state Law);

c. with respect to each Lease, entitles Seller to not less than the Net Acres set forth on Exhibit D for such Lease; and

d. is free and clear of any and all liens (including liens for delinquent Property Taxes and Severance Taxes), encumbrances, mortgages, claims and production payments and any defects or irregularities.

5.2 Permitted Encumbrances. The term "Permitted Encumbrances" shall mean:

a. Royalties, overriding royalties, reversionary interests, net profit interests, production payments, carried interests, and other burdens, to the extent that any such burden does not reduce the NRI below that shown in Exhibit D, or increase the WI above that shown in Exhibit D, without a proportionate increase in the NRI;

b. The Assumed Contracts to the extent that they do not, individually or in the aggregate, reduce the NRI below that shown in Exhibit D, or increase the WI above that shown in Exhibit D, as applicable, without a

proportionate increase in the NRI;

c. Liens for current taxes or assessments not yet delinquent or, if delinquent, being contested in good faith by appropriate actions, as set forth in Section 5.2 of the Disclosure Schedule;

d. Materialman's, mechanics', repairman's, employees', contractors', operators' or other similar liens arising in the ordinary course of business incidental to production or operation of the Assets that are not delinquent (including any amounts being withheld as provided by applicable law) and that will be paid in the ordinary course of business or, if delinquent, that are being contested in good faith (which are listed in Section 5.2 of the Disclosure Schedule);

e. All rights to consent by, required notices to, filings with, or other actions by any Governmental Body having jurisdiction in connection with the sale or conveyance of the Assets pursuant to this or to any future transaction if they are not required or not customarily obtained prior to the sale or conveyance;

f. To the extent not yet triggered, rights of notice or reassignment of a leasehold interest to the holders of such reassignment rights prior to surrendering or releasing such leasehold interest;

g. Easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations, to the extent that they do not (i) reduce the NRI below that shown in Exhibit D, (ii) increase the WI above that shown in Exhibit D, without a proportionate increase in the NRI, or (iii) detract in any material respect from the value of, or interfere in any material respect with the use, ownership or operation of the Assets subject thereto or affected thereby (as currently used, owned and operated) and which would be considered acceptable by a reasonably prudent purchaser engaged in the business of owning and operating oil and gas properties;

h. All rights reserved to or vested in any Governmental Body to control or regulate any of the Assets in any manner, and all obligations and duties under all applicable laws or under any franchise, grant, license or permit issued by any such Governmental Body; and

i. Any other encumbrance, defect or irregularity affecting any Asset the enforcement of which is barred under applicable statutes of limitation, or the following matters unless such matter can reasonably be expected to result in another Person's superior claim of title to the affected Lease: (i) lack of corporate authorization, (ii) failure to recite marital status in documents, (iii) omission of heirship or succession proceedings older than 10 years from the Closing Date, (iv) the failure to record releases of liens, production payments or deeds of trust that have expired according to their own terms, and (v) minor defects or irregularities in title which would be considered acceptable by a reasonably prudent purchaser engaged in the business of owning and operating oil and gas properties and do not affect the ability to drill or operate a well.

The transfer of the Assets by Seller to Buyer shall be by warranty of Defensible Title, by, through and under Seller and its Affiliates, but not otherwise, subject to the Permitted Encumbrances (the "Special Warranty").

5.3 Notice of Title Defects. Buyer shall give Seller written notice of all Title Defects discovered by Buyer by delivering to Seller a written "Notice of Title Defects" setting forth such Title Defects. The Notice of Title Defects shall (a) describe the Title Defect, (b) describe the basis of the Title Defect, (c) include copies of any title opinion, title memoranda and other documentation supporting the basis of the Title Defect, (d) describe in general terms the curative action that Buyer reasonably anticipates would need to be taken in order to cure such Title Defect, and (e) describe Buyer's good faith estimate of the reduction in the Allocated Property's Allocated Value caused by the Title Defect ("Title Defect Value") (*provided* that the Title Defect Value, together with the aggregate Title Defect Values attributable to any other Title Defects affecting such Allocated Property, shall not exceed the Allocated Property's Allocated Value) and associated calculations and documentation. The final Notice of Title Defects shall be delivered on or before the Defect Notice Deadline. Except with respect to the provisions set forth in the last sentence of Section 5.10, Buyer will be deemed to have conclusively waived (i) other than with respect to the Special Warranty to be provided in

the Assignment, Bill of Sale and Conveyance to be delivered at Closing, any Title Defect about which it fails to notify Seller in writing prior to the Defect Notice Deadline and (ii) any Title Defect (other than Title Defects arising by, through or under Seller and its Affiliates) with respect to which the Title Defect Value is less than the Title Defect Threshold; provided, that the Title Defect Values of all Title Defects affecting any single Lease shall be aggregated for purposes of determining whether the Title Defect Threshold has been reached for such Lease.

5.4 Defect Adjustments and Deductibles. Seller and Buyer shall proceed as follows with respect to an asserted Title Defect:

a. Seller shall have the option until two Business Days prior to the Closing Date to cure any Title Defect affecting any Allocated Property that is timely identified under Section 5.3.

b. If a Title Defect timely asserted by Buyer affecting an Allocated Property is not cured or waived on or before two Business Days prior to the Closing Date, Buyer and Seller shall attempt in good faith to reach agreement, on or before Closing, on the existence of the Title Defect and the Title Defect Value, and, if they reach agreement, such Title Defect Value shall be included in determining the Title Defect Adjustment, if any, under Section 5.4(c). In the event that Buyer and Seller do not reach such an agreement by Closing, Seller shall elect to either (i) include the subject Allocated Property in the Assets to be conveyed at Closing, in which case the Title Defect Value asserted by Buyer with respect thereto shall be delivered to the Escrow Agent by Buyer at Closing, such amount of the Title Defect Value shall be included in Section 5.4(c)(i) for purposes of determining the Title Defect Adjustment, if any, under Section 5.4(c) to be reflected in the Settlement Statement, and the existence of the Title Defect and Title Defect Value shall be determined by the Title Expert pursuant to Section 5.6, or (ii) exclude the subject Allocated Property from the Assets, in which case the Purchase Price shall be reduced by the Allocated Value of the excluded Allocated Property (a "Title Defect Exclusion").

c. The "Title Defect Adjustment" shall be the amount, if any, by which (i) the aggregate amount of all Title Defect Values with respect to uncured and unwaived Title Defects affecting Allocated Properties that are not Title Defect Exclusions *exceeds* (ii) the Title Defect Deductible Amount. The Purchase Price shall be reduced pursuant to Section 3.3(b)(i) by the Title Defect Exclusions and the Title Defect Adjustment.

5.5 Post-Closing Cure of Title Defects. In the event that the Title Defect giving rise to the exclusion of an Allocated Property from this Agreement as a Title Defect Exclusion, or to a Purchase Price reduction for the Title Defect Value, is cured by Seller (*provided* Seller shall have no obligation to attempt to cure Title Defects) such that the post-curative Title Defect Value, if any, is less than the Title Defect Threshold and Seller delivers to Buyer pertinent information reasonably necessary to document the curative action within 60 days after the Closing Date (or if such condition is satisfied based on the determination of the Title Expert pursuant to Section 5.6 whether such determination occurs before or after such 60 day period), then (i) in the case of a Title Defect associated with an Allocated Property that is not a Title Defect Exclusion, Buyer shall pay or the Parties shall cause the Escrow Agent to pay, as applicable, to Seller an amount equal to the Title Defect Value or (ii) in the case of an Allocated Property that is a Title Defect Exclusion, Seller shall have the option to put the excluded Allocated Property to Buyer, such put option shall be exercised by Seller delivering written notice to Buyer of Seller's election to put the excluded Allocated Property to Buyer within 60 days after the Closing Date (or, if later, 15 days after receipt of the Title Expert's determination), and if such exercise notice is given, then, within 15 days after Buyer's receipt of such notice, Seller shall assign such Allocated Property to Buyer by an assignment in the form of Exhibit E and Buyer shall pay to Seller an amount equal to the Allocated Value of such Allocated Property, adjusted as provided in Section 3.3. Any dispute regarding matters arising under this Section 5.5 shall be resolved exclusively by expert determination using the procedures specified in Section 5.6.

5.6 Post-Closing Expert Determination of Title Defects. Seller and Buyer shall each have the right to submit the validity of any asserted Title Defect or Title Defect Value, or the adequacy of any title curative action, to expert determination pursuant to this Section 5.6, which shall be the Parties' sole remedy with respect to such matters. Any

such expert determination shall be commenced, if at all, within 90 days after the Closing Date.

a. The Title Expert shall be a neutral attorney who does not represent and has not recently represented either Party and who has at least 10 years of experience in oil and gas title Law and, if such an attorney is available, preferably in Texas oil and gas title Law, as applicable (the "Title Expert").

b. The Parties shall attempt to mutually agree on the Title Expert; *provided* if the Parties do not mutually agree on the Title Expert within 15 Business Days after the other Party's receipt of a Party's election to submit a matter to expert determination, then, within five Business Days after the end of such 15 Business Day period, each Party shall submit to the other Party the name(s) of at least one, but not more than three, potential Title Experts having the qualifications outlined in Section 5.6(a). If there is one common name on the Parties' lists, that Person shall be the Title Expert; but if there is more than one common name on the Parties' lists, the Title Expert shall be selected from the common names on the Parties' lists by the mutual agreement of the Parties, or in absence of such agreement, by drawing straws.

c. In the event there are no common names on the Parties' lists, the lists of potential Title Experts submitted by the Parties shall be submitted to the Houston, Texas office of the AAA on or before five Business Days after the submission of the Parties' respective lists, and the AAA shall select the Title Expert from the Parties' lists.

d. Within 20 Business Days after the selection of the Title Expert, the Parties shall provide to the Title Expert the following materials:

(i) Buyer's Notice of Title Defects and all documentation provided therewith or referred to therein shall be provided to the Title Expert, and Seller shall provide such evidence as Seller deems appropriate to dispute the Title Defect and the Title Defect Value as assigned thereto by Buyer in the Notice of Title Defects and to substantiate any title curative actions undertaken by Seller, together with Seller's proposed Title Defect Value, if any after giving effect to any such curative actions; and

(ii) Article 5 of this Agreement, and Exhibits A-2, and D to this Agreement, together with any definitions of terms used in such Article and Exhibits, but no other provisions of this Agreement.

e. The Title Expert, once appointed, shall have no *ex parte* communications with any of the Parties concerning the determination required hereunder. All communications between any Party and the Title Expert shall be conducted in writing, with copies sent simultaneously to the other Party in the same manner, or at a meeting in Houston, Texas to which the representatives of both Parties have been invited and of which such parties have been provided at least five days' notice.

f. The Title Expert shall make his or her determination and provide to the Parties written findings within 20 Business Days after he or she has received the materials under Section 5.6(d). The decision of the Title Expert shall be final, binding on the Parties and non-appealable and, with respect to a Title Defect Value, shall be limited to awarding only the Title Defect Value asserted by Buyer in its Title Defect Notice or Seller's proposed Title Defect Value furnished pursuant to Section 5.6(d)(i) (or the other Party's proposed Title Defect Value furnished pursuant to Section 5.6(d)(i)). The Title Expert shall make a separate determination with respect to each Title Defect submitted. Within the 10 Business Days of receiving the written findings of the Title Expert with respect to a Title Defect, the Parties shall execute and deliver to the Escrow Agent joint written instructions directing the Escrow Agent to deliver the cash held in escrow with respect to such Title Defect consistent with the decision of the Title Expert.

g. Each Party shall pay and bear the costs of its attorneys and experts. Seller shall pay 50% and Buyer shall pay 50% of the costs of the Title Expert.

h. The written finding of the Title Expert (i) need only set forth the Title Expert's finding as to whether the subject Title Defect exists or has been cured and the Title Defect Value, and not the Title Expert's rationale for the award, and (ii) shall set forth the allocation of costs pursuant to Section 5.6(g).

i. The Title Expert shall act as an expert for the limited purpose of determining the specific matters disputed and shall not act as an arbitrator, and may not award damages, interest or penalties to either Party with respect to any matter.

