

WHITING PETROLEUM CORP  
Form 10-Q  
July 28, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2016

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 31899

WHITING PETROLEUM CORPORATION  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

20 0098515  
(I.R.S. Employer  
Identification No.)

80290 2300

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

1700 Broadway, Suite 2300  
Denver, Colorado  
(Address of principal executive offices) (Zip code)

(303) 837 1661  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Number of shares of the Registrant's common stock outstanding at July 26, 2016: 275,395,262 shares.

---

TABLE OF CONTENTS	
<u>Glossary of Certain Definitions</u>	1
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
<u>Item</u>	
<b><u>1Consolidated Financial Statements (Unaudited)</u></b>	4
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	4
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015</u>	6
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2016 and 2015</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item</u>	
<b><u>2Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	26
<u>Item</u>	
<b><u>3Quantitative and Qualitative Disclosures about Market Risk</u></b>	43
<u>Item</u>	
<b><u>4Controls and Procedures</u></b>	45
<b><u>PART II – OTHER INFORMATION</u></b>	
<u>Item</u>	
<b><u>1Legal Proceedings</u></b>	46
<u>Item</u>	
<b><u>1Risk Factors</u></b>	46
<u>Item</u>	
<b><u>6Exhibits</u></b>	46

Table of Contents

Glossary of Certain Definitions

Unless the context otherwise requires, the terms “we”, “us”, “our” or “ours” when used in this Quarterly Report on Form 10-Q refer to Whiting Petroleum Corporation, together with its consolidated subsidiaries. When the context requires, we refer to these entities separately.

We have included below the definitions for certain terms used in this report:

“Bbl” One stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to oil, NGLs and other liquid hydrocarbons.

“Bcf” One billion cubic feet, used in reference to natural gas or CO<sub>2</sub>.

“BOE” One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas and one Bbl of crude oil equals one Bbl of natural gas liquids.

“CO<sub>2</sub>” Carbon dioxide.

“CO<sub>2</sub> flood” A tertiary recovery method in which CO<sub>2</sub> is injected into a reservoir to enhance hydrocarbon recovery.

“completion” The process of preparing an oil and gas wellbore for production through the installation of permanent production equipment, as well as perforation or fracture stimulation as required to optimize production.

“costless collar” An option position where the proceeds from the sale of a call option at its inception fund the purchase of a put option at its inception.

“deterministic method” The method of estimating reserves or resources using a single value for each parameter (from the geoscience, engineering or economic data) in the reserves calculation.

“development well” A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

“differential” The difference between a benchmark price of oil and natural gas, such as the NYMEX crude oil spot price, and the wellhead price received.

“dry hole” A well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

“EOR” Enhanced oil recovery.

“exploratory well” A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

“FASB” Financial Accounting Standards Board.

“FASB ASC” The Financial Accounting Standards Board Accounting Standards Codification.

“field” An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural feature” and “stratigraphic condition” are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

“GAAP” Generally accepted accounting principles in the United States of America.

“gross acres” or “gross wells” The total acres or wells, as the case may be, in which a working interest is owned.

“ISDA” International Swaps and Derivatives Association, Inc.

“lease operating expense” or “LOE” The expenses of lifting oil or gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets,

1

---

Table of Contents

maintenance, allocated overhead costs and other expenses incidental to production, but not including lease acquisition or drilling or completion expenses.

“LIBOR” London interbank offered rate.

“MBbl” One thousand barrels of oil, NGLs or other liquid hydrocarbons.

“MBOE” One thousand BOE.

“MBOE/d” One MBOE per day.

“Mcf” One thousand cubic feet, used in reference to natural gas or CO<sub>2</sub>.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMcf” One million cubic feet, used in reference to natural gas or CO<sub>2</sub>.

“MMcf/d” One MMcf per day.

“net acres” or “net wells” The sum of the fractional working interests owned in gross acres or wells, as the case may be.

“net production” The total production attributable to our fractional working interest owned.

“NGL” Natural gas liquid.

“NYMEX” The New York Mercantile Exchange.

“plug-and-perf technology” A horizontal well completion technique in which hydraulic fractures are performed in multiple stages, with each stage utilizing a bridge plug to divert fracture stimulation fluids through the casing perforations into the formation within that stage.

“plugging and abandonment” Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of most states legally require plugging of abandoned wells.

“prospect” A property on which indications of oil or gas have been identified based on available seismic and geological information.

“proved developed reserves” Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

“proved reserves” Those reserves which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts

providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time.

The area of the reservoir considered as proved includes all of the following:

- a. The area identified by drilling and limited by fluid contacts, if any, and
- b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when both of the following occur:

- a. Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based, and

Table of Contents

b. The project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

“reasonable certainty” If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical and geochemical) engineering, and economic data are made to estimated ultimate recovery with time, reasonably certain estimated ultimate recovery is much more likely to increase or remain constant than to decrease.

“reserves” Estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

“reservoir” A porous and permeable underground formation containing a natural accumulation of producible crude oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“royalty” The amount or fee paid to the owner of mineral rights, expressed as a percentage or fraction of gross income from crude oil or natural gas produced and sold, unencumbered by expenses relating to the drilling, completing or operating of the affected well.

“SEC” The United States Securities and Exchange Commission.

“working interest” The interest in a crude oil and natural gas property (normally a leasehold interest) that gives the owner the right to drill, produce and conduct operations on the property and to a share of production, subject to all royalties, overriding royalties and other burdens and to all costs of exploration, development and operations and all risks in connection therewith.

“workover” Operations on a producing well to restore or increase production.

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## WHITING PETROLEUM CORPORATION

## CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share data)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,338	\$ 16,053
Accounts receivable trade, net	233,059	332,428
Derivative assets	49,202	158,729
Prepaid expenses and other	21,927	27,980
Total current assets	319,526	535,190
Property and equipment:		
Oil and gas properties, successful efforts method	14,179,923	13,904,525
Other property and equipment	159,855	168,277
Total property and equipment	14,339,778	14,072,802
Less accumulated depreciation, depletion and amortization	(3,925,700)	(3,323,102)
Total property and equipment, net	10,414,078	10,749,700
Other long-term assets	72,102	104,195
<b>TOTAL ASSETS</b>	<b>\$ 10,805,706</b>	<b>\$ 11,389,085</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable trade	\$ 36,621	\$ 77,276
Revenues and royalties payable	129,087	179,601
Accrued capital expenditures	48,100	94,105
Accrued interest	54,402	62,661
Accrued lease operating expenses	40,137	55,291
Accrued liabilities and other	55,457	50,261
Taxes payable	47,102	47,789
Accrued employee compensation and benefits	16,473	32,829
Total current liabilities	427,379	599,813
Long-term debt	4,960,921	5,197,704

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Deferred income taxes	408,213	593,792
Asset retirement obligations	163,365	155,550
Deferred gain on sale	41,490	48,974
Other long-term liabilities	39,387	34,664
Total liabilities	6,040,755	6,630,497
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value, 600,000,000 shares authorized; 251,610,527 issued and 246,263,027 outstanding as of June 30, 2016 and 206,441,303 issued and 204,147,647 outstanding as of December 31, 2015	252	206
Additional paid-in capital	5,138,989	4,659,868
Retained earnings (accumulated deficit)	(382,259)	90,530
Total Whiting shareholders' equity	4,756,982	4,750,604
Noncontrolling interest	7,969	7,984
Total equity	4,764,951	4,758,588
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 10,805,706</b>	<b>\$ 11,389,085</b>

See notes to consolidated financial statements.

