Gastar Exploration Inc.
Form 10-Q
August 09, 2018

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, 2018

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: 001-35211

GASTAR EXPLORATION INC.

(Exact name of registrant as specified in its charter)

Delaware	38-3531640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1331 Lamar Street, Suite 650 Houston, Texas	77010
(Address of principal executive offices)	(Zip Code)

(713) 739-1800

(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.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

The total number of outstanding shares of common stock, $0.001 par value per share, as of August 6, 2018 was 218,933,504.

GASTAR EXPLORATION INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

For the three and six months ended June 30, 2018

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General information about us can be found on our website at www.gastar.com. The information available on or through our website, or about us on any other website, is neither incorporated into, nor part of, this report. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the U.S. Securities and Exchange Commission ("SEC"), as well as any amendments and exhibits to those reports, will be available free of charge through our website as soon as reasonably practicable after we file or furnish them to the SEC. Information is also available on the SEC website at www.sec.gov for our U.S. filings.

Glossary of Terms

AMI	Area of mutual interest, an agreed designated geographic area where co-participants or other industry participants have a right of participation in acquisitions and operations
Bbl	Barrel of oil, condensate or NGLs
Boe	One barrel of oil equivalent determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or NGLs
FASB	Financial Accounting Standards Board
Gross acres	Refers to acres in which we own a working interest
Gross wells	Refers to wells in which we have a working interest
MBbl	One thousand barrels of oil, condensate or NGLs
MBbl/d	One thousand barrels of oil, condensate or NGLs per day
MBoe	One thousand barrels of oil equivalent, calculated by converting natural gas volumes on the basis of 6 Mcf of natural gas per barrel
MBoe/d	One thousand barrels of oil equivalent per day
Mcf	One thousand cubic feet of natural gas
MMBtu	One million British thermal units
MMcf	One million cubic feet of natural gas
MMcfe/d	One million cubic feet of natural gas equivalent per day
Net acres	Refers to our proportionate interest in acreage resulting from our ownership in gross acreage
NGLs	Natural gas liquids
NYMEX	New York Mercantile Exchange
PBU	Performance based unit comprising one of our compensation plan awards
PUD	Proved undeveloped reserves`
STACK Play	An acronymic name for a predominantly oil producing play referring to the exploration and development of the Sooner Trend of the Anadarko Basin in Canadian and Kingfisher Counties, Oklahoma. References to the STACK Play is extended to adjacent counties.
U.S.	United States of America

U.S. GAAP	Accounting principles generally accepted in the United States of America
WTI	West Texas Intermediate

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GASTAR EXPLORATION INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
	(in thousands, except share and per share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$51,072	$13,266
Accounts receivable, net of allowance for doubtful accounts of $1,953	18,156	38,575
Commodity derivative contracts	140	1,370
Prepaid expenses	640	960
Total current assets	70,008	54,171
PROPERTY, PLANT AND EQUIPMENT:		
Oil and natural gas properties, full cost method of accounting:		
Unproved properties, excluded from amortization	141,027	131,955
Proved properties	1,313,792	1,344,329
Total oil and natural gas properties	1,454,819	1,476,284
Furniture and equipment	3,604	3,838
Total property, plant and equipment	1,458,423	1,480,122
Accumulated depreciation, depletion and amortization	(1,189,332)	(1,155,027)
Total property, plant and equipment, net	269,091	325,095
OTHER ASSETS:		
Restricted cash	25	370
Advances to operators	79	82
Other	—	405
Total other assets	104	857
TOTAL ASSETS	$339,203	$380,123
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$13,026	$24,382
Revenue payable	16,756	11,823
Accrued interest	7,558	7,298
Accrued drilling and operating costs	10,258	9,381
Advances from non-operators	757	1,445
Commodity derivative contracts	11,688	4,416
Commodity derivative premium payable	68	135
Other accrued liabilities	5,010	2,706
Total current liabilities	65,121	61,586
LONG-TERM LIABILITIES:		
Long-term debt	362,752	342,952
Commodity derivative contracts	4,182	2,572
Asset retirement obligation	2,431	4,841
Total long-term liabilities	369,365	350,365
Commitments and contingencies (Note 13)		
STOCKHOLDERS' DEFICIT:		
Preferred stock, 40,000,000 shares authorized		

Series A Preferred Stock, par value $0.01 per share; 10,000,000 shares designated; 4,045,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively, with liquidation preference of $25.00 per share	41	41
Series B Preferred Stock, par value $0.01 per share; 10,000,000 shares designated; 2,140,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively, with liquidation preference of $25.00 per share	21	21
Common stock, par value $0.001 per share; 800,000,000 shares authorized at June 30, 2018 and December 31, 2017, respectively; 219,175,611 and 218,874,418 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	219	219
Additional paid-in capital	820,699	819,554
Accumulated deficit	(916,263)	(851,663)
Total stockholders' deficit	(95,283)	(31,828)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$339,203	$380,123