5.7 Consents. Seller shall use its reasonable commercial efforts to obtain all consents set forth in Section 6.17 of the Disclosure Schedule prior to Closing relating to a transfer of its interest in the Assets. Seller shall provide within five days after the Execution Date all notices required to be obtained in compliance with the contractual provisions applicable thereto. If Seller or Buyer discovers other affected Assets that are subject to a consent to transfer requirement, Seller shall use its reasonable commercial efforts to obtain such consents prior to Closing.

a. Required Consents. That portion of the Assets for which a consent has not been obtained and if such lack of consent would (i) invalidate an attempted conveyance of the Assets to Buyer or (ii) cause a termination of the Asset being conveyed (each, a "Required Consent") shall be excluded from the Assets conveyed at the Closing and the Purchase Price shall be reduced by the Allocated Value of the excluded Allocated Properties. Seller may (but is not obligated to) use its reasonable commercial efforts to obtain any such Required Consent following Closing for a period of one year and if a Required Consent is obtained within one year after the Closing, then, within 30 days after receipt of such consent, Seller may assign such excluded portion of the Assets to Buyer using an assignment in the form of Exhibit E in exchange for a payment by wire transfer from Buyer equal to the Allocated Value of the applicable Allocated Property, subject to the adjustments described in Section 3.3. Buyer shall reasonably cooperate with Seller in obtaining any Required Consent but shall not be required to expend funds in connection therewith.

b. Non-Required Consents. The following types of consents shall not constitute Required Consents: (i) consents to transfers of title by the State of Texas or any county, (ii) consents set forth in, or arising out of, a farmout or similar agreement pursuant to which Seller has already satisfied all conditions for earning any interests that constitute a part of the Assets and Seller has received the earned interests under such agreement, and (iii) any other consents that are not Required Consents. If a consent is not a Required Consent and it has not been obtained as of the Closing Date, then the affected Assets shall nevertheless be conveyed at the Closing as part of the Assets without a reduction to the Purchase Price.

5.8 Preferential Purchase Rights. Seller shall use its commercially reasonable efforts to comply with all preferential right to purchase provisions (including those set forth in Section 6.17 of the Disclosure Schedule) relative to its interest in the Assets by sending notice of this Agreement, within five days after the Execution Date, to all Persons holding preferential rights, offering to sell to each such Person that portion of the Assets for which such a preferential right is held for an amount equal to the Allocated Values of the subject Allocated Properties, subject to all other terms and conditions of this Agreement and in compliance with the contractual provisions applicable to such preferential rights. If Seller or Buyer discovers any additional preferential rights, Seller shall use its commercially reasonable efforts to comply therewith in accordance with the terms of the preceding sentence. If, prior to Closing, any of such persons asserting a preferential purchase right notifies Seller that it intends to consummate the purchase of that portion of the Assets to which it holds a preferential purchase right pursuant to the terms and conditions of such notice and this Agreement, then such Assets shall be excluded from the Assets identified in this Agreement and the Purchase Price shall be reduced by the Allocated Values of the excluded Allocated Properties; *provided, however*, that if the holder of such preferential right is required to but fails to consummate the purchase of such Assets on or prior to the Closing Date, then Seller shall notify Buyer, and Seller shall sell to Buyer, and Buyer shall purchase from Seller, the Assets to which the preferential purchase right was asserted for such Allocated Values. All Assets for which a preferential purchase right has not been asserted prior to Closing and the period for exercise has expired, or with respect to which closing does not occur on or before the Closing Date following the assertion of a preferential purchase right other than as a result of Seller's default for which Closing should have occurred prior to the Closing Date, shall be sold to Buyer at Closing

pursuant to the provisions of this Agreement.

5.9 Casualty Loss. Prior to Closing, if any material portion of an Allocated Property is destroyed by fire or other casualty or if a portion of an Allocated Property is taken or threatened to be taken in condemnation or under the right of eminent domain ("Casualty Loss"), such Allocated Property shall be excluded from this Agreement and the Purchase Price shall be reduced by the Allocated Value of the excluded Allocated Property, unless Buyer and Seller agree upon the estimated cost to repair such Allocated Property (with equipment of similar utility) or other appropriate reduction to the Purchase Price, not to exceed the Allocated Value of the Allocated Property (the Purchase Price adjustment, whether from excluding the Allocated Property or agreement upon an appropriate adjustment, is herein called the "Net Casualty Loss") and Seller shall retain all insurance proceeds and all claims against third parties with respect to the Casualty Loss; provided, however, that if the aggregate Net Casualty Loss is less than 2% of the unadjusted Purchase Price: (a) the Net Casualty Loss will be deemed to be $0; (b) the affected Allocated Properties will be assigned to Buyer at Closing to the extent still owned by Seller; and (c) Seller will assign to Buyer all rights to insurance proceeds and condemnation and taking proceeds at Closing or pay over such proceeds if already received. Seller, at its option, may elect to cure such Casualty Loss prior to the Closing. If Seller elects to cure such Casualty Loss, Seller may replace any personal property that is the subject of a Casualty Loss with equipment of similar grade and utility, or replace any personal property with personal property of similar nature and kind if such property is acceptable to Buyer in its reasonable discretion. If Seller elects to cure the Casualty Loss, and in fact does cure the Casualty Loss prior to the Closing to the reasonable satisfaction of Buyer, there shall be no adjustment to the Purchase Price.

5.10 Title Waiver. Except for claims, damages, liabilities, costs or expenses Buyer asserts under the Special Warranty, all Title Defects not properly and timely claimed in accordance with Section 5.3, above shall be waived by Buyer for all purposes, and Buyer shall have no right to seek an adjustment to the Purchase Price, make a Claim against Seller, monetary, legal or otherwise, or seek indemnification from Seller associated with the same. For the avoidance of doubt, the terms of Sections 6.9, 6.10, 6.16, 6.17, 6.20, 6.22 and 6.26 shall not be affected by the terms of this Section 5.10.

ARTICLE 6
SELLER'S REPRESENTATIONS AND WARRANTIES

Seller makes the following representations and warranties as of the date of this Agreement and the Closing Date, except where a specific date is specified:

6.1 Existence. Seller is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware, and is duly qualified to do business in the State of Texas.

6.2 Power and Authority. Subject to entry of the Sale Order, Seller has all requisite power and authority to carry on its business as presently conducted, to enter into this Agreement and each of the documents contemplated to be executed by Seller at Closing, and to perform its obligations under this Agreement and under such documents. The consummation of the transaction contemplated by this Agreement and each of the documents contemplated to be executed by Seller at Closing will not (i) violate, nor be in conflict with, any provision of Seller's organizational or governing documents, (ii) result in a default, or the creation, imposition or continuance of any encumbrance on or affecting Seller's interest in the Assets or give rise to any right of termination, cancellation or acceleration under, any agreement or instrument to which Seller or any of its Affiliates is a party or is bound or by which the Assets are bound (other than any Contract that is not an Assumed Contract for which Buyer and the Assets will not be subject to any liability or obligation), or (iii) violate, nor be in conflict with any Law, Permit, judgment, decree, order, statute, rule or regulation applicable to Seller or the Assets.

6.3 Authorization. Subject to entry of the Sale Order, the execution, delivery and performance of this Agreement and each of the documents contemplated to be executed by Seller at Closing and the contemplated transaction have been duly and validly authorized by all requisite action on the part of Seller.

6.4 Execution and Delivery. Subject to entry of the Sale Order, this Agreement has been duly executed and delivered on behalf of Seller, and at the Closing, all documents and instruments required hereunder to be executed and delivered by Seller shall have been, duly executed and delivered. Subject to entry of the Sale Order, this Agreement does, and such documents and instruments shall, constitute legal, valid and binding obligations of Seller enforceable in accordance with their terms, subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws of general application with respect to creditors, (ii) general principles of equity, and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

6.5 Non-Foreign Person. Seller (or the owner of Seller treated as the transferor of Assets if Seller is a disregarded entity under Treasury Regulation §1.1445-2(b)(2)(iii)) is not a "foreign person" within the meaning of Sections 1445 and 7701 of the Code and will give the certificate required pursuant to Section 11.2 (*i.e.* Seller is not a nonresident alien, foreign corporation, foreign partnership, foreign trust, or foreign estate as those terms are defined in the Code, and any regulations promulgated thereunder).

6.6 Liabilities for Brokers' Fees. Neither Seller nor its Affiliates has incurred any obligation or liability, contingent or otherwise, for brokers', finders' fees, agent's commissions or other similar forms of compensation relating to the transaction contemplated by this Agreement for which Buyer shall have any responsibility whatsoever.

6.7 [Reserved].

6.8 Taxes. All Taxes imposed on or with respect to the ownership or operation of the Assets that have become due and payable prior to the Closing Date have been timely paid in full, and all Tax Returns with respect to Taxes imposed on or with respect to the ownership or operation of the Assets required to be filed prior to the Closing Date have been timely filed. There are no liens of any Governmental Bodies for Taxes on any of the Assets except for Permitted Encumbrances. None of the Assets is subject to any tax partnership as defined in Section 761 of the Code, or is otherwise treated, or required to be treated, as held in an arrangement requiring a partnership income Tax Return to be filed under Subchapter K of Chapter 1 of Subtitle A of the Code. There is not currently in effect any extension or waiver of any statute of limitations of any jurisdiction regarding the assessment or collection of any Asset Taxes relating to the Assets. There are no administrative or judicial proceedings by any taxing authority pending or, to Seller's knowledge, threatened against Seller relating to or in connection with any Asset Taxes relating to the Assets. All of the Assets have been properly listed and described on the property tax rolls for all periods prior to and including the applicable Closing Date.

6.9 Litigation and Claims. Except for the Pending Claims, the Bankruptcy Case and as set forth in Section 6.9 of the Disclosure Schedule, there is no Proceeding (a) pending or, to its knowledge, threatened, against Seller or its Affiliates relating to the Assets or the operator of the Assets, in any court or by or before any Governmental Body or arbitration or mediation or (b) that impairs Seller's ability to consummate, or that would reasonably be expected to prevent, delay or make illegal the transaction contemplated hereby. No condemnation or eminent domain Proceedings are pending, or, to Seller's knowledge, threatened, by any Governmental Body affecting any of the Assets. To Seller's knowledge, no Proceedings to which Seller is not a party which relates to the Assets or to Seller's ownership or operation of the Assets is pending or threatened.

6.10 Compliance with Laws. Except as set forth in Section 6.10 of the Disclosure Schedule, Seller and its Affiliates are not in material violation of, or in material default under, and no event has occurred that (with notice or the lapse of time or both) would constitute a material violation of or material default under, any Law (other than Environmental Laws, which are addressed exclusively in Section 6.23) applicable to Seller's and its Affiliates' ownership and operation of the Assets. To Seller's knowledge, any Assets operated by third parties have been operated in all material respects in compliance with all applicable Laws.**Permits**. Except as set forth in Section 6.11 of the Disclosure Schedule, (a) Seller has obtained all Permits required to be obtained by Seller to own and, with respect to that portion of the Assets operated by Seller, to operate the Assets in material compliance with all applicable Laws, (b) all such Permits are in full force and effect and no Proceeding is pending, nor to Seller's knowledge, threatened, to

modify, suspend, revoke or terminate any such Permit or declare any such Permit invalid; and (c) Seller is in compliance in all material respects with all such Permits.