Table of Contents

## WHITING PETROLEUM CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>REVENUES AND OTHER INCOME:</b>				
Oil, NGL and natural gas sales	\$ 337,036	\$ 650,527	\$ 626,733	\$ 1,170,375
Loss on sale of properties	(1,861)	(64,776)	(3,795)	(61,578)
Amortization of deferred gain on sale	3,772	3,738	7,621	9,574
Interest income and other	636	520	1,031	870
Total revenues and other income	339,583	590,009	631,590	1,119,241
<b>COSTS AND EXPENSES:</b>				
Lease operating expenses	105,172	143,375	219,548	309,740
Production taxes	26,826	56,729	52,753	101,107
Depreciation, depletion and amortization	304,016	322,411	616,308	605,930
Exploration and impairment	25,781	57,557	61,272	138,481
General and administrative	33,523	44,987	78,319	88,967
Interest expense	78,660	89,176	160,567	163,433
Loss on extinguishment of debt	179,396	45	88,777	5,634
Derivative (gain) loss, net	(2,761)	102,419	2,000	92,568
Total costs and expenses	750,613	816,699	1,279,544	1,505,860
<b>LOSS BEFORE INCOME TAXES</b>	<b>(411,030)</b>	<b>(226,690)</b>	<b>(647,954)</b>	<b>(386,619)</b>
<b>INCOME TAX EXPENSE (BENEFIT):</b>				
Current	(1)	(84)	2	65
Deferred	(109,983)	(77,311)	(175,152)	(131,261)
Total income tax benefit	(109,984)	(77,395)	(175,150)	(131,196)
<b>NET LOSS</b>	<b>(301,046)</b>	<b>(149,295)</b>	<b>(472,804)</b>	<b>(255,423)</b>
Net loss attributable to noncontrolling interests	5	21	15	38
<b>NET LOSS AVAILABLE TO COMMON SHAREHOLDERS</b>				
	<b>\$ (301,041)</b>	<b>\$ (149,274)</b>	<b>\$ (472,789)</b>	<b>\$ (255,385)</b>
<b>LOSS PER COMMON SHARE:</b>				
Basic	\$ (1.33)	\$ (0.73)	\$ (2.20)	\$ (1.37)
Diluted	\$ (1.33)	\$ (0.73)	\$ (2.20)	\$ (1.37)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
Basic	226,039	204,130	215,203	186,657

Diluted	226,039	204,130	215,203	186,657
---------	---------	---------	---------	---------

See notes to consolidated financial statements.

5

---

Table of Contents

## WHITING PETROLEUM CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (472,804)	\$ (255,423)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	616,308	605,930
Deferred income tax benefit	(175,152)	(131,261)
Amortization of debt issuance costs, debt discount and debt premium	38,950	19,828
Stock-based compensation	13,030	13,481
Amortization of deferred gain on sale	(7,621)	(9,574)
Loss on sale of properties	3,795	61,578
Undeveloped leasehold and oil and gas property impairments	30,360	51,553
Exploratory dry hole costs	-	799
Loss on extinguishment of debt	88,777	5,634
Non-cash portion of derivative loss	91,414	184,395
Other, net	(4,028)	(3,130)
Changes in current assets and liabilities:		
Accounts receivable trade, net	96,433	88,666
Prepaid expenses and other	5,205	35,245
Accounts payable trade and accrued liabilities	(66,758)	(110,635)
Revenues and royalties payable	(50,324)	(30,147)
Taxes payable	(651)	1,197
Net cash provided by operating activities	206,934	528,136
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Drilling and development capital expenditures	(358,836)	(1,727,396)
Acquisition of oil and gas properties	(1,785)	(20,402)
Other property and equipment	(4,504)	(8,727)
Proceeds from sale of oil and gas properties	8,164	311,628
Net cash used in investing activities	(356,961)	(1,444,897)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	-	1,111,148
Issuance of 1.25% Convertible Senior Notes due 2020	-	1,250,000
Issuance of 6.25% Senior Notes due 2023	-	750,000
Partial redemption of 8.125% Senior Notes due 2019	-	(2,475)
Partial redemption of 5.5% Senior Notes due 2021	-	(353,500)
Partial redemption of 5.5% Senior Notes due 2022	-	(404,000)

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Early conversion payments for New Convertible Notes	(41,919)	-
Borrowings under credit agreement	750,000	2,000,000
Repayments of borrowings under credit agreement	(550,000)	(3,400,000)
Debt and equity issuance costs	(8,060)	(54,295)
Proceeds from stock options exercised	-	3,048
Restricted stock used for tax withholdings	(709)	(1,111)
Net cash provided by financing activities	\$ 149,312	\$ 898,815

See notes to consolidated financial statements.

(Continued)

Table of Contents

## WHITING PETROLEUM CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30,	
	2016	2015
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (715)	\$ (17,946)
CASH AND CASH EQUIVALENTS:		
Beginning of period	16,053	78,100
End of period	\$ 15,338	\$ 60,154
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures related to property additions	\$ 58,395	\$ 189,404
NONCASH FINANCING ACTIVITIES (1)		

See notes to consolidated financial statements.

(Concluded)

(1) Refer to the "Long-Term Debt" footnote in the notes to consolidated financial statements for a discussion of (i) the Company's exchange of senior notes and senior subordinated notes for convertible notes and the subsequent conversions of such notes, and (ii) the Company's exchange of convertible senior notes for mandatory convertible notes.