6.11 Material Agreements; Notice of Defaults.

a. Except for the Leases and agreements entered into in accordance with Section 8.1(c) after the Execution Date, Exhibit C sets forth all agreements of Seller and its Affiliates relating to the Assets or to which the Assets are bound of the type described below (collectively, the "Material Agreements"):

(i) any agreement that can reasonably be expected to result in aggregate payments or receipts of revenue by Seller or its Affiliates of more than $25,000 during the current or any subsequent calendar year or more than $100,000 in the aggregate over the term of such agreement (based solely on the terms thereof and current volumes, without regard to any expected increase in volumes or revenues or any surface use payments with respect to wells drilled after the Execution Date);

(ii) any Hydrocarbon purchase and sale, transportation, gathering, treating, processing or similar agreement that is not terminable without penalty upon 60 days' or less notice;

(iii) any agreement (other than the Leases) that constitutes a lease under which Seller is the lessor or the lessee of real or personal property which lease (A) cannot be terminated by Seller without penalty upon 60 days' or less notice and (B) involves an annual base rental of more than $25,000;

(iv) any partnership agreement, joint venture agreement, farmout agreement, participation agreement, production sharing agreement, unit agreement, joint operating agreement, joint exploration agreement, joint development agreement or similar agreement;

(v) any agreement that is an indenture, mortgage, deed of trust, loan, credit agreement, sale-leaseback, guaranty of any obligation, bond, letter of credit, security interest or similar financial agreement encumbering any Asset (other than Permitted Encumbrances) that will not be terminated at or prior to the Closing;

(vi) any agreement that constitutes or includes a non-competition agreement, non-solicitation agreement, area of mutual interest agreement or any other agreement that purports to restrict, limit or prohibit the manner in which, or the locations in which, Seller conducts business within or adjacent to the Assets that will be binding on the Assets or Buyer after the Closing;

(vii) any agreement that provides for a call upon, option to purchase or similar right under any agreements with respect to the Hydrocarbons from the Assets;

(viii) any drilling contract;

(ix) any agreement that provides for an irrevocable power of attorney that will be in effect after the Closing Date;

(x) any agreement of Seller to sell, lease, farmout, exchange, transfer or otherwise dispose of all or any part of the Assets (other than with respect to production of Hydrocarbons in the ordinary course) from and after the Closing Date, but excluding rights or reassignment upon intent to abandon an Asset; and

(xi) any agreement between Seller and any Affiliate of Seller that will not be terminated prior to or at Closing.

b. Except as set forth in Section 6.13 of the Disclosure Schedule, each Material Agreement set forth (or required to be set forth) in Section 6.13 of the Disclosure Schedule is a legal, valid and binding obligation against Seller and, to Seller's knowledge, each other party thereto, is enforceable in accordance with its terms against Seller and, to Seller's knowledge, each other party thereto, and is in full force and effect, in all cases subject to the Bankruptcy Case and any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other Laws, now or hereafter in effect, relating to or limiting creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a Proceeding in equity or at Law). Except as set forth in Section 6.13 of the Disclosure Schedule and for any contracts rejected by Seller in the Bankruptcy Case, there exists no material default under any Material Agreement by Seller or, Seller's knowledge, by any other Person that is a party to such Material Agreement, that has not been cured, and no event, occurrence, condition or act has occurred that, with the giving of notice, the lapse of time or both would constitute a breach, default or event of default under any such Material Agreement by Seller or, to Seller's knowledge, any other Person who is a party to such Material Agreement. Seller has not received any notice from a third party alleging a violation or breach of any Material Agreement by Seller or its Affiliates. Prior to the Execution Date, except as set forth on Section 6.13 of the Disclosure Schedule, Seller has delivered to Buyer true and complete copies of each Material Agreement, the Leases and any and all amendments thereto. Except as set forth in Section 6.13 of the Disclosure Schedule, there are no contracts with Affiliates of Seller, Hedging Contracts or Debt Contracts, in each case that will be binding on the Assets or Buyer after the Closing.

6.12 Production Sales Contracts. Seller's interest in the Assets is not encumbered by any obligation under a sales contract, Hedging Contract, take-or-pay clause, or any similar arrangement, to deliver Hydrocarbons produced from the Assets without receiving payment at the time of delivery or subsequent to delivery, or to deliver Hydrocarbons in the future for which payment has already been received (e.g., a "forward" sale contract).

6.13 Current Plugging Obligations. Except as set forth in Section 6.15 of the Disclosure Schedule, Seller has not received any notices or demands from Governmental Bodies or other third parties to plug any Excluded Wells.

6.14 Royalties. Seller has duly and properly paid, or caused to be duly and properly paid, all Royalties due by Seller and its Affiliates during the period of Seller's ownership or operation of the Assets prior to the Closing Date in accordance with applicable Laws, any order of the Bankruptcy Court authorizing payments on account of Royalties, and the applicable Lease.

6.15 Preferential Purchase Rights and Consents. Except as set forth in Section 6.17 of the Disclosure Schedule, there are no (i) preferential purchase rights, rights of first refusal or other similar rights that are applicable to the transfer of the Assets in connection with the transactions contemplated hereby, or (ii) consents, approvals, authorizations, waivers or ratifications required to be obtained from any Person in connection with the transactions contemplated hereby, except for consents and approvals of Governmental Bodies that are customarily obtained after Closing.

6.16 AFEs. Section 6.18 of the Disclosure Schedule sets forth, as of the Execution Date, all approved authorizations for expenditures and other approved capital commitments, individually in excess of $25,000 net to Seller's interest (the "AFEs"), relating to the Assets to drill or rework wells or for other capital expenditures for which all of the activities anticipated in such AFEs have not been completed by the Execution Date.

6.17 Wells and Equipment. To Seller's knowledge:

a. All Excluded Wells currently operated by Seller that were drilled and completed by Seller as operator were drilled and completed in all material respects within the limits permitted by all applicable Leases and contracts and at locations that comply with the rules and regulations of the applicable Governmental Bodies;

b. Exhibit B sets forth a list of all wellbores located on the Leases; and

c. There are no inactive Excluded Wells that Seller is currently obligated by applicable Law or contract

to plug or abandon, that have been plugged, dismantled or abandoned in a manner that does not comply in all material respects with applicable Laws, or that are currently subject to exceptions to a requirement to plug or abandon issued by a Governmental Body.

6.18 Leases. To Seller's knowledge, the list of Leases set forth on Exhibit A-2 is a true, correct and complete list of all real property and interests in real property included in the Assets that are leased, subleased, licensed or otherwise used or occupied by Seller as lessee, sublessee, licensee, lessor, sublessor or licensor, together with the parties to, and date of, each Lease. Seller has made available to Buyer true and complete copies of each Lease, and any and all amendments, modifications, supplements, exhibits, restatements, guarantees and other agreements (whether written or oral), in each case related thereto, in its possession and control. Except as set forth on Section 6.20 of the Disclosure Schedule, (a) there are no Proceedings with respect to any Lease pending before any Governmental Body in which the lessor thereunder is seeking to terminate, cancel, rescind or procure judicial reformation of any such Lease, in whole or in part, (b) Seller has not received any written notice from any lessor under the Leases seeking to terminate, cancel, or rescind any such Leases, and Seller has not received any written notice from any lessor under the Leases alleging any unresolved material default under the Leases, (c) to Seller's knowledge, none of the Leases are subject to any material restrictions on any lessee's use of the surface in connection with Hydrocarbon operations that would affect (i) such use or operations (as currently used and operated by Seller) or (ii) the ability to drill a well on a Lease, and (d) Seller has not received any condemnation, zoning or other similar proceeding affecting any Lease.

6.19 Non-Consent Operations. Except as disclosed on Section 6.21 of the Disclosure Schedule, no operations are being conducted or have been conducted on the Assets with respect to which Seller has elected to be a non-consenting party under the applicable operating agreement and with respect to which Seller's rights have not yet reverted to it.

6.20 Surface Rights. Except as set forth on Section 6.22 of the Disclosure Schedule, (a) each of the Surface Rights owned or held by Seller is legal, valid, binding, enforceable and in full force and effect; (b) Seller is not in material breach of or material default under any such Surface Right; and (c) to Seller's knowledge, no event has occurred or circumstance exists that, with the delivery of notice, the passage of time or both, would constitute such a material breach or default or permit the termination of any such Surface Right.

6.21 Environmental Matters. Except as set forth in Section 6.23 of the Disclosure Schedule, to Seller's knowledge, (a) the Assets, the Excluded Wells and their operations are and, during the shorter of (i) Seller's period of ownership and (ii) the last five years, have been in compliance with Environmental Laws in all material respects, and (b) the Assets and the Excluded Wells are not subject to any material remediation obligation imposed pursuant to Environmental Laws or any Governmental Body. Seller has made available for Buyer's inspection all environmental site assessment reports, environmental compliance reports, and all material correspondence with Governmental Bodies and surface estate owners addressing potentially material environmental matters that are within Seller's possession and control and that have been prepared or received within five years preceding the date of this Agreement.

6.22 Guarantees. Section 6.24 of the Disclosure Schedule is a complete and accurate list of all bonds, letters of credit and guarantees posted or entered into by Seller or its Affiliates in connection with the ownership or operation of the Assets.

6.23 Drilling Obligations. Except as set forth on Section 6.25 of the Disclosure Schedule, Seller is not required to perform any additional drilling operations on the Leases by virtue of a contract or agreement relating to the Assets or the ownership or operation thereof.

6.24 Title to the Assets. Subject to the entry of the Sale Order, upon Closing, Buyer will be vested with good title to the Assets, including any Assets (other than Specified Assets) that are subject to claims or causes of action asserted in the Encana Adversary Proceeding, free and clear of all encumbrances, other than Permitted Encumbrances, to the fullest extent permissible under Section 363(f) of the Bankruptcy Code.

ARTICLE 7
BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer makes the following representations and warranties as of the date of this Agreement and the Closing Date, except where a specific date is specified:

7.1 Existence. Buyer is a corporation, duly organized, validly existing and in good standing under the Laws of the State of Delaware, and is duly qualified to do business in the States of Texas.

7.2 Power and Authority. Buyer has all requisite power and authority to carry on its business as presently conducted, to enter into this Agreement and each of the documents contemplated to be executed by Buyer at Closing, and to perform its obligations under this Agreement and under such documents. The consummation of the transaction contemplated by this Agreement and each of the documents contemplated to be executed by Buyer at Closing will not violate, nor be in conflict with: (i) any provision of Buyer's organizational or governing documents, (ii) any agreement or instrument to which Buyer is a party or is bound, or (iii) any judgment, decree, order, statute, rule or regulation applicable to Buyer.

7.3 Authorization. The execution, delivery and performance of this Agreement and each of the documents contemplated to be executed by Buyer at Closing and the contemplated transaction have been duly and validly authorized by all requisite action on the part of Buyer.

7.4 Execution and Delivery. This Agreement has been duly executed and delivered on behalf of Buyer, and at the Closing all documents and instruments required hereunder to be executed and delivered by Buyer shall have been duly executed and delivered. This Agreement does, and such documents and instruments shall, constitute legal, valid and binding obligations of Buyer enforceable in accordance with their terms, subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws of general application with respect to creditors, (ii) general principles of equity, and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

7.5 Bankruptcy. There are no bankruptcy, insolvency, reorganization, receivership or arrangement Proceedings pending against, being contemplated by or, to Buyer's knowledge, threatened in writing against Buyer or any Affiliate of Buyer.

7.6 Liabilities for Brokers' Fees. Neither Buyer nor its Affiliates has incurred any obligation or liability, contingent or otherwise, for brokers', finders' fees, agent's commissions or other similar forms of compensation relating to the transaction contemplated by this Agreement for which Seller shall have any responsibility whatsoever.

7.7 Litigation and Claims. There is no Proceeding by any person, entity, administrative agency or Governmental Body pending or, to Buyer's knowledge, threatened in writing, against Buyer before any Governmental Body that impedes or is likely to impede Buyer's ability to consummate the transactions contemplated by this Agreement and to assume the liabilities to be assumed by Buyer under this Agreement.

7.8 Independent Evaluation. Buyer has such knowledge, sophistication and experience in business and financial matters that Buyer is capable of evaluating the merits and risks of the acquisition of the Assets and has so evaluated the merits and risks of such acquisition. Buyer is knowledgeable about the oil and gas business, and Buyer has retained and taken advice concerning the Assets and transactions herein from advisors and consultants which are knowledgeable about the oil and gas business, and Buyer is aware of its risks. Buyer has been afforded the opportunity to examine the Records and other materials made available to it by Seller and Seller's authorized representatives with respect to the Assets (the "Background Materials"). The Background Materials include files, or copies thereof, that Seller has used in its normal course of business and other information about the Assets that Seller and Seller's authorized representatives have compiled or generated; *provided, however*, other than as set forth in Article 6, Buyer

acknowledges and agrees that neither Seller nor any other Seller Indemnified Parties have made any representations or warranties, express or implied, written or oral, as to the accuracy or completeness of the Background Materials or, except for the representations and warranties of Seller contained in this Agreement, as to any other information relating to the Assets, furnished or to be furnished to Buyer or its representatives by or on behalf of Seller. In entering into this Agreement, Buyer acknowledges and affirms that it has relied and will rely solely on the terms of this Agreement and upon its independent analysis, evaluation and investigation of, and judgment with respect to, the business, economic, legal, tax or other consequences of this transaction including its own estimate and appraisal of the extent and value of the petroleum, natural gas and other reserves attributable to the Assets and the prices that may be received for Hydrocarbons produced therefrom. Buyer's representatives have been given opportunities to examine the Records. Except as expressly provided in this Agreement, neither Seller nor any other Seller Indemnified Parties shall have any liability to Buyer or its Affiliates, agents, representatives or employees resulting from any use of, authorized or unauthorized, or reliance on, the Background Materials or other information relating to the Assets provided by or on behalf of Seller or any other Seller Indemnified Parties.

7.9 Qualification. Buyer is now, or at Closing will be and thereafter will continue to be, qualified to own and operate the Assets. Completing the transaction set out in this Agreement will not cause Buyer to be disqualified or to exceed any acreage limitation imposed by Law, statute or regulation.

7.10 Financial Resources. Buyer has the financial resources available to close the transactions contemplated by this Agreement without financing that is subject to any material contingency.

7.11 Consents. No consent, approval, authorization or Permit of, or filing with or notification to, any person is required for or in connection with the execution and delivery of this Agreement by Buyer or for or in connection with the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Buyer.

ARTICLE 8
COVENANTS AND AGREEMENTS

8.1 Interim Operations. Except (I) for the operations covered by the AFEs and other capital commitments described in Section 6.18 of the Disclosure Schedule, (II) for actions taken in connection with emergency situations, (III) as expressly required by this Agreement or as expressly consented to in writing by Buyer (which consent shall not be unreasonably delayed, withheld or conditioned), or (IV) as ordered by the Bankruptcy Court without such action being initiated by Seller, Seller shall, from and after the Execution Date and until Closing:

a. maintain, and if Seller is the operator thereof, Seller shall operate, the Assets in the usual, regular and ordinary manner consistent with its past practice and as a reasonably prudent operator;

b. maintain the books of account and Records relating to the Assets in the usual, regular and ordinary manner, in accordance with the usual accounting practices of Seller;

c. not enter into any agreement that, if entered into on or prior to the Execution Date, would be required to be listed in Exhibit C, or terminate (unless such Material Agreement terminates pursuant to its stated terms) or materially amend or change the terms of any Material Agreement;

d. not transfer, sell, mortgage, pledge, encumber or otherwise dispose of any portion of the Assets other than (A) the sale or disposal of Hydrocarbons in the ordinary course of business, and (B) sales of equipment that is no longer necessary in the operation of the Assets or for which replacement equipment has been obtained;

e. not abandon any Asset (subject to clause (j) below, except the abandonment or expiration of Leases in accordance with their terms, including with respect to leases not capable of producing in paying quantities after the expiration of their primary terms or for failure to pay delay rentals or shut-in royalties or similar types of lease

maintenance payments);

f. not commence, propose, or agree to participate in any single operation with respect to the Assets with an anticipated cost in excess of $25,000, net to Seller's interest, to the extent Buyer will be responsible for such costs, except for emergency operations or operations scheduled under the AFEs;

g. maintain all material Permits, approvals, bonds and guaranties affecting the Assets and make all filings that Seller is required to make under applicable Law with respect to the Assets;

h. not make any election (or fail to make an election, the result of which is) to go non-consent with respect to any of the Assets;

i. comply in all material respects with all Laws that are applicable to the Assets;

j. use commercially reasonable efforts to maintain in full force and effect each Lease, and timely and properly pay all Lease renewals and extensions that become due after the date of this Agreement but prior to Closing in accordance with the terms of the applicable Lease;

k. notify Buyer if any Lease terminates promptly upon Seller obtaining knowledge of such termination;

l. give written notice to Buyer as soon as is practicable of any written notice received or given by Seller with respect to any alleged breach by Seller or any third party of any Lease or Material Agreement or violation of Laws or new Proceedings, in each case affecting the Assets;

m. not waive, release, assign, settle or compromise any Proceeding relating to the Assets, other than the liabilities retained by Seller or waivers, releases, assignments, settlements or compromises that involve only the payment of monetary damages not in excess of $25,000 individually (excluding amounts to be paid under insurance policies);

n. not waive, compromise or settle any material right or claim with respect to any of the Assets, including any Assets (other than Specified Assets) that are subject to claims or causes of action asserted in the Encana Adversary Proceeding;

o. use commercially reasonable efforts to keep Buyer apprised of any drilling, re-drilling or completion operations proposed or conducted by Seller with respect to the Assets, and will, in connection therewith, consider reasonable requests by Buyer for specific drilling, completion and other operations on the Assets;

p. not permit or allow any of the Assets to be subject to any liens, claims, security interests, mortgages, charges and encumbrances that would impose any material liability on Buyer, other than Permitted Encumbrances;

q. pay all Taxes and assessments with respect to the Assets that become due and payable by Seller prior to the Closing Date; and

r. not enter into any agreement to do anything in contravention of the foregoing.

8.2 **Notices of Claims**. Seller shall, in accordance with the Bidding Procedures Order and in order to ensure that the Assets are free and clear of all liens (including any security interest), claims, encumbrances and interests of other Persons in the Assets to the maximum extent possible under the Bankruptcy Code, provide notice of the proposed sale to all Persons and entities (or their counsel) known to Seller to assert liens (including any security interest), claims, encumbrances, or interests in, on, or against the Assets and shall publish notice of the sale in (i) the national editions of the Houston Chronicle and the New York Times and (ii) the Midland Reporter-Telegram. Seller shall promptly notify Buyer and Buyer shall promptly notify Seller if, between the Execution Date and the Closing Date, Seller or Buyer, as

the case may be, receives notice of any demand, claim, suit, action or other Proceeding affecting the Assets.

8.3 Compliance with Laws. During the period from the date of this Agreement to the Closing Date, Seller shall attempt in good faith to comply in all material respects with all applicable Laws relating to the ownership of its interest in the Assets and, to the extent that Seller is the operator, the operation of the Assets by Seller.

8.4 Government Reviews and Filings. Before and after the Closing, Buyer and Seller shall cooperate to provide requested information, make required filings with, prepare applications to and conduct negotiations with each Governmental Body as required to consummate the transaction contemplated hereby. Each Party shall make any governmental filings occasioned by its ownership or structure. Buyer shall make all filings after the Closing at its expense with Governmental Bodies necessary to transfer title to the Assets or to comply with Laws.

8.5 Successor Operator. Buyer acknowledges and agrees that Seller cannot and does not covenant or warrant that Buyer shall become successor operator of those Assets operated by Seller and that such succession is subject to operating or other agreements that control the appointment of a successor operator. Seller agrees, however, that, as to the Assets operated by Seller, it shall use its commercially reasonable efforts to support Buyer's efforts to become successor operator of such Assets (to the extent permitted under any applicable joint operating agreement) effective as of Closing (at Buyer's sole cost and expense) and to designate or appoint, to the extent legally possible and permitted under any applicable joint operating agreement, Buyer as successor operator of such Assets effective as of Closing. Within five days after Closing, Seller shall send notices to co-owners of those Assets that Seller currently operates indicating that Seller is resigning as operator, effective upon the Closing Date, and recommending that Buyer be elected successor operator for such Assets.

8.6 Non-Solicitation of Employees. From the Execution Date until the one year anniversary of either the Closing Date or the termination of this Agreement, each Party will not, and will cause its Affiliates not to, directly or indirectly, solicit for employment (including by contracting through an independent contractor, consultant or other third party) or employ (including as a consultant) any officer or employee of the other Party or its Affiliates without obtaining the prior written consent of the other Party. This Section 8.6 shall not apply to general solicitations of employment not specifically directed towards officers or employees of the other Party or its Affiliates.

8.7 Bankruptcy Court Filings. Seller will pursue diligently the entry of the Sale Order. Buyer agrees that it will promptly take such actions as are reasonably requested by Seller to assist in obtaining entry of the Sale Order and a finding of adequate assurance of future performance by Buyer of the Assumed Contracts, including by furnishing affidavits or other documents or information for filing with the Bankruptcy Court for the purposes, among others, of providing necessary assurances of performance by Buyer under this Agreement and demonstrating that Buyer is a "good faith" purchaser under Section 363(m) of the Bankruptcy Code and taking such other actions that may be required by the Bidding Procedures Order. If the entry of the Bidding Procedures Order or the Sale Order are appealed, Seller and Buyer will use their respective reasonable efforts to defend such appeal(s).

8.8 [Reserved].

8.9 Excluded Wells. From and after the Execution Date:

a. With respect to the Excluded Wells operated by Seller, Seller may continue to operate each Excluded Well after the Execution Date and produce Hydrocarbons solely from the existing Wellbores; provided Seller, as operator, shall not (i) produce Hydrocarbons from outside the currently producing formation as of the Execution Date, whether by or through perforation, stimulation, recompletion, sidetracking, deepening, directional drilling or otherwise, (ii) conduct any re-entry, perforation, stimulation, recompletion, sidetracking or directional drilling operations with respect to the Excluded Wells, (iii) drill any new wells or conduct any operations unrelated to the Excluded Wells on the Lands, (iv) construct or install any new wells, gathering lines or other equipment or roads on the Lands, or (v) use any Excluded Well for any purpose other than the purpose for which it is used on the Execution Date (except that Seller may convert a producing Excluded Well into a produced water disposal well, but only (i) to the extent needed by Seller to

replace a failed existing disposal well, or (ii) with the prior consent of Buyer (not to be unreasonably withheld)); provided that nothing in this Section 8.9(a) will limit or restrict in any way Seller's rights or operations after the Subsequent Asset Period with respect to the Specified Assets or any Excluded Wells located on the Specified Assets, to the extent such assets are not conveyed to Buyer pursuant to Section 2.9 during the Subsequent Asset Period.

b. With respect to the Excluded Wells operated by Seller, Seller shall conduct its work on the Excluded Wells after the Execution Date as a reasonably prudent operator, in material compliance with all Laws, in material compliance with all Leases (and related agreements with respect thereto) and in compliance with all reasonable instructions of Buyer relating to Buyer's operations on the Lands. With respect to the Excluded Wells operated by Seller, Seller shall complete all plugging and abandonment obligations related to the Excluded Wells in accordance with applicable Laws, including (i) the necessary and proper plugging, replugging and abandonment of all Excluded Wells, (ii) the necessary and proper removal, abandonment and disposal of all structures, pipelines, equipment, abandoned property, trash, refuse and junk located on or comprising part of the Excluded Wells, including any solid wastes and Hazardous Materials, (iii) the necessary and proper capping and burying of all associated flow lines related to the Excluded Wells, and (iv) the necessary and proper restoration of the surface and subsurface to the condition required by applicable Laws and related agreements with respect to the Excluded Wells.

c. If Seller's operations result in an Excluded Well Incident, Seller shall take all necessary and proper measures for the protection of life, health, environment and property in accordance with standard oilfield practices. Seller shall report in writing to Buyer the details of the Excluded Well incident as promptly as practicable.

d. Seller will be responsible for (i) the payment of all royalty amounts and (ii) all lease obligations (including lease payments) relating to the Excluded Wells; provided, subject to Section 8.9(a), (b) and (c), if Buyer is party to any operating agreement with respect to an Excluded Well and Buyer owns a working interest in such Excluded Well, Buyer shall be responsible for its share (proportionate to the percentage of its working interest in such Excluded Well) of the liabilities and costs relating solely to such Excluded Well in accordance with the terms of such operating agreement. Other than Seller's right to continue to operate the Excluded Wells and produce Hydrocarbons therefrom from the existing Wellbores in accordance with Section 2.3(a) and this Section 8.9 (but subject to the terms and conditions of this Section 8.9), Buyer will be solely entitled to all rights and benefits under the Leases.

e. Following the Execution Date, Seller shall keep the Leases and other Assets free and clear of all liens in connection with Seller's operations with respect to the Excluded Wells; provided that this will not require Seller to keep the Excluded Assets free and clear of any liens following Closing to the extent of Seller's interests therein.

f. Seller agrees to release Buyer, and Buyer shall have no liability to Seller for, any losses, damages, liabilities or claims relating to the Excluded Wells from and after the Closing Date, including any losses, damages, liabilities or claims with respect to the Excluded Wells caused as a result of Buyer's operations on the Assets after the Closing Date; provided that (i) Seller does not waive or release, and Buyer shall be responsible for, any physical damage caused to the surface equipment related to the Excluded Wells due to Buyer's or its Affiliates' actions or omissions, and (ii) subject to Section 8.9(a), (b) and (c), if Buyer is party to any operating agreement with respect to an Excluded Well and Buyer owns a working interest in such Excluded Well, Buyer shall be responsible for its share (proportionate to the percentage of its working interest in such Excluded Well) of the liabilities and costs relating solely to such Excluded Well in accordance with the terms of such operating agreement. Buyer shall be entitled to develop the Assets and drill new wells on the Lands as it determines is appropriate without regard to the locations of the Excluded Wells. Seller hereby waives, and agrees not to assert after Closing, any claims or objections against Buyer before any Governmental Body relating to the locations where Buyer conducts operations on the Lands after Closing.

g. Seller shall require any successor, assignee, purchaser or other Person to acquire title of an Excluded Well to agree to comply with, and to be bound by, the requirements of this Section 8.9. Any assignment, conveyance or other transfer of any Excluded Well in violation of this Section 8.9 shall be deemed null and void *ab initio*.