Table of Contents

## WHITING PETROLEUM CORPORATION

## CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

(in thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Whiting Shareholders' Equity	Noncontrolling Interest	Total Equity
BALANCES-January 1, 2015	168,346	\$ 168	\$ 3,385,094	\$ 2,309,712	\$ 5,694,974	\$ 8,070	\$ 5,703,044
Net loss	-	-	-	(255,385)	(255,385)	(38)	(255,423)
Issuance of common stock	37,000	37	1,100,000	-	1,100,037	-	1,100,037
Equity component of 2020 Convertible Senior Notes, net	-	-	144,755	-	144,755	-	144,755
Exercise of stock options	149	-	3,048	-	3,048	-	3,048
Restricted stock issued	1,209	1	(1)	-	-	-	-
Restricted stock forfeited	(194)	-	-	-	-	-	-
Restricted stock used for tax withholdings	(38)	-	(1,111)	-	(1,111)	-	(1,111)
Stock-based compensation	-	-	13,481	-	13,481	-	13,481
BALANCES-June 30, 2015	206,472	\$ 206	\$ 4,645,266	\$ 2,054,327	\$ 6,699,799	\$ 8,032	\$ 6,707,831
BALANCES-January 1, 2016	206,441	\$ 206	\$ 4,659,868	\$ 90,530	\$ 4,750,604	\$ 7,984	\$ 4,758,588
Net loss	-	-	-	(472,789)	(472,789)	(15)	(472,804)
Issuance of common stock upon conversion of New Convertible Notes	41,839	42	476,464	-	476,506	-	476,506
Adjustment to equity component of 2020 Convertible Senior Notes upon extinguishment, net	-	-	(9,660)	-	(9,660)	-	(9,660)
Restricted stock issued	4,021	4	(4)	-	-	-	-
Restricted stock forfeited	(600)	-	-	-	-	-	-
	(90)	-	(709)	-	(709)	-	(709)

Restricted stock used for  
tax withholdings

Stock-based

compensation

BALANCES-June 30,

2016

-	-	13,030	-	13,030	-	13,030
251,611	\$ 252	\$ 5,138,989	\$ (382,259)	\$ 4,756,982	\$ 7,969	\$ 4,764,951

See notes to consolidated  
financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

Description of Operations—Whiting Petroleum Corporation, a Delaware corporation, is an independent oil and gas company engaged in the development, acquisition, exploration and production of crude oil, NGLs and natural gas primarily in the Rocky Mountains region of the United States. Unless otherwise specified or the context otherwise requires, all references in these notes to “Whiting” or the “Company” are to Whiting Petroleum Corporation and its consolidated subsidiaries, Whiting Oil and Gas Corporation (“Whiting Oil and Gas”), Whiting US Holding Company, Whiting Canadian Holding Company ULC (formerly Kodiak Oil & Gas Corp., “Kodiak”), Whiting Resources Corporation (formerly Kodiak Oil & Gas (USA) Inc.) and Whiting Programs, Inc.

Consolidated Financial Statements—The unaudited consolidated financial statements include the accounts of Whiting Petroleum Corporation and its consolidated subsidiaries. Investments in entities which give Whiting significant influence, but not control, over the investee are accounted for using the equity method. Under the equity method, investments are stated at cost plus the Company’s equity in undistributed earnings and losses. All intercompany balances and transactions have been eliminated upon consolidation. These financial statements have been prepared in accordance with GAAP and the SEC rules and regulations for interim financial reporting. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly, in all material respects, the Company’s interim results. However, operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. The consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q should be read in conjunction with Whiting’s consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2015. Except as disclosed herein, there have been no material changes to the information disclosed in the notes to consolidated financial statements included in the Company’s 2015 Annual Report on Form 10 K.

Earnings Per Share—Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted earnings per common share is calculated by dividing adjusted net income available to common shareholders by the weighted average number of diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculations consist of (i) convertible debt to be settled in shares only, using the if-converted method and (ii) unvested restricted stock awards, outstanding stock options and contingently issuable shares of convertible debt to be settled in cash, all using the treasury stock method. When a loss from continuing operations exists, all dilutive securities and potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share.

2. OIL AND GAS PROPERTIES

Net capitalized costs related to the Company’s oil and gas producing activities at June 30, 2016 and December 31, 2015 are as follows (in thousands):

	June 30, 2016	December 31, 2015
Proved leasehold costs	\$ 3,291,916	\$ 3,206,237
Unproved leasehold costs	574,700	689,754
Costs of completed wells and facilities	9,797,421	9,503,020
Wells and facilities in progress	515,886	505,514
Total oil and gas properties, successful efforts method	14,179,923	13,904,525
Accumulated depletion	(3,877,460)	(3,279,156)
Oil and gas properties, net	\$ 10,302,463	\$ 10,625,369

Table of Contents

## 3. ACQUISITIONS AND DIVESTITURES

## 2016 Acquisitions and Divestitures

There were no significant acquisitions or divestitures during the six months ended June 30, 2016. Refer to the “Subsequent Events” footnote for information on the Company’s sale of its interest in the North Ward Estes Properties, which closed on July 27, 2016.

## 2015 Acquisitions and Divestitures

In December 2015, the Company completed the sale of a fresh water delivery system, a produced water gathering system and four saltwater disposal wells located in Weld County, Colorado, effective December 16, 2015, for aggregate sales proceeds of \$75 million (before closing adjustments).

In June 2015, the Company completed the sale of its interests in certain non-core oil and gas wells, effective June 1, 2015, for aggregate sales proceeds of \$150 million (before closing adjustments) resulting in a pre-tax loss on sale of \$118 million. The properties included over 2,000 gross wells in 132 fields across 10 states.

In April 2015, the Company completed the sale of its interests in certain non-core oil and gas wells, effective May 1, 2015, for aggregate sales proceeds of \$108 million (before closing adjustments) resulting in a pre-tax gain on sale of \$29 million. The properties are located in 187 fields across 14 states, and predominately consist of assets that were previously included in the underlying properties of Whiting USA Trust I.

Also during the year ended December 31, 2015, the Company completed several immaterial divestiture transactions for the sale of its interests in certain non-core oil and gas wells and undeveloped acreage, for aggregate sales proceeds of \$176 million (before closing adjustments) resulting in a pre-tax gain on sale of \$28 million.

There were no significant acquisitions during the year ended December 31, 2015.

## 4. LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Credit agreement	\$ 1,000,000	\$ 800,000
6.5% Senior Subordinated Notes due 2018	301,288	350,000
5% Senior Notes due 2019	1,003,188	1,100,000
1.25% Convertible Senior Notes due 2020	1,121,465	1,250,000
1.25% Mandatory Convertible Senior Notes due 2020, Series 2	128,535	-
5.75% Senior Notes due 2021	1,047,523	1,200,000
6.25% Senior Notes due 2023	571,258	750,000
Total principal	5,173,257	5,450,000
Unamortized debt discounts and premiums	(172,602)	(203,082)

Unamortized debt issuance costs on notes	(39,734)	(49,214)
Total long-term debt	\$ 4,960,921	\$ 5,197,704

Credit Agreement—Whiting Oil and Gas, the Company’s wholly-owned subsidiary, has a credit agreement with a syndicate of banks that as of June 30, 2016 had a borrowing base of \$2.75 billion, with aggregate commitments of \$2.5 billion. Upon closing of the sale of the North Ward Estes Properties on July 27, 2016, the borrowing base was reduced to \$2.6 billion. The Company may increase the maximum aggregate amount of commitments under the credit agreement up to the \$2.6 billion borrowing base if certain conditions are satisfied, including the consent of lenders participating in the increase. As of June 30, 2016, the Company had \$1.5 billion of available borrowing capacity, which was net of \$1.0 billion in borrowings and \$2 million in letters of credit outstanding.