ARTICLE 9

CONDITIONS TO CLOSING

9.1 Seller's Conditions. The obligations of Seller at the Closing are subject, at the option of Seller, to the satisfaction at or prior to Closing of the following conditions precedent:

a. Representations and Warranties; Covenants. All representations and warranties of Buyer contained in Article 7 of this Agreement shall be true and correct in all material respects (except as to representations and warranties qualified by materiality, which shall be true in all respects to the extent so qualified) on and as of the Closing Date (provided that representations and warranties which are confined to a specified date shall speak only as of such date), and Buyer shall have performed and satisfied all covenants and agreements required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing in all material respects.

b. No Action. No order shall have been entered by any court or Governmental Body having jurisdiction over the Parties or the subject matter of this Agreement that restrains, enjoins or prohibits the consummation of the transactions contemplated by this Agreement and which remains in effect at the time of Closing or seeks to recover material damages from Seller resulting therefrom.

c. Closing Deliveries. Buyer shall have delivered to Seller duly executed copies of each of the documents or instruments required by this Agreement to be delivered by Buyer at Closing.

d. Title. The aggregate of (i) the Title Defect Adjustment, all Title Defect Exclusions and the Net Casualty Loss, in each case asserted by Buyer in good faith, (ii) the Allocated Value of all Allocated Properties subject to Required Consents that have not been obtained prior to Closing, and (iii) any other reductions to the Purchase Price pursuant to Section 5.9, shall not exceed 20% of the Purchase Price.

e. Necessary Consents and Approvals. All consents from Governmental Bodies and all approvals from Governmental Bodies required for the consummation of the transactions contemplated by this Agreement, except consents and approvals of assignments by Governmental Bodies that are customarily obtained after Closing, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted.

f. Sale Order. The Bankruptcy Court shall have entered the Sale Order which shall remain in effect and not be subject to any stay.

9.2 Buyer's Conditions. The obligations of Buyer at the Closing are subject, at the option of Buyer, to the satisfaction on or prior to the Closing of the following conditions precedent:

a. Representations and Warranties; Covenants.

(i) The representations and warranties of Seller contained in Article 6 of this Agreement (other than Fundamental Representations) shall be true and correct in all material respects (except as to representations and warranties qualified by materiality, which shall be true in all respects to the extent so qualified) on and as of the Closing Date (provided that representations and warranties which are confined to a specified date shall speak only as of such date).

(ii) The Fundamental Representations shall be true and correct in all respects on and as of the Closing Date.

(iii) Seller shall have performed and satisfied all covenants and agreements required by this Agreement to be performed and satisfied by Seller at or prior to the Closing in all material respects.

b. No Action. No order shall have been entered by any court or Governmental Body having jurisdiction

over the Parties or the subject matter of this Agreement that restrains, enjoins or prohibits the consummation of the transactions contemplated by this Agreement and which remains in effect at the time of Closing or seeks to recover material damages from Buyer resulting therefrom.

c. Closing Deliveries. Seller shall have delivered to Buyer duly executed copies of each of the documents or instruments required by this Agreement to be delivered by Seller at Closing.

d. Title. The aggregate of (i) the Title Defect Adjustment, all Title Defect Exclusions and the Net Casualty Loss, in each case asserted by Buyer in good faith, (ii) the Allocated Value of all Allocated Properties subject to Required Consents that have not been obtained prior to Closing, and (iii) any other reductions to the Purchase Price pursuant to Section 5.9, shall not exceed 20% of the Purchase Price.

e. Necessary Consents and Approvals. All consents from Governmental Bodies and all approvals from Governmental Bodies required for the consummation of the transactions contemplated by this Agreement, except consents and approvals of assignments by Governmental Bodies that are customarily obtained after Closing, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted.

f. Encana Contract. The Bankruptcy Court shall have entered an order authorizing the rejection of the Encana Contract, which shall remain in effect and not be stayed.

g. Encana Adversary Proceeding. The Bankruptcy Court shall have entered an order dismissing claims and causes of action asserted with respect to the Assets in the Encana Complaint or any amended complaint filed by Encana, which shall remain in effect and not be stayed; provided that, this condition shall be deemed satisfied if the Bankruptcy Court enters an order authorizing the sale of the Assets to Buyer free and clear of all claims and causes of action against the Assets asserted by Encana, regardless of whether the Encana Complaint or any amended complaint filed by Encana has been dismissed. For the avoidance of doubt, it is acknowledged that the claims and causes of action with respect to the Assets contained in the Encana Complaint as of the date hereof consist of the Fourth Claim for Relief, Fifth Claim for Relief, and Sixth Claim for Relief in the Encana Complaint.

h. Sale Order. The Bankruptcy Court shall have entered the Sale Order which shall remain in effect and not be subject to any stay.

ARTICLE 10
RIGHT OF TERMINATION AND ABANDONMENT

10.1 Termination. This Agreement may be terminated prior to the Closing as follows:

(a) by Buyer or Seller, if the Closing has not occurred by the close of business on the 90th day following the Execution Date (the "Termination Date"); *provided, however*, that, if the Closing has not occurred on or before the Termination Date primarily due to a material breach of any representations, warranties, covenants or agreements contained in this Agreement by Buyer or Seller, then the breaching party may not terminate this Agreement pursuant to this Section 10.1(a);

(b) by mutual written consent of Seller and Buyer;

(c) by Buyer, if any condition to the obligations of Buyer set forth in Section 9.2 has become incapable of fulfillment as a result of Seller's material breach, and other than as a result of a breach by Buyer of any covenant or agreement contained in this Agreement, and such condition is not waived by Buyer;

(d) by Seller, if any condition to the obligations of Seller set forth in Section 9.1 has become incapable of fulfillment as a result of Buyer's material breach, and other than as a result of a breach by Seller of any covenant or

agreement contained in this Agreement, and such condition is not waived by Seller;

(e) by Buyer, if Seller breaches any representation or warranty or any covenant or agreement contained in this Agreement, such breach would result in a failure of a condition set forth in Section 9.2 and, if such breach is curable, such breach has not been cured by the earlier of (i) 30 days after the giving of written notice by Buyer to Seller of such breach, and (ii) the Termination Date;

(f) by Seller, if Buyer breaches any representation or warranty or any covenant or agreement contained in this Agreement, such breach would result in a failure of a condition set forth in Section 9.1, and, if such breach is curable, such breach has not been cured by the earlier of (i) 30 days after the giving of written notice by Seller to Buyer of such breach, and (ii) the Termination Date;

(g) by Buyer, if the Bidding Procedures Order is amended, modified, or vacated in any manner without Buyer's consent (not to be unreasonably withheld);

(h) by Seller or Buyer, if there is in effect a final non-appealable order of a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby; it being agreed that the Parties will promptly appeal any adverse determination that is not non-appealable and pursue such appeal with reasonable diligence;

(i) by Buyer if the Bankruptcy Court enters an order dismissing or converting the Bankruptcy Case to a case under Chapter 7 of the Bankruptcy Code;

(j) by Buyer if the Bankruptcy Court enters an order appointing a trustee, receiver or examiner with expanded powers;

(k) by Buyer, if an order authorizing the rejection of the Encana Contract has not been entered within 60 days of the Execution Date;

(l) if the Sale Order does not authorize the sale of the Assets to Buyer free and clear of all claims and causes of action against the Assets asserted by Encana in the Encana Complaint or any amended complaint filed by Encana within 60 days of the Execution Date; or

(m) by Buyer or Seller, if Seller selects or accepts a Competing Transaction as the highest or otherwise best bid made in accordance with the Bidding Procedures Order.

10.2 Procedure Upon Termination. In the event of termination pursuant to Section 10.1 hereof, written notice thereof will forthwith be given to the other Party, and this Agreement will terminate, and the purchase of the Assets hereunder will be abandoned, without further action by Buyer or Seller. If this Agreement is terminated as provided herein, each Party will redeliver all confidential information of any other Party relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the Party furnishing the same, and no later than five days after such termination the Parties shall execute joint written instructions to the Escrow Agent to disburse the Deposit to the applicable Party entitled to receive such amount according to Section 3.2.

10.3 Effect of Termination.

a. In the event that this Agreement is validly terminated as provided herein, then each of the Parties will be relieved of its duties and obligations arising under this Agreement after the date of such termination and such termination will be without liability to Buyer or Seller; *provided, however*, that the provisions of Section 3.2, Section 10.2, this Section 10.3, and Article 15 hereof and, to the extent necessary to effectuate the foregoing enumerated provisions, Sections 1.1, and 1.2 hereof, will survive any such termination and will be enforceable hereunder; *provided, further*, that nothing in this Section 10.3 will be deemed to release any Party from liability for any breach of its

obligations under this Agreement.

b. Notwithstanding Section 10.3(a), if this Agreement is validly terminated in accordance with Section 10.1(m), then Buyer shall be entitled to (and Seller shall pay or cause to be paid to Buyer) the Break-Up Fee on the earliest of (i) immediately following consummation of the Competing Transaction that was the basis for the termination of this Agreement in accordance with Section 10.1(m) hereof, (ii) if Seller does not consummate the Competing Transaction that was the basis for the termination of this Agreement in accordance with Section 10.1(m) hereof, then upon termination of such Competing Transaction, and (iii) 60 days after the termination of this Agreement. Moreover, if this Agreement is validly terminated for any reason *other than* in accordance with Section 10.1(b), Section 10.1(d), Section 10.1(f), Section 10.1(g), or Section 10.1(h), then Buyer shall be entitled to (and Seller shall pay or cause to be paid to Buyer) the Expense Reimbursement Amount within five Business Days after the termination giving rise to such payment, provided, that if the termination of this Agreement is effected in accordance with Section 10.1(m), the Expense Reimbursement shall be paid at the same time as the Break-up Fee. In the event any portion of the Expense Reimbursement Amount is contested as to reasonableness, all amounts not so contested will be paid forthwith. Seller's obligation to pay the Break-Up Fee and/or Expense Reimbursement Amount pursuant to this Section 10.3(b) shall survive the termination of this Agreement and shall constitute an administrative expense of Seller. If and to the extent applicable, the Parties shall jointly instruct, pursuant to the Escrow Agreement, the Escrow Agent to release funds to Buyer to satisfy such amounts owed. Buyer's retention of the Deposit and the payment of Seller to Buyer of the Break-Up Fee and/or Expense Reimbursement Amount shall constitute liquidated damages under this Agreement, which remedy shall be the sole and exclusive remedy available to Buyer for any such failure of Seller prior to Closing. Seller and Buyer acknowledge and agree that (A) Buyer's actual damages upon the event of such a termination are difficult to ascertain with any certainty, (B) the return of the Deposit and the payment by Seller to Buyer of the Break-Up Fee and/or Expense Reimbursement Amount is a fair and reasonable estimate by the Parties of such aggregate actual damages of Buyer, and (C) such liquidated damages do not constitute a penalty. Each Party acknowledges that the agreements contained in Article 2, Article 3 and this Article 10 are an integral part of the transactions contemplated by this Agreement, and that without these agreements such Party would not have entered into this Agreement.

ARTICLE 11
CLOSING

11.1 Date of Closing. Subject to the satisfaction or waiver of the conditions set forth in Article 9, the closing of the transactions contemplated by this Agreement ("Closing") shall be held on May 5, 2017, or if all conditions to Closing under Section 9.1 and Section 9.2 have not yet been satisfied or waived as of such date, then within three Business Days after such conditions have been satisfied or waived, subject to the provisions of Article 10 (the date on which Closing occurs being the "Closing Date"), at the offices of Seller in Houston, Texas, at 9:00 a.m. or at such other time and place as the Parties may agree in writing.

11.2 Closing Obligations. At Closing, the following events shall occur, each being a condition precedent to the others and each being deemed to have occurred simultaneously with the others:

a. Assignment and Conveyances. Seller and Buyer shall execute, acknowledge and deliver (i) an Assignment, Bill of Sale and Conveyance dated effective as of the Closing Date (in sufficient counterparts to facilitate filing and recording) in the form of Exhibit E hereto covering the Assets, and (ii) such other assignments and assumptions, bills of sale, or deeds necessary to transfer the Assets to Buyer, including any conveyances on official forms and related documentation necessary to transfer the Assets to Buyer in accordance with requirements of state and federal governmental regulations.

b. Settlement Statement. Seller and Buyer shall execute and deliver the Settlement Statement.

c. Purchase Price. Buyer shall deliver to Seller the Closing Amount, which shall be delivered to Seller by wire transfer of immediately available funds.

d. Releases. Seller shall deliver to Buyer duly executed and acknowledged releases in recordable form of all mortgages, deeds of trust, fixture filings and security agreements encumbering its interest in the Assets created by Seller or its Affiliates and releases of the associated financing statements.

e. Non-Foreign Status Certificate. Seller (or the owner of Seller treated as the transferor of Assets if Seller is a disregarded entity under Treasury Regulation §1.1445-2(b)(2)(iii)) shall deliver to Buyer a certificate in the form of Exhibit F as to its non-foreign status.

f. Escrow Instructions. The Parties shall execute written instructions instructing the Escrow Agent to disburse the Deposit, and all interest accrued thereon, to Seller.

g. Possession. Seller shall deliver to Buyer possession of the Assets.

h. Seller's Certificate. Seller shall execute and deliver to Buyer a certificate certifying on behalf of Seller that the conditions to Closing set forth in Section 9.2(a) have been fulfilled.

i. Buyer's Certificate. Buyer shall execute and deliver to Seller a certificate certifying on behalf of Buyer that the conditions to Closing set forth in Section 9.1(a) have been fulfilled.

j. [Reserved].

k. Additional Documents. Seller and Buyer shall execute and deliver to each other such other instruments, documents and other items reasonably necessary to effectuate the terms of this Agreement as either Party or their respective counsel may reasonably request.

l. Records. Seller shall deliver the Records to Buyer promptly after Closing, but in any case no later than ten days after the Closing Date.

ARTICLE 12
POST-CLOSING OBLIGATIONS

12.1 Expert Determination of Settlement Statement Disputes. If the Parties are not able to agree to changes to the Settlement Statement prior to Closing, the Settlement Statement prepared by Seller shall control at Closing, as set forth in Section 3.3, and the Parties shall continue to work to resolve such dispute within 30 days after Closing. If the Parties are not able to resolve such dispute within 30 days after Closing:

a. Except with respect to matters subject to expert determination under Section 5.6, on or before 15 days after the expiration of such 30-day period, the Parties shall exchange their final positions regarding the disputed amounts and such disputed amounts shall be finally resolved by expert determination in Houston, Texas, with the office of Ernst & Young LLP, acting as the "Accounting Expert."

b. If Ernst & Young LLP refuses to act as the Accounting Expert, the Parties shall attempt to mutually agree on the Accounting Expert; *provided* if the Parties are not able to mutually agree on the Accounting Expert within 15 Business Days after the determination to submit a matter to expert determination under this Section, then, within five Business Days after the end of such 15 Business Day period, each Party shall submit to the other Party the name(s) of at least one, but not more than three, potential Accounting Experts. If there is one common name on the Parties' lists, that Person shall be the Accounting Expert; but if there is more than one common name on the Parties' lists, the Accounting Expert shall be selected from the common names on the Parties' lists by the mutual agreement of the Parties, or in absence of such agreement, by drawing straws.

c. In the event there are no common names on the Parties' lists, the lists of potential Accounting Experts submitted by the Parties shall be submitted to the Houston, Texas office of the AAA on or before five Business Days

after the submission of the Parties' respective lists, and the AAA shall select the Accounting Expert from the Parties' lists.

d. Within 20 Business Days after the selection of the Accounting Expert, the Parties shall provide to the Accounting Expert the following materials:

(i) The list of disputed amounts, each Party's final proposal with respect to each disputed amount under Section 12.1(a), and evidence as each Party deems appropriate to support its position with respect to each disputed amount; and

(ii) Article 3, Section 12.1 and Article 13 of this Agreement, and Exhibits A-2, B, and D to this Agreement, together with any definitions of terms used in such Article, Sections and Exhibits, but no other provisions of this Agreement.

e. The Accounting Expert, once appointed, shall have no *ex parte* communications with any of the Parties concerning the determination required hereunder. All communications between any Party and the Accounting Expert shall be conducted in writing, with copies sent simultaneously to the other Party in the same manner, or at a meeting in Houston, Texas, to which the representatives of both Parties have been invited and of which such parties have been provided at least five days' notice.

f. The Accounting Expert shall make its determination and provide to the Parties written findings within 20 Business Days after it has received the materials under Section 12.1(d). The decision of the Accounting Expert shall be final, binding on the Parties and non-appealable (absent fraud or manifest error) and shall be limited to awarding only Seller's or Buyer's final proposal with respect to each disputed amount (as exchanged by the Parties as provided in Section 12.1(a)). The Accounting Expert shall make a separate determination with respect to each disputed amount submitted. For the avoidance of doubt, the independent accounting firm shall not make any determination with respect to any matter other than those matters affecting the calculations of the Settlement Statement that remain in dispute.

g. Each Party shall pay and bear the costs of its attorneys and experts. Seller shall pay 50% and Buyer shall pay 50% of the costs of the Accounting Expert.

h. The written finding of the Accounting Expert (i) need only set forth the Accounting Expert's finding as to each disputed amount and not the Accounting Expert's rationale for the award, and (ii) shall set forth the allocation of costs pursuant to Section 12.1(g). The Accounting Expert shall act as an expert for the limited purpose of determining the specific matters disputed and shall not act as an arbitrator, and may not award damages, interest or penalties to either Party with respect to any matter.

12.2 Further Assurances. From time to time after Closing, Seller and Buyer shall each execute, acknowledge and deliver to the other such further instruments and take such other actions as may be reasonably requested in order more effectively to assure to the other the full beneficial use and enjoyment of the Assets and otherwise to accomplish the purposes of the transactions contemplated by this Agreement, including Buyer's execution of separate letters assuming specific contracts included in the Assets as may be required to comply with the assignment or assumption provisions of such contracts in lieu of furnishing a copy of this Agreement to the counterparty to such contract.

ARTICLE 13
TAXES

13.1 Apportionment of Taxes. Seller shall provide written evidence to Buyer that it has paid all Taxes for periods prior to the Closing Date that are payable prior to the Closing Date including a certificate (under Section 31.08 of the Texas Tax Code) issued by the collector of each taxing unit having jurisdiction to impose Property Taxes on any Asset reflecting with respect to such Asset that no delinquent taxes, penalties, interest, or costs or expenses under Section 33.48 of the Texas Tax Code are due to any taxing unit for which such collector collects Taxes. All Asset Taxes

shall be prorated between Seller and Buyer as of the Closing Date for all taxable periods that include the Closing Date, and, after Closing, Seller shall be liable for all obligations and liabilities for all Asset Taxes with respect to its interest in the Assets that are due in periods prior to the Closing Date (to the extent not taken into account in preparing the Settlement Statement), and Buyer shall be liable for all obligations and liabilities for all Asset Taxes with respect to the Assets that are due for periods on or after the Closing Date. To the extent the actual amount of an Asset Tax is not determinable at Closing, upon the later determination of the actual amount of such Asset Tax, timely payments will be made from one Party to the other to the extent necessary to cause each Party to bear the amount of such Asset Tax that is allocable to such Party under this Section 13.1.

a. Severance Taxes based on or measured by the production of Hydrocarbons or the value thereof shall be deemed attributable to the period when such production occurred notwithstanding that such taxes are not assessed or payable until a subsequent period, and liability therefor shall be allocated to Seller for pre-Closing Date Severance Taxes and to Buyer for Severance Taxes on the Closing Date and thereafter.

b. Property Taxes shall be deemed attributable to the period during which ownership of the applicable Assets gives rise to liability for such Property Taxes, and liability therefor allocated to Seller for (1) all taxable periods ending prior to the Closing Date and (2) the portion of any Straddle Period ending on the date before the Closing Date, and to Buyer for (x) all taxable periods beginning on or after the Closing Date and (y) the portion of any Straddle Period beginning on the Closing Date. Property Taxes with respect to a Straddle Period shall be allocated pro rata per day between the portion of such Straddle Period ending on the day before the Closing Date and the portion of such Straddle Period beginning on the Closing Date based on the full year ad valorem tax values applied to the Assets for calendar year 2016. The amount of Straddle Period Property Taxes allocated to Seller shall be taken into account as a downward adjustment to the Purchase Price pursuant to Section 3.3(b)(v).

c. Notwithstanding anything to the contrary in this Agreement, Seller shall retain responsibility for, and shall bear and pay, all Income Taxes incurred by or imposed on it, its direct or indirect owners or Affiliates, or any combined, unitary, or consolidated group of which any of the foregoing is or was a member, and no such Taxes shall be taken into account as adjustments to the Purchase Price under this Agreement.

13.2 Transfer Taxes. Each of Seller and Buyer shall use commercially reasonable efforts and cooperate in good faith to exempt the sale and transfer of the Assets from Transfer Taxes, including under Section 1146(a) of the Bankruptcy Code. The Parties shall cooperate in good faith with one another in the preparation of any Tax Returns and other related documentation with respect to such Transfer Taxes (including any exemption certificates and forms as each may request to establish an exemption from (or otherwise reduce) or make a report with respect to such Transfer Taxes). If a determination is ever made that a Transfer Tax applies, Seller and Buyer will each bear 50% of such Transfer Tax.

13.3 Tax Reports and Returns. Except as required by applicable Law, in respect of Asset Taxes, (i) Seller shall be responsible for the preparation and timely filing of, and (subject to Seller's right to reimbursement by Buyer under Section 13.1) the payment to the applicable taxing authority of all Asset Taxes that become due and payable with respect to, (A) all Tax Returns due prior to the Closing Date, and (B) all Tax Returns with respect to taxable periods ending prior to the Closing Date (regardless of when due), and (ii) Buyer shall be responsible for the preparation and timely filing of all other Tax Returns and (subject to Buyer's right to reimbursement by Seller under Section 13.1) the payment to the applicable taxing authority of all Asset Taxes that become due and payable with respect to such Tax Returns. Each Party shall indemnify and hold the other Party harmless for any failure to file such Tax Returns and to make such payments. Buyer shall prepare all such Tax Returns relating to any Straddle Period on a basis consistent with past practice except to the extent otherwise required by applicable Law.

13.4 Allocations for U.S. Federal Income Tax Purposes. Seller and Buyer agree that the transaction under this Agreement is not subject to the reporting requirement of Section 1060 of the Code and that, therefore, IRS Form 8594 (Asset Acquisition Statement Under Section 1060) is not required to be and will not be filed for this transaction. In

the event that any taxing authority disagrees with that position or if the Seller and Buyer mutually agree that a filing of Form 8594 is required, Seller and Buyer will confer and cooperate in the preparation and filing of their respective forms to reflect a consistent reporting of the agreed upon allocation. In the event that the allocation is disputed by any taxing authority, the Party receiving notice of such dispute will promptly notify and consult with the other Party and keep the other Party apprised of material developments concerning resolution of such dispute.