The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of the Company’s proved reserves that have been mortgaged to such lenders, and is subject to regular redeterminations on May 1 and November 1 of each year, as well as special redeterminations described in the credit agreement, in each case which may reduce the amount of the borrowing base. Upon a redetermination of the borrowing base, either on a periodic or special redetermination date, if borrowings in excess of the revised borrowing capacity were outstanding, the Company could be forced to immediately repay a portion of its debt outstanding under the credit agreement. The credit agreement permits the Company and certain of its subsidiaries

Table of Contents

to dispose of their respective ownership interests in certain gas gathering and processing plants located in North Dakota without reducing the borrowing base.

A portion of the revolving credit facility in an aggregate amount not to exceed \$50 million may be used to issue letters of credit for the account of Whiting Oil and Gas or other designated subsidiaries of the Company. As of June 30, 2016, \$48 million was available for additional letters of credit under the agreement.

The credit agreement provides for interest only payments until December 2019, when the credit agreement expires and all outstanding borrowings are due. Interest under the revolving credit facility accrues at the Company's option at either (i) a base rate for a base rate loan plus the margin in the table below, where the base rate is defined as the greatest of the prime rate, the federal funds rate plus 0.5% per annum, or an adjusted LIBOR rate plus 1.0% per annum, or (ii) an adjusted LIBOR rate for a Eurodollar loan plus the margin in the table below. Additionally, the Company also incurs commitment fees as set forth in the table below on the unused portion of the aggregate commitments of the lenders under the revolving credit facility, which are included as a component of interest expense.

At June 30, 2016, the weighted average interest rate on the outstanding principal balance under the credit agreement was 2.7%.

Ratio of Outstanding Borrowings to Borrowing Base	Applicable Margin for Base Rate Loans	Applicable Margin for Eurodollar Loans	Commitment Fee
Less than 0.25 to 1.0	1.00%	2.00%	0.50%
Greater than or equal to 0.25 to 1.0 but less than 0.50 to 1.0	1.25%	2.25%	0.50%
Greater than or equal to 0.50 to 1.0 but less than 0.75 to 1.0	1.50%	2.50%	0.50%
Greater than or equal to 0.75 to 1.0 but less than 0.90 to 1.0	1.75%	2.75%	0.50%
Greater than or equal to 0.90 to 1.0	2.00%	3.00%	0.50%

The credit agreement contains restrictive covenants that may limit the Company's ability to, among other things, incur additional indebtedness, sell assets, make loans to others, make investments, enter into mergers, enter into hedging contracts, incur liens and engage in certain other transactions without the prior consent of its lenders. However, the credit agreement permits the Company and certain of its subsidiaries to issue second lien indebtedness of up to \$1.0 billion subject to certain conditions and limitations. Except for limited exceptions, the credit agreement also restricts the Company's ability to make any dividend payments or distributions on its common stock. These restrictions apply to all of the Company's restricted subsidiaries (as defined in the credit agreement). As of June 30, 2016, there were no retained earnings free from restrictions. The credit agreement requires the Company, as of the last day of any quarter, to maintain the following ratios (as defined in the credit agreement): (i) a consolidated current assets to consolidated current liabilities ratio (which includes an add back of the available borrowing capacity under the credit agreement) of not less than 1.0 to 1.0, (ii) a total senior secured debt to the last four quarters' EBITDAX ratio of less than 3.0 to 1.0 during the Interim Covenant Period (defined below), and thereafter a total debt to EBITDAX ratio of less than 4.0 to 1.0, and (iii) a ratio of the last four quarters' EBITDAX to consolidated interest charges of not less than 2.25 to 1.0 during the Interim Covenant Period. Under the credit agreement, the "Interim Covenant Period" is defined as the period from June 30, 2015 until the earlier of (a) April 1, 2018 or (b) the commencement of an investment-grade debt rating period (as defined in the credit agreement). The Company was in compliance with its covenants under the credit agreement as of June 30, 2016.

The obligations of Whiting Oil and Gas under the credit agreement are secured by a first lien on substantially all of Whiting Oil and Gas' and Whiting Resource Corporation's properties. The Company has guaranteed the obligations of

Whiting Oil and Gas under the credit agreement and has pledged the stock of its subsidiaries as security for its guarantee.

Senior Notes and Senior Subordinated Notes—In September 2010, the Company issued at par \$350 million of 6.5% Senior Subordinated Notes due October 2018 (the “2018 Senior Subordinated Notes”).

In September 2013, the Company issued at par \$1.1 billion of 5% Senior Notes due March 2019 (the “2019 Senior Notes”) and \$800 million of 5.75% Senior Notes due March 2021, and issued at 101% of par an additional \$400 million of 5.75% Senior Notes due March 2021 (collectively, the “2021 Senior Notes”). The debt premium recorded in connection with the issuance of the 2021 Senior Notes is being amortized to interest expense over the term of the notes using the effective interest method, with an effective interest rate of 5.5% per annum.

In March 2015, the Company issued at par \$750 million of 6.25% Senior Notes due April 2023 (the “2023 Senior Notes”) and together with the 2019 Senior Notes and 2021 Senior Notes, the “Whiting Senior Notes”).

Exchange of Senior Notes and Senior Subordinated Notes for Convertible Notes. On March 23, 2016, the Company completed the exchange of \$477 million aggregate principal amount of its senior notes and senior subordinated notes, consisting of (i) \$49 million aggregate principal amount of its 2018 Senior Subordinated Notes, (ii) \$97 million aggregate principal amount of its 2019 Senior

Table of Contents

Notes, (iii) \$152 million aggregate principal amount of its 2021 Senior Notes, and (iv) \$179 million aggregate principal amount of its 2023 Senior Notes, for (i) \$49 million aggregate principal amount of new 6.5% Convertible Senior Subordinated Notes due 2018 (the “2018 Convertible Senior Subordinated Notes”), (ii) \$97 million aggregate principal amount of new 5% Convertible Senior Notes due 2019 (the “2019 Convertible Senior Notes”), (iii) \$152 million aggregate principal amount of new 5.75% Convertible Senior Notes due 2021 (the “2021 Convertible Senior Notes”), and (iv) \$179 million aggregate principal amount of new 6.25% Convertible Senior Notes due 2023 (the “2023 Convertible Senior Notes” and together with the 2018 Convertible Senior Subordinated Notes, the 2019 Convertible Senior Notes and the 2021 Convertible Senior Notes, the “New Convertible Notes”). During the second quarter of 2016, all of the New Convertible Notes converted at the holders’ option into shares of Whiting’s common stock. Refer to “Conversion of New Convertible Notes to Common Stock” below for more information.