13.5 Like-Kind Exchange. If Buyer elects (the "Electing Party") to accomplish the transaction contemplated by this Agreement in a manner that will comply, either in whole or in part, with the requirements of a like-kind exchange pursuant to Section 1031 of the Code (a "Like-Kind Exchange"), the Electing Party shall so notify the other Party hereto in writing, and such other Party hereto (the "Cooperating Party") agrees to cooperate, as set forth below, with the Electing Party in complying with the requirements under Section 1031 of the Code to effect a Like-Kind Exchange. In the event of such an election, the Electing Party agrees to indemnify, defend and hold the Cooperating Party harmless from and against any and all claims, demands, causes of action, liabilities, costs and expenses, including reasonable attorneys' fees and costs of litigation, that the Cooperating Party may suffer or incur by reason of such cooperation or Like-Kind Exchange. Buyer expressly reserves the right to assign its rights, but not its obligations, hereunder to a Qualified Intermediary as provided in Treasury Regulation Section 1.1031(k)-1(g)(4) or an Exchange Accommodation Titleholder as provided in Rev. Proc. 2000-37, 2000-2 C.B. 308 on or before the Closing. The Cooperating Party agrees to cooperate, but at no cost, expense or risk to the Cooperating Party, and take any actions reasonably requested by the Electing Party, to cause the transaction contemplated by this Agreement, in whole or in part, to be consummated as and to qualify as a Like-Kind Exchange, including (a) permitting this Agreement to be assigned to a Qualified Intermediary or Exchange Accommodation Titleholder and (b) conveying the Assets to, or at the direction of, the Qualified Intermediary or Exchange Accommodation Titleholder. In no event, however, shall (i) any Like-Kind Exchange extend, delay or otherwise adversely affect the Closing, (ii) the Cooperating Party be required to take title to any other property in connection with such Like-Kind Exchange, or (iii) any of the foregoing release any Party from, or modify, any of the Parties' respective liabilities and obligations (including indemnity obligations to each other) under this Agreement.

13.6 Cooperation. The Parties shall cooperate fully, as and to the extent reasonably

requested by the other Party, in connection with the filing of Tax Returns and any audit, litigation, or other proceeding with respect to Taxes relating to the Assets. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information that are relevant to any such Tax Return or audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided under this Agreement. Seller and the Buyer agree to retain all books and records with respect to Tax matters pertinent to the Assets relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations of the respective taxable periods and to abide by all record retention agreements entered into with any Governmental Body.

13.7 Tax Treatment of Indemnification Payments. Except as required by applicable Law, the Parties shall treat any indemnification payment or amount paid pursuant to Article 14 as adjustments to the Purchase Price under this Agreement.

ARTICLE 14
ASSUMPTION AND RETENTION OF OBLIGATIONS; INDEMNIFICATION

14.1 Buyer's Assumption of Liabilities and Obligations. Except to the extent covered by Seller's indemnification of Buyer under Section 14.2(a), upon Closing, Buyer shall assume all claims, costs, expenses, liabilities and obligations relating to the ownership or operation of the Assets attributable to the period from and after the Closing

Date (collectively, the "Assumed Liabilities"), and Seller shall be exclusively and solely responsible for all claims, costs, expenses, liabilities and obligations relating to the ownership or operation of the Assets attributable to the period prior to the Closing Date.

14.2 Indemnification. After the Closing, Buyer shall indemnify Seller, and Seller shall indemnify Buyer, as follows:

a. Seller's Indemnification of Buyer. Subject to the limitations set forth below, Seller shall indemnify, defend and save and hold harmless Buyer, its officers, directors, members, managers, employees, representatives, attorneys and agents (the "Buyer Indemnified Parties"), from and against any and all Losses, whether or not involving a third party claim, attributable to or which arise from or in connection with:

(i) (*Retained Liabilities*) the ownership or operation of the Assets attributable to the period prior to the Closing Date; *provided* Seller shall not have any liability for claims made under this clause (i) after three years from the Closing Date;

(ii) (*Excluded Assets*) any Excluded Assets, including any Excluded Well Incident;

(iii) (*Taxes*) any and all Seller Taxes; and

(iv) (*Covenants and Agreements*) any breach by Seller of its covenants or agreements under this Agreement;

provided, with respect to Section 14.2(a)(ii) and (iv), subject to Section 8.9(a), (b) and (c), if Buyer is party to any operating agreement with respect to an Excluded Well and Buyer owns a working interest in such Excluded Well, Buyer shall be responsible for its share (proportionate to the percentage of its working interest in such Excluded Well) of the liabilities and costs relating solely to such Excluded Well in accordance with the terms of such operating agreement.

b. Buyer's Indemnification of Seller. Subject to Section 14.2(a), Buyer assumes all risk, liability, obligation and Losses in connection with, and shall defend, indemnify, and save and hold harmless Seller, its Affiliates and its and their respective officers, directors, shareholders, members, managers, partners, employees, representatives, attorneys and agents (the "Seller Indemnified Parties"), from and against any and all Losses, whether or not involving a third party claim, attributable to or which arise from or in connection with (i) the Assumed Liabilities, (ii) any breach of any representation, warranty, covenant or agreement made by Buyer in this Agreement, and (iii) any matter for which Buyer has agreed to indemnify Seller under this Agreement. The indemnification obligations of Buyer shall survive the Closing without any time limitation.

c. Scope. **EXCEPT AS OTHERWISE PROVIDED HEREIN, THE INDEMNIFICATION OBLIGATIONS UNDER THIS AGREEMENT SHALL BE WITHOUT REGARD TO THE INDEMNIFIED PERSON'S SOLE, JOINT OR CONCURRENT NEGLIGENCE, GROSS NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT.**

d. Waiver of Consequential Damages. **EACH PARTY EXPRESSLY WAIVES ANY AND ALL RIGHTS TO SPECIAL, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES, AND LOSS OF PROFITS RESULTING FROM BREACH OF THIS AGREEMENT;** *provided however*, that any special, consequential, punitive or exemplary damages, and loss of profits recovered by a third party against a Party entitled to indemnity pursuant to this Article 14 shall be included in the Losses recoverable under such indemnity.

14.3 Procedure. The indemnification obligations contained in Section 14.2 shall be implemented as follows:

a. Coverage. Such indemnity shall extend to all Losses suffered or incurred by the indemnified Party.

b. Claim Notice. The Party seeking indemnification under the terms of this Agreement (the "Indemnified Party") shall submit a written "Claim Notice" to the other Party (the "Indemnifying Party") which, to be effective, must state: (i) the amount of each payment claimed by an Indemnified Party to be owing, (ii) the basis for such claim, with available supporting documentation, and (iii) a list identifying to the extent reasonably possible each separate item of Loss for which payment is so claimed. The amount claimed shall be paid by the Indemnifying Party to the extent required herein within 10 days after the later of (x) receipt of the Claim Notice and (y) the date that the amount of such payment has been finally established.

c. Notification of Claims. For third party claims, within 60 days after the Indemnified Party receives notice of a claim or legal action that may result in a Loss for which indemnification may be sought under this Article 14 ("Claim"), the Indemnified Party shall give written notice of such Claim to the Indemnifying Party. The failure of any Indemnified Party to give notice of a third party claim as provided in this Section 14.3 shall not relieve the Indemnifying Party of its obligations under this Section 14.3 except to the extent such failure results in insufficient time being available to permit the Indemnifying Party to effectively defend against the third party claim or participate in the Proceeding or otherwise materially prejudices the Indemnifying Party's ability to defend against the third party claim or participate in the Proceeding. If the Indemnifying Party or its counsel so requests, the Indemnified Party shall furnish the Indemnifying Party with copies of all pleadings and other information with respect to such Claim. At the election of the Indemnifying Party made within 60 days after receipt of such notice, the Indemnified Party shall permit the Indemnifying Party to assume control of such Claim (to the extent only that such Claim, legal action or other matter relates to a Loss for which the Indemnifying Party is liable), including the determination of all appropriate actions, the negotiation of settlements on behalf of the Indemnified Party, and the conduct of litigation through attorneys of the Indemnifying Party's choice; *provided, however,* that no such settlement can result in any obligation, liability or cost to the Indemnified Party without its consent not to be unreasonably withheld. If the Indemnifying Party elects to assume control of a claim or legal action, (i) any expense incurred by the Indemnified Party thereafter for investigation or defense of the matter shall be borne by the Indemnified Party, and (ii) the Indemnified Party shall give all reasonable information and assistance, other than pecuniary, that the Indemnifying Party shall deem necessary to the proper defense of such Claim, legal action, or other matter. In the absence of such an election, the Indemnified Party will use its reasonable efforts to defend, at the Indemnifying Party's expense, any claim, legal action or other matter to which such other Party's indemnification under this Article 14 applies until the Indemnifying Party assumes such defense, and, if the Indemnifying Party fails to assume such defense within the time period provided above, settle the same in the Indemnified Party's reasonable discretion at the Indemnifying Party's expense. If such a Claim requires immediate action, both the Indemnified Party and the Indemnifying Party will cooperate in good faith to take appropriate action so as not to jeopardize defense of such Claim or either Party's position with respect to such Claim.

d. Claims between the Parties. A claim for indemnification for any matter not involving a third party claim may be asserted by notice to the Party from whom indemnification is sought.

14.4 Reservation as to Non-Parties. Nothing in this Agreement is intended to limit or otherwise waive any recourse Buyer or Seller may have against any Person not a party to this Agreement for any obligations or liabilities that may be incurred with respect to the Assets.

14.5 Exclusive Remedy. Except with respect to Seller's fraud or willful misconduct, the sole and exclusive remedy of Buyer with respect to the Assets shall be pursuant to the express provisions of this Agreement. Without limitation of the foregoing, if the Closing occurs, other than with respect to the Excluded Assets (including any Excluded Well Incident) or Seller's fraud or willful misconduct, the sole and exclusive remedy of Buyer for any and all: (a) claims relating to any representations, warranties, covenants and agreements that are contained in this Agreement or in any certificate delivered at Closing, (b) other claims pursuant to or in connection with this Agreement, and (c) other claims relating to the Assets and the purchase and sale thereof, shall be any right to the limited indemnification from such claims that is expressly provided herein and in the Assignment, Bill of Sale and Conveyance, and if no such right of indemnification is expressly provided herein or therein, then such claims are hereby waived to the fullest extent permitted by Law.

14.6 Waiver of Right to Rescission. Seller and Buyer acknowledge that the payment of money (as limited by Section 14.2 and the other provisions of this Agreement) shall be adequate compensation for breach of any representation, warranty, covenant or agreement contained herein or for any other claim arising in connection with or with respect to the transactions contemplated in this Agreement. As the payment of money shall be adequate compensation, Buyer and Seller waive any right to rescind this Agreement, the sale of the Assets to Buyer, or any of the transactions contemplated hereby.

ARTICLE 15
MISCELLANEOUS

15.1 Exhibits and Schedules. The Exhibits and Schedules referred to in this Agreement are hereby incorporated in this Agreement by reference and constitute a part of this Agreement.

15.2 Expenses. Except as otherwise specifically provided, all fees, costs and expenses incurred by Seller or Buyer in negotiating this Agreement or in consummating the transactions contemplated by this Agreement shall be paid by the Party incurring same, including legal, investment banking, brokerage and accounting fees, costs and expenses.

15.3 Notices. All notices and communications required or permitted under this Agreement shall be in writing and addressed as follows:

If to Seller: Vanguard Operating, LLC
5847 San Felipe Street, Suite 3000
Houston, Texas 77057
Attn: Mark Carnes
Email: mcarnes@vnrllc.com

If to Buyer: OXY USA Inc.
5 Greenway Plaza, Suite 110
Houston, TX 77046
Attn: Vice President, Mergers & Acquisitions
Email: deal_team@oxy.com

Any communication or delivery hereunder shall be deemed to have been duly made and the receiving Party charged with notice (i) if personally delivered, when received, (ii) if mailed, certified mail, return receipt requested, on the date set forth on the return receipt or (iii) if sent by overnight courier, when received; *provided* that a copy of any notice delivered pursuant to subsections (i) through (iii) above shall also be sent by electronic mail, but such electronic mail shall not itself constitute notice for purposes of this Agreement. Any Party may, by written notice so delivered to the other Party, change the address or individual to which notice shall thereafter be made.

15.4 Entire Agreement. This Agreement, the documents to be executed hereunder and the Exhibits and Schedules attached hereto constitute the entire Agreement between Seller and Buyer pertaining to the subject matter hereof and supersede all prior agreements (including the Original PSA and the A&R PSA), understandings, negotiations and discussions, whether oral or written, of Seller and Buyer pertaining to the subject matter hereof.

15.5 Amendments and Waivers. This Agreement may not be amended except as provided in a written instrument executed by both Parties. Except for waivers specifically provided for in this Agreement, no right of either Party under this Agreement may be waived except by an instrument in writing signed by the Party to be charged with such waiver and delivered by such Party to the Party claiming the benefit of such waiver.

15.6 Assignment. Neither Buyer nor Seller may assign all or any portion of its respective rights hereunder (including any of its rights under Article 14) or delegate all or any portion of its respective duties hereunder without the

prior written consent of the other Party; *provided, however*, that as long as Buyer shall continue to remain liable for the performance of its obligations and liabilities under this Agreement after such assignment, Buyer may assign any or all of its rights hereunder and may delegate any or all of its duties hereunder to any of its Affiliates.

15.7 Press Releases. Without the prior written consent of the other Party, neither Party shall make, or permit any agent or Affiliate of such Party to make, any public announcement or statement with respect to the transactions contemplated by this Agreement; *provided, however*, if a Party is required to make such public announcement or statement by Law or under the rules and regulations of a public stock exchange on which the shares of such Party or any of its Affiliates are listed, then the same may be made without the approval of the other Party. The opinion of counsel of the Party making such announcement or statement shall be conclusive evidence of such requirement by Law or rules or regulations.

15.8 Counterparts. This Agreement may be executed by Seller and Buyer in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument. Execution can be evidenced by fax or .PDF signatures.

15.9 Headings, References, Titles and Construction. All references in this Agreement to Exhibits, Schedules, Articles, Sections, subsections, and other subdivisions refer to the Exhibits, Schedules, Articles, Sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles and headings appearing at the beginning of any subdivision are for convenience only and do not constitute any part of any such subdivision and shall be disregarded in construing the language contained in this Agreement. The words "this Agreement," "herein," "hereby," "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this Section" and "this subsection" and similar phrases refer only to the Sections or subsections hereof in which the phrase occurs. The word "or" is not exclusive, and "including" (and its various derivatives), means "including without limitation." Pronouns in masculine, feminine and neuter gender shall be construed to include any other gender. Words in the singular form shall be construed to include the plural and words in the plural form shall be construed to include the singular, unless the context otherwise requires. In the event an ambiguity or question of intent or interpretation of this Agreement arises, this Agreement shall be construed as if jointly drafted by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring a Party as a result of authorship or drafting of any provision of this Agreement.

15.10 Submission to Jurisdiction and Venue; Consent to Service of Process.

a. Without limiting any Party's right to appeal any order of the Bankruptcy Court, (i) the Bankruptcy Court will retain exclusive jurisdiction to enforce the terms of this Agreement and the Sale Order and to decide any claims or disputes that may arise or result from, or be connected with, this Agreement, any breach or default hereunder or the transactions contemplated hereby, and (ii) any and all proceedings related to the foregoing will be filed and maintained only in the Bankruptcy Court, and the Parties hereby consent to and submit to the jurisdiction and venue of the Bankruptcy Court and will receive notices at such locations as indicated in Section 15.3 hereof; *provided, however*, that if the Bankruptcy Cases have been closed pursuant to Section 350 of the Bankruptcy Code, and have not been reopened after request of the Parties, the Parties agree to unconditionally and irrevocably submit to the exclusive jurisdiction of the appropriate State of Texas court located in Harris County, Texas, or, to the extent permitted by applicable Law, the federal courts in the Southern District of Texas and any appellate court from any thereof, for the resolution of any such claim or dispute. The Parties hereby irrevocably waive, to the fullest extent permitted by applicable Law, any objection that they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each Party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.

b. Each Party hereby consents to process being served by any Party to this Agreement in any suit, action or proceeding by delivery of a copy thereof in accordance with the provisions of Section 15.3.

15.11 Governing Law; Jury Waiver. This Agreement and the transactions contemplated hereby, and the enforcement of the expert determination provisions of this Agreement, shall be construed in accordance with, and governed by, the Laws of the State of Texas without regard to its conflict of laws rules. THE PARTIES HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY PARTY AGAINST ANOTHER IN ANY MATTER WHATSOEVER ARISING OUT OF OR IN RELATION TO OR IN CONNECTION WITH THIS AGREEMENT.

15.12 Binding Effect. This Agreement shall be binding upon, and shall inure to the benefit of, the Parties hereto, and their respective successors and assigns.

15.13 Survival. The representations, warranties, covenants, agreements and indemnification obligations of the Parties shall survive to the extent claims may be made for breach thereof under Article 14; provided, (a) the covenants of Seller to be performed prior to Closing shall survive for 18 months after the Closing Date, except (i) for any breaches claimed by Buyer within 18 months after the Closing Date, and (ii) Section 8.2 and Section 8.9 shall survive indefinitely, and (b) the representations and warranties of Seller shall expire at Closing.

15.14 No Third-Party Beneficiaries. This Agreement is intended only to benefit the Parties hereto (and the Buyer Indemnified Parties and Seller Indemnified Parties who are entitled to indemnification under Article 14) and their respective permitted successors and assigns.

15.15 Severability. It is the intent of the Parties that the provisions contained in this Agreement shall be severable. Should any provision, in whole or in part, be held invalid as a matter of law, such holding shall not affect the other provisions of this Agreement, and such provisions that are not invalid shall be given effect without the invalid provision.

15.16 Knowledge and Reasonable and Good Faith Efforts. The knowledge or best knowledge of a Party, or similar phrases, shall mean for purposes of this Agreement, with respect to each Party, the actual knowledge of the individuals listed on Section 15.16 of the Disclosure Schedule, after reasonable inquiry of those employees of the applicable Party and its Affiliates reporting directly to such individual who would reasonably be expected to have knowledge of the fact, event or circumstance in question. Reasonable efforts, reasonable commercial efforts, or good faith efforts, as used in this Agreement, do not include the obligation to pay consideration.

15.17 Disclaimers. **THE PARTIES AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE OPERATIVE, THE DISCLAIMERS OF WARRANTIES CONTAINED IN THIS SECTION 15.17 ARE "CONSPICUOUS" DISCLAIMERS FOR THE PURPOSES OF ANY APPLICABLE LAW, RULE OR ORDER. THE EXPRESS REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN THIS AGREEMENT, AND THE TITLE WARRANTIES IN THE CONVEYANCES OF THE ASSETS TO BE DELIVERED AT CLOSING, (COLLECTIVELY "SELLER'S WARRANTIES") ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. SELLER EXPRESSLY DISCLAIMS ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES. WITHOUT LIMITATION OF THE FOREGOING AND EXCEPT FOR SELLER'S WARRANTIES, THE ASSETS SHALL BE CONVEYED PURSUANT HERETO WITHOUT (A) ANY WARRANTY OR REPRESENTATION, WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, RELATING TO (I) TITLE TO THE ASSETS, THE CONDITION, QUANTITY, QUALITY, FITNESS OF THE ASSETS FOR A PARTICULAR PURPOSE, CONFORMITY TO THE MODELS OR SAMPLES OF MATERIALS OR MERCHANTABILITY OF ANY EQUIPMENT OR ITS FITNESS FOR ANY PURPOSE, (II) THE ACCURACY OR COMPLETENESS OF ANY DATA, REPORTS, RECORDS, PROJECTIONS, INFORMATION OR MATERIALS NOW, HERETOFORE OR HEREAFTER FURNISHED OR MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT, (III) PRICING ASSUMPTIONS, OR QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE ASSETS OR THE ABILITY OR POTENTIAL OF THE ASSETS TO PRODUCE**

HYDROCARBONS, (IV) THE ENVIRONMENTAL CONDITION OF THE ASSETS, BOTH SURFACE AND SUBSURFACE, (V) ANY IMPLIED OR EXPRESS WARRANTY OF NON-INFRINGEMENT, OR (VI) ANY OTHER MATTERS CONTAINED IN ANY MATERIALS FURNISHED OR MADE AVAILABLE TO BUYER BY SELLER OR BY SELLER'S AGENTS OR REPRESENTATIVES, OR (B) ANY OTHER EXPRESS, IMPLIED, STATUTORY OR OTHER WARRANTY OR REPRESENTATION WHATSOEVER. SUBJECT TO THE TERMS OF THIS AGREEMENT, BUYER SHALL HAVE INSPECTED, OR WAIVED ITS RIGHT TO INSPECT, THE ASSETS FOR ALL PURPOSES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION, BOTH SURFACE AND SUBSURFACE, INCLUDING BUT NOT LIMITED TO CONDITIONS SPECIFICALLY RELATED TO THE PRESENCE, RELEASE OR DISPOSAL OF HAZARDOUS MATERIALS, SOLID WASTES, ASBESTOS AND OTHER MAN MADE FIBERS, OR NORM. BUYER IS RELYING SOLELY UPON THE TERMS OF THIS AGREEMENT AND ITS OWN INSPECTION OF THE ASSETS, AND BUYER SHALL ACCEPT ALL OF THE SAME IN THEIR "AS IS, WHERE IS" CONDITION.

15.18 **Specific Performance**. Subject to Section 10.3(b), the Parties agree that if any of the provisions of this Agreement are not performed by Seller in accordance with their specific terms, Buyer shall be entitled to specific performance of the terms hereof, in addition to any other remedy available at law or in equity.

15.19 **Time of Essence**. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence. If the date specified in this Agreement for giving any notice or taking any action is not a Business Day (or if the period during which any notice is required to be given or any action taken expires on a date which is not a Business Day), then the date for giving such notice or taking such action (or the expiration date of such period during which notice is required to be given or action taken) shall be the next day which is a Business Day.

15.20 **No Recourse**. Notwithstanding anything herein or in any agreement, instrument or document delivered in connection with this Agreement, the Parties hereby acknowledge and agree that, except to the extent a Person is a named party to this Agreement, no Person, including any current, former or future director, officer, employee, incorporator, member, manager, director, partner, investor, shareholder, agent, representative, or Affiliate of any, shall have any liability to the other Party, and each Party shall have no recourse against, any Person other than the other Party in connection with any liability, claim or cause of action arising out of, or in relation to, this Agreement or the transactions contemplated hereby and any instruments, documents or discussions in connection herewith, whether pursuant to any attempt to pierce the corporate veil, any claims for fraud, negligence or misconduct or any other claims otherwise available or asserted at law or in equity.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first set forth above.

SELLER:

VANGUARD OPERATING, LLC

By: __/s/ Scott W. Smith _____
Name: Scott W. Smith
Title: President and Chief Executive Officer

BUYER:

OXY USA INC.

By: /s/ William C. Irons
Name: William C. Irons
Title: Vice President

EX-31.1 3 vnr2017q210-qexhibit31x1.htm EXHIBIT 31.1

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott W. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vanguard Natural Resources, LLC (the "registrant");

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, 2017

/s/ Scott W. Smith

Scott W. Smith

President and Chief Executive Officer
(Principal Executive Officer)
Vanguard Natural Resources, LLC

EX-31.2 4 vnr2017q210-qexhibit31x2.htm EXHIBIT 31.2

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard A. Robert, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vanguard Natural Resources, LLC (the "registrant");

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, 2017

/s/ Richard A. Robert

Richard A. Robert

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Vanguard Natural Resources, LLC

EX-32.1 5 vnr2017q210-qexhibit32x1.htm EXHIBIT 32.1

EXHIBIT 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
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 Vanguard Natural Resources, LLC (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott W. Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 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; and

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

/s/ Scott W. Smith

Scott W. Smith

President and Chief Executive Officer
(Principal Executive Officer)

August 9, 2017

EX-32.2 6 vnr2017q210-qexhibit32x2.htm EXHIBIT 32.2

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
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 Vanguard Natural Resources, LLC (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Robert, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 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; and

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

/s/ Richard A. Robert

Richard A. Robert

Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

August 9, 2017