The redemption provisions, covenants, interest payments and maturity terms applicable to each series of New Convertible Notes were substantially identical to those applicable to the corresponding series of Whiting Senior Notes and 2018 Senior Subordinated Notes.

This exchange transaction was accounted for as an extinguishment of debt for each portion of the Whiting Senior Notes and 2018 Senior Subordinated Notes that were exchanged. As a result, Whiting recognized a \$91 million gain on extinguishment of debt, which included a \$4 million non-cash charge for the acceleration of unamortized debt issuance costs and debt premium on the original notes. Each series of New Convertible Notes was recorded at fair value upon issuance, with the difference between the principal amount of the notes and their fair values, totaling \$95 million, recorded as a debt discount. The aggregate debt discount of \$185 million recorded upon issuance of the New Convertible Notes also included \$90 million related to the fair value of the holders’ conversion options, which were embedded derivatives that met the criteria to be bifurcated from their host contracts and accounted for separately. These embedded derivatives were marked to market with the changes in fair value recorded as derivative (gain) loss, net in the consolidated statements of operations. Refer to the “Derivative Financial Instruments” and “Fair Value Measurements” footnotes for more information.

The debt discount was being amortized to interest expense over the respective terms of the notes using the effective interest method. Transaction costs of \$8 million attributable to the New Convertible Notes issuance were recorded as a reduction to the carrying value of long-term debt on the consolidated balance sheet and were being amortized to interest expense over the respective terms of the notes using the effective interest method.

The New Convertible Notes were convertible, at the option of the holders, into shares of the Company’s common stock at any time from the date of issuance up until the close of business on the earlier of (i) the fifth business day following the date of a mandatory conversion notice from the Company (see below for a discussion of the mandatory conversion terms), (ii) the business day immediately preceding the date of redemption, if Whiting had elected to redeem all or a portion of the New Convertible Notes prior to maturity, or (iii) the business day immediately preceding the maturity date. In addition, (i) if a holder exercised its right to convert on or prior to September 23, 2016, such holder would have received an early conversion cash payment in an amount equal to 18 months of interest payable on the applicable series of notes, (ii) if a holder exercised its right to convert after September 23, 2016 but on or prior to March 23, 2017, such holder would have received an early conversion cash payment in an amount equal to 12 months of interest payable on the applicable series of notes, or (iii) if a holder exercised its right to convert after March 23, 2017 but on or prior to September 23, 2017, such holder would have received an early conversion cash payment in an amount equal to six months of interest payable on the applicable series of notes. Upon exercise of this option, the holder was also entitled to cash payment of all accrued and unpaid interest through the conversion date.

The initial conversion rate for the 2018 Convertible Senior Subordinated Notes, the 2021 Convertible Senior Notes and the 2023 Convertible Senior Notes was 86.9565 common shares per \$1,000 principal amount of the notes (representing an initial conversion price of \$11.50 per share), and the initial conversion rate for the 2019 Convertible Senior Notes was 90.9091 common shares per \$1,000 principal amount of the notes (representing an initial conversion price of \$11.00 per share). Each initial conversion rate was subject to customary adjustments if certain share transactions were to be initiated by Whiting.

The Company had the right to mandatorily convert the New Convertible Notes, in whole or in part, if the volume weighted average price (as defined in the applicable indentures governing the New Convertible Notes) of the Company's common stock exceeded 89.13% of the applicable conversion price of the 2018 Convertible Senior Subordinated Notes, the 2021 Convertible Senior Notes and the 2023 Convertible Senior Notes and 93.18% of the applicable conversion price of the 2019 Convertible Senior Notes (each representing an initial mandatory conversion trigger price of \$10.25 per share) for at least 20 trading days during a 30 consecutive trading day period. No early conversion or accrued and unpaid interest payments would have been made upon a mandatory conversion.

Conversion of New Convertible Notes to Common Stock. During the second quarter of 2016, holders of the New Convertible Notes voluntarily converted all \$477 million aggregate principal amount of the New Convertible Notes for approximately 41.8 million shares of the Company's common stock. Upon conversion, the Company paid \$46 million in cash consisting of early conversion payments to the holders of the notes, as well as all accrued and unpaid interest on such notes. As a result of the conversions, Whiting recognized

Table of Contents

a \$188 million loss on extinguishment of debt, which consisted of a non-cash charge for the acceleration of unamortized debt issuance costs and debt discount on the notes. As of June 30, 2016, no New Convertible Notes remained outstanding.

Exchange of Senior Notes and Senior Subordinated Notes for Mandatory Convertible Notes. On July 1, 2016, the Company completed the exchange of \$405 million aggregate principal amount of Whiting Senior Notes and 2018 Senior Subordinated Notes for the same aggregate principal amount of new mandatory convertible senior notes and mandatory convertible senior subordinated notes. Refer to the “Subsequent Events” footnote for more information on these exchange transactions and the terms of the new mandatory convertible notes.

Kodiak Senior Notes. In conjunction with the acquisition of Kodiak Oil & Gas Corp. (the “Kodiak Acquisition”) in December 2014, Whiting US Holding Company, a wholly-owned subsidiary of the Company, became a co-issuer of Kodiak’s \$800 million of 8.125% Senior Notes due December 2019 (the “2019 Kodiak Notes”), \$350 million of 5.5% Senior Notes due January 2021 (the “2021 Kodiak Notes”), and \$400 million of 5.5% Senior Notes due February 2022 (the “2022 Kodiak Notes” and together with the 2019 Kodiak Notes and the 2021 Kodiak Notes, the “Kodiak Notes”).

In January 2015, Whiting offered to repurchase at 101% of par all \$1,550 million principal amount of Kodiak Notes then outstanding. In March 2015, Whiting paid \$760 million to repurchase \$2 million aggregate principal amount of the 2019 Kodiak Notes, \$346 million aggregate principal amount of the 2021 Kodiak Notes and \$399 million aggregate principal amount of the 2022 Kodiak Notes, which payment consisted of the 101% redemption price and all accrued and unpaid interest on such notes. In May 2015, Whiting paid an additional \$5 million to repurchase the remaining \$4 million aggregate principal amount of the 2021 Kodiak Notes and \$1 million aggregate principal amount of the 2022 Kodiak Notes, which payment consisted of the 101% redemption price and all accrued and unpaid interest on such notes. In December 2015, Whiting paid \$834 million to repurchase the remaining \$798 million aggregate principal amount of the 2019 Kodiak Notes, which payment consisted of the 104.063% redemption price and all accrued and unpaid interest on such notes. As a result of the repurchases, Whiting recognized an \$18 million loss on extinguishment of debt, which consisted of a \$40 million cash charge related to the redemption premium on the Kodiak Notes, partially offset by a \$22 million non-cash credit related to the acceleration of unamortized debt premiums on such notes. As of December 31, 2015, no Kodiak Notes remained outstanding.

2020 Convertible Senior Notes—In March 2015, the Company issued at par \$1,250 million of 1.25% Convertible Senior Notes due April 2020 (the “2020 Convertible Senior Notes”) for net proceeds of \$1.2 billion, net of initial purchasers’ fees of \$25 million. The notes will mature on April 1, 2020 unless earlier converted in accordance with their terms. On June 29, 2016, the Company exchanged \$129 million aggregate principal amount of its 2020 Convertible Senior Notes for the same aggregate principal amount of new mandatory convertible senior notes, and on July 1, 2016, the Company exchanged \$559 million aggregate principal amount of its 2020 Convertible Senior Notes for the same aggregate principal amount of new mandatory convertible senior notes. Refer to “Exchange of 2020 Convertible Senior Notes for Mandatory Convertible Senior Notes” below and the “Subsequent Events” footnote for more information on these exchange transactions and the terms of the new mandatory convertible notes.

For the remaining \$562 million aggregate principal amount of 2020 Convertible Senior Notes, the Company has the option to settle conversions of these notes with cash, shares of common stock or a combination of cash and common stock at its election. The Company’s intent is to settle the principal amount of the 2020 Convertible Senior Notes in cash upon conversion. Prior to January 1, 2020, the 2020 Convertible Senior Notes will be convertible at the holder’s option only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on June 30, 2015 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading

days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the 2020 Convertible Senior Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events. On or after January 1, 2020, the 2020 Convertible Senior Notes will be convertible at any time until the second scheduled trading day immediately preceding the April 1, 2020 maturity date of the notes. The notes will be convertible at an initial conversion rate of 25.6410 shares of Whiting’s common stock per \$1,000 principal amount of the notes, which is equivalent to an initial conversion price of approximately \$39.00. The conversion rate will be subject to adjustment in some events. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase, in certain circumstances, the conversion rate for a holder who elects to convert its 2020 Convertible Senior Notes in connection with such corporate event. As of June 30, 2016, none of the contingent conditions allowing holders of the 2020 Convertible Senior Notes to convert these notes had been met.

Upon issuance, the Company separately accounted for the liability and equity components of the 2020 Convertible Senior Notes. The liability component was recorded at the estimated fair value of a similar debt instrument without the conversion feature. The difference between the principal amount of the 2020 Convertible Senior Notes and the estimated fair value of the liability component was recorded as a debt discount and is being amortized to interest expense over the term of the notes using the effective interest

Table of Contents

method, with an effective interest rate of 5.6% per annum. The fair value of the 2020 Convertible Senior Notes as of the issuance date was estimated at \$1.0 billion, resulting in a debt discount at inception of \$238 million. The equity component, representing the value of the conversion option, was computed by deducting the fair value of the liability component from the initial proceeds of the 2020 Convertible Senior Notes issuance. This equity component was recorded, net of deferred taxes and issuance costs, in additional paid-in capital within shareholders' equity, and will not be remeasured as long as it continues to meet the conditions for equity classification.

Transaction costs related to the 2020 Convertible Senior Notes issuance were allocated to the liability and equity components based on their relative fair values. Issuance costs attributable to the liability component were recorded as a reduction to the carrying value of long-term debt on the consolidated balance sheet and are being amortized to expense over the term of the notes using the effective interest method. Issuance costs attributable to the equity component were recorded as a charge to additional paid-in capital within shareholders' equity.

The 2020 Convertible Senior Notes consist of the following at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Liability component:		
Principal	\$ 1,121,465	\$ 1,250,000
Less: unamortized note discount	(164,941)	(205,572)
Less: unamortized debt issuance costs	(13,731)	(17,277)
Net carrying value	\$ 942,793	\$ 1,027,151
Equity component (1)	\$ 217,412	\$ 237,500

(1) Recorded in additional paid-in capital, net of \$5 million of issuance costs and \$78 million of deferred taxes as of June 30, 2016 and \$5 million of issuance costs and \$88 million of deferred taxes as of December 31, 2015.

The following table presents the interest expense recognized on the 2020 Convertible Senior Notes related to the stated interest rate and amortization of the debt discount for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest expense on 2020 Convertible Senior Notes	\$ 14,630	\$ 14,250	\$ 29,323	\$ 14,881

Exchange of 2020 Convertible Senior Notes for Mandatory Convertible Senior Notes. On June 29, 2016, the Company completed the exchange of \$129 million aggregate principal amount of its 2020 Convertible Senior Notes for the same aggregate principal amount of new mandatory convertible senior notes (the "2020 Mandatory Convertible

Notes, Series 2” and together with the 2020 Convertible Senior Notes, the “Convertible Senior Notes”). The redemption provisions, covenants, interest payments and maturity terms of the 2020 Mandatory Convertible Notes, Series 2 are substantially identical to those applicable to the 2020 Convertible Senior Notes except that the 2020 Mandatory Convertible Notes, Series 2 will mature on June 5, 2020 unless earlier converted in accordance with their terms.

This transaction was accounted for as an extinguishment of debt for the portion of the 2020 Convertible Senior Notes that were exchanged. As a result, Whiting recognized a \$9 million gain on extinguishment of debt, which was net of a \$21 million non-cash write-off of unamortized debt issuance costs and debt discount on the original notes. In addition, Whiting recorded a \$10 million reduction to the equity component of the 2020 Convertible Senior Notes, which is net of deferred taxes. The 2020 Mandatory Convertible Notes, Series 2 were recorded at fair value upon issuance, with the difference between the principal amount of the notes and their fair value, totaling \$10 million, recorded as a debt discount.

Accrued transaction costs of \$2 million attributable to this note issuance were recorded as a reduction to the carrying value of long-term debt on the consolidated balance sheet and are being amortized to interest expense over the term of the notes using the effective interest method.

The 2020 Mandatory Convertible Notes, Series 2 contain a mandatory conversion feature whereby four percent of the aggregate principal amount of the 2020 Mandatory Convertible Notes, Series 2 will be converted into shares of the Company’s common stock for each day of the 25 trading day period that commenced on June 23, 2016 (the “Observation Period”) if the daily volume weighted average price (the “Daily VWAP”) (as defined in the indentures governing the 2020 Mandatory Convertible Notes, Series 2) of the

Table of Contents

Company's common stock on such day (rounded to four decimal places) is above \$8.7500 (the "Threshold Price"). If converted, the common stock issue price per share will be equal to the higher of (i) the Daily VWAP for the Company's common stock for such trading day multiplied by one plus 8.0% or (ii) \$9.45 (equivalent to 105.82 common shares per \$1,000 principal amount of the notes) (the "Minimum Conversion Price").

Settlements for the 2020 Mandatory Convertible Notes, Series 2 that become convertible into common stock during the Observation Period will occur on the third business day following the Observation Period. If any 2020 Mandatory Convertible Notes, Series 2 remain after the Observation Period, the conversion price for such notes will be the Minimum Conversion Price. After the Observation Period, the Company has the right to mandatorily convert the 2020 Mandatory Convertible Notes, Series 2 if the Daily VWAP of the Company's common stock (rounded to four decimal places) exceeds \$8.7500, for at least 20 trading days during a 30 consecutive trading day period after the Observation Period and holders have the right to convert the notes at any time. As of July 26, 2016, the Daily VWAP of the Company's common stock was above the Threshold Price for 8 of the first 23 trading days during the Observation Period and \$41 million aggregate principal amount of the 2020 Mandatory Convertible Notes, Series 2 will convert into approximately 4.0 million shares of the Company's common stock upon settlement of those conversions.

The Whiting Senior Notes and the Convertible Senior Notes are unsecured obligations of Whiting Petroleum Corporation and these unsecured obligations are subordinated to all of the Company's secured indebtedness, which consists of Whiting Oil and Gas' credit agreement. The 2018 Senior Subordinated Notes are also unsecured obligations of Whiting Petroleum Corporation and are subordinated to all of the Company's senior debt, which currently consists of the Whiting Senior Notes, the Convertible Senior Notes and borrowings under Whiting Oil and Gas' credit agreement.

The Company's obligations under the Whiting Senior Notes, the Convertible Senior Notes and the 2018 Senior Subordinated Notes are guaranteed by the Company's 100%-owned subsidiaries, Whiting Oil and Gas, Whiting US Holding Company, Whiting Canadian Holding Company ULC and Whiting Resources Corporation (the "Guarantors"). These guarantees are full and unconditional and joint and several among the Guarantors. Any subsidiaries other than these Guarantors are minor subsidiaries as defined by Rule 3-10(h)(6) of Regulation S-X of the SEC. Whiting Petroleum Corporation has no assets or operations independent of this debt and its investments in its consolidated subsidiaries.

## 5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations represent the present value of estimated future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage, and land restoration (including removal of certain onshore and offshore facilities in California) in accordance with applicable local, state and federal laws. The Company follows FASB ASC Topic 410, Asset Retirement and Environmental Obligations, to determine its asset retirement obligation amounts by calculating the present value of the estimated future cash outflows associated with its plug and abandonment obligations. The current portions at June 30, 2016 and December 31, 2015 were \$8 million and \$6 million, respectively, and have been included in accrued liabilities and other. Revisions to the liability typically occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells. The following table provides a reconciliation of the Company's asset retirement obligations for the six months ended June 30, 2016 (in thousands):

Asset retirement obligation at January 1, 2016	\$ 161,908
Additional liability incurred	850
Revisions to estimated cash flows	5,441
Accretion expense	7,232
Obligations on sold properties	(425)
Liabilities settled	(3,911)
Asset retirement obligation at June 30, 2016	\$ 171,095

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations, and it uses derivative instruments to manage its commodity price risk. In addition, the Company had convertible notes that contained embedded conversion options which were required to be accounted for as derivatives. Whiting follows FASB ASC Topic 815, Derivatives and Hedging, to account for its derivative financial instruments.

Commodity Derivative Contracts—Historically, prices received for crude oil and natural gas production have been volatile because of supply and demand factors, worldwide political factors, general economic conditions and seasonal weather patterns. Whiting enters into derivative contracts such as costless collars and crude oil sales and delivery contracts to achieve a more predictable cash flow by

Table of Contents

reducing its exposure to commodity price volatility. Commodity derivative contracts are thereby used to ensure adequate cash flow to fund the Company's capital programs and to manage returns on drilling programs and acquisitions. The Company does not enter into derivative contracts for speculative or trading purposes.

Crude Oil Costless Collars. Costless collars are designed to establish floor and ceiling prices on anticipated future oil or gas production. While the use of these derivative instruments limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements.

The table below details the Company's costless collar derivatives entered into to hedge forecasted crude oil production revenues as of July 1, 2016.

Whiting Petroleum Corporation			
Derivative Instrument	Period	Contracted Crude Oil Volumes (Bbl)	Weighted Average NYMEX Price Collar Ranges for Crude Oil (per Bbl)
Three-way collars (1)	Jul - Dec 2016	8,400,000	\$43.75 - \$53.75 - \$74.40
	Jan - Dec 2017	6,000,000	\$33.00 - \$43.50 - \$61.75
Collars	Jul - Dec 2016	1,500,000	\$51.00 - \$63.48
	Jan - Dec 2017	3,000,000	\$53.00 - \$70.44
	Total	18,900,000	

(1) A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The sold call establishes a maximum price (ceiling) Whiting will receive for the volumes under contract. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be NYMEX plus the difference between the purchased put and the sold put strike price. Crude Oil Sales and Delivery Contract. The Company has a long-term crude oil sales and delivery contract for oil volumes produced from its Redtail field in Colorado. Under the terms of the agreement, Whiting has committed to deliver certain fixed volumes of crude oil through 2020. The Company determined that it was not probable that future oil production from its Redtail field would be sufficient to meet the minimum volume requirements specified in this contract, and accordingly, that the Company would not settle this contract through physical delivery of crude oil volumes. As a result, Whiting determined that this contract would not qualify for the "normal purchase normal sale" exclusion and has therefore reflected the contract at fair value in the consolidated financial statements. As of June 30, 2016, the estimated fair value of this derivative contract was a liability of \$10 million.

Embedded Derivatives—In March 2016, the Company issued convertible notes that contained debt holder conversion options which the Company determined were not clearly and closely related to the debt host contracts, and the Company therefore bifurcated these embedded features and reflected them at fair value in the consolidated financial statements. As of June 30, 2016, the entire aggregate principal amount of these notes had been converted into shares of the Company's common stock, and the fair value of these embedded derivatives was therefore zero.

Derivative Instrument Reporting—All derivative instruments are recorded in the consolidated financial statements at fair value, other than derivative instruments that meet the "normal purchase normal sale" exclusion or other derivative scope

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

exceptions. The following tables summarize the effects of derivative instruments on the consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

Not Designated as ASC 815 Hedges	Statement of Operations Classification	(Gain) Loss Recognized in Income Six Months Ended	
		June 30, 2016	2015
Commodity contracts	Derivative (gain) loss, net	\$ 49,965	\$ 92,568
Embedded derivatives	Derivative (gain) loss, net	(47,965)	-
Total		\$ 2,000	\$ 92,568

16

---

Table of Contents

Not Designated as ASC 815 Hedges	Statement of Operations Classification	(Gain) Loss Recognized in Income Three Months Ended	
		June 30, 2016	2015
Commodity contracts	Derivative (gain) loss, net	\$ 66,711	\$ 102,419
Embedded derivatives	Derivative (gain) loss, net	(69,472)	-
Total		\$ (2,761)	\$ 102,419

Offsetting of Derivative Assets and Liabilities. The Company nets its financial derivative instrument fair value amounts executed with the same counterparty pursuant to ISDA master agreements, which provide for net settlement over the term of the contract and in the event of default or termination of the contract. The following tables summarize the location and fair value amounts of all the Company's derivative instruments in the consolidated balance sheets, as well as the gross recognized derivative assets, liabilities and amounts offset in the consolidated balance sheets (in thousands):

Not Designated as ASC 815 Hedges	Balance Sheet Classification	June 30, 2016 (1)		
		Gross Recognized Assets/ Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Derivative assets:				
Commodity contracts - current	Derivative assets	\$ 74,320	\$ (25,118)	\$ 49,202
Commodity contracts - non-current	Other long-term assets	23,240	(17,744)	5,496
Total derivative assets		\$ 97,560	\$ (42,862)	\$ 54,698
Derivative liabilities:				
Commodity contracts - current	Accrued liabilities and other	\$ 28,014	\$ (25,118)	\$ 2,896
Commodity contracts - non-current	Other long-term liabilities	26,274	(17,744)	8,530
Total derivative liabilities		\$ 54,288	\$ (42,862)	\$ 11,426

December 31, 2015 (1)

Gross Recognized Gross	Net Recognized Fair Value
---------------------------	---------------------------------

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Not Designated as ASC 815 Hedges	Balance Sheet Classification	Assets/ Liabilities	Amounts Offset	Assets/ Liabilities
Derivative assets:				
Commodity contracts - current	Derivative assets	\$ 258,778	\$ (100,049)	\$ 158,729
Commodity contracts - non-current	Other long-term assets	31,415	(3,465)	27,950
Total derivative assets		\$ 290,193	\$ (103,514)	\$ 186,679
Derivative liabilities:				
Commodity contracts - current	Accrued liabilities and other	\$ 101,214	\$ (100,049)	\$ 1,165
Commodity contracts - non-current	Other long-term liabilities	6,327	(3,465)	2,862
Total derivative liabilities		\$ 107,541	\$ (103,514)	\$ 4,027

(1) Because counterparties to the Company's financial derivative contracts subject to master netting arrangements are lenders under Whiting Oil and Gas' credit agreement, which eliminates its need to post or receive collateral associated with its derivative positions, columns for cash collateral pledged or received have not been presented in these tables.

Contingent Features in Financial Derivative Instruments. None of the Company's derivative instruments contain credit-risk-related contingent features. Counterparties to the Company's financial derivative contracts are high credit-quality financial institutions that are lenders under Whiting's credit agreement. The Company uses only credit agreement participants to hedge with, since these institutions are secured equally with the holders of Whiting's bank debt, which eliminates the potential need to post collateral when Whiting is in a derivative liability position. As a result, the Company is not required to post letters of credit or corporate guarantees for its derivative counterparties in order to secure contract performance obligations.

Table of Contents

## 7. FAIR VALUE MEASUREMENTS

The Company follows FASB ASC Topic 820, Fair Value Measurement and Disclosure, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1: Quoted Prices in Active Markets for Identical Assets – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Significant Other Observable Inputs – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Significant Unobservable Inputs – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level.

Cash and cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments. The Company's credit agreement has a recorded value that approximates its fair value since its variable interest rate is tied to current market rates.

The Company's senior notes and senior subordinated notes are recorded at cost, and the Company's convertible senior notes are recorded at fair value at the date of issuance. The following table summarizes the fair values and carrying values of these instruments as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
6.5% Senior Subordinated Notes due 2018 (1)	\$ 286,224	\$ 299,051	\$ 265,125	\$ 346,876
5% Senior Notes due 2019 (1)	912,901	997,121	830,500	1,092,219
1.25% Convertible Senior Notes due 2020 (1)	885,957	942,793	850,000	1,027,151
1.25% Mandatory Convertible Senior Notes due 2020, Series 2 (2)	117,022	117,310	-	-
5.75% Senior Notes due 2021 (1)	949,318	1,040,877	870,000	1,191,861
6.25% Senior Notes due 2023 (1)	511,276	563,769	543,750	739,597
Total	\$ 3,662,698	\$ 3,960,921	\$ 3,359,375	\$ 4,397,704

(1) Fair values are based on quoted market prices for these debt securities, and such fair values are therefore designated as Level 1 within the valuation hierarchy.

(2) Fair value is determined using a binomial lattice model which considers various inputs including (i) Whiting's common stock price, (ii) risk-free rates based on U.S. Treasury rates, (iii) recovery rates in the event of default, (iv) default intensity, and (v) volatility of Whiting's common stock. The expected volatility and default intensity used in the valuation are unobservable in the marketplace and significant to the valuation methodology, and such fair value is therefore designated as Level 3 within the valuation hierarchy.

The Company's derivative financial instruments are recorded at fair value and include a measure of the Company's own nonperformance risk or that of its counterparty, as appropriate. The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values (in thousands):

18

---

Table of Contents

	Level			Total Fair Value June 30, 2016
	1	Level 2	Level 3	
<b>Financial Assets</b>				
Commodity derivatives – current	\$ -	\$ 49,202	\$ -	\$ 49,202
Commodity derivatives – non-current	-	5,496	-	5,496
Total financial assets	\$ -	\$ 54,698	\$ -	\$ 54,698
<b>Financial Liabilities</b>				
Commodity derivatives – current	\$ -	\$ -	\$ 2,896	\$ 2,896
Commodity derivatives – non-current	-	1,542	6,988	8,530
Total financial liabilities	\$ -	\$ 1,542	\$ 9,884	\$ 11,426

	Level			Total Fair Value December 31, 2015
	1	Level 2	3	
<b>Financial Assets</b>				
Commodity derivatives – current	\$ -	\$ 158,729	\$ -	\$ 158,729
Commodity derivatives – non-current	-	-	-	-