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

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GASTAR EXPLORATION INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
	(in thousands, except share and per share data)			
REVENUES:				
Oil and condensate	$16,079	$12,744	$37,061	$24,934
Natural gas	1,451	2,345	3,632	4,933
NGLs	1,948	2,179	5,223	4,770
Total oil, condensate, natural gas and NGLs revenues	19,478	17,268	45,916	34,637
(Loss) gain on commodity derivatives contracts	(9,256)	5,378	(14,785)	6,678
Total revenues and other (loss) gain	10,222	22,646	31,131	41,315
EXPENSES:				
Production taxes	614	469	1,603	954
Lease operating expenses	4,771	5,146	12,280	10,218
Transportation, treating and gathering	—	440	—	751
Depreciation, depletion and amortization	7,588	6,051	16,566	10,703
Impairment of oil and natural gas properties	17,993	—	17,993	—
Accretion of asset retirement obligation	40	58	96	109
General and administrative expense	4,861	4,591	13,829	8,415
Total expenses	35,867	16,755	62,367	31,150
(LOSS) INCOME FROM OPERATIONS	(25,645)	5,891	(31,236)	10,165
OTHER INCOME (EXPENSE):				
Interest expense	(10,200)	(8,736)	(20,137)	(19,585)
Loss on early extinguishment of debt	—	—	—	(12,172)
Investment income and other	23	66	40	115
LOSS BEFORE PROVISION FOR INCOME TAXES	(35,822)	(2,779)	(51,333)	(21,477)
Provision for income taxes	—	—	—	—
NET LOSS	(35,822)	(2,779)	(51,333)	(21,477)
Dividends on preferred stock	(3,618)	(3,619)	(7,236)	(7,237)
Undeclared cumulative dividends on preferred stock	—	—	—	—
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(39,440)	$(6,398)	$(58,569)	$(28,714)
NET LOSS PER SHARE OF COMMON STOCK ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Basic	$(0.19)	$(0.03)	$(0.28)	$(0.16)
Diluted	$(0.19)	$(0.03)	$(0.28)	$(0.16)

WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	211,744,943	199,547,446	210,839,194	181,430,409
Diluted	211,744,943	199,547,446	210,839,194	181,430,409

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

GASTAR EXPLORATION INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30, 2018	2017
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(51,333)	$(21,477)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	16,566	10,703
Impairment of oil and natural gas properties	17,993	—
Stock-based compensation	2,896	2,199
Mark to market of commodity derivatives contracts:		
Total loss (gain) on commodity derivatives contracts	14,785	(6,678)
Cash settlements of matured commodity derivatives contracts, net	(3,446)	3,553
Cash premiums paid for commodity derivatives contracts	(552)	—
Amortization of deferred financing costs and debt discount	6,518	4,927
Paid-in-kind interest	13,282	—
Accretion of asset retirement obligation	96	109
Gain on sale of furniture and equipment	7	—
Loss on early extinguishment of debt	—	12,172
Changes in operating assets and liabilities:		
Accounts receivable	19,678	(29,115)
Prepaid expenses	232	30
Accounts payable and accrued liabilities	2,529	6,983
Net cash provided by (used in) operating activities	39,251	(16,594)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development and purchase of oil and natural gas properties	(83,405)	(48,274)
Acquisition of oil and natural gas properties	(144)	(54,462)
Proceeds from sale of oil and natural gas properties	96,304	26,780
Application of proceeds from non-operators	(688)	(609)
Advances to operators	(15)	—
Purchase of furniture and equipment	(30)	(393)
Net cash provided by (used in) investing activities	12,022	(76,958)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from term loan	—	250,000
Proceeds from convertible notes	—	200,000
Repayment of senior secured notes	—	(325,000)
Repayment of revolving credit facility	—	(84,630)
Loss on early extinguishment of debt	—	(7,011)
Proceeds from issuance of common stock, net of issuance costs	—	56,367

Dividends on preferred stock	(12,061)	(18,092)
Deferred financing charges	—	(9,971)
Decrease (increase) in restricted cash	345	(369)
Tax withholding related to restricted stock award vestings	(1,240)	(585)
Cash settlement of restricted shares	(511)	—
Net cash (used in) provided by financing activities	(13,467)	60,709
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,806	(32,843)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,266	71,529
CASH AND CASH EQUIVALENTS, END OF PERIOD	$51,072	$38,686

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

GASTAR EXPLORATION INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

Gastar Exploration Inc. (the "Company" or "Gastar") is a pure play Mid-Continent independent energy company engaged in the exploration, development and production of oil, condensate, natural gas and NGLs in the United States. Gastar's principal business activities include the identification, acquisition, and subsequent exploration and development of oil and natural gas properties with an emphasis on unconventional reserves, such as shale resource plays. Gastar holds a concentrated acreage position in the normally pressured oil window of the STACK Play, an area of central Oklahoma which is home to multiple oil and natural gas-rich reservoirs including the Oswego limestone, Meramec and Osage bench formations within the Mississippi Lime, the Woodford shale and Hunton limestone formations.

2. Going Concern

These unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2018 have been prepared assuming the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of issuance of these condensed consolidated financial statements.

The Company's ability to raise additional capital to pursue corporate objectives such as a drilling and development program at a cost of capital that enables the Company to achieve a profit has been significantly adversely affected by its current capital structure. While, historically, the Company has been able to reduce capital expenditures to better match available capital resources, for the reasons described below, the Company does not believe it has the ability to reduce capital expenditures beyond suspension of its operated drilling program without creating the potential for deterioration of its core business. Over the past three months, the Company has engaged in discussions with potential capital providers that, to date, have not resulted in agreement on a restructuring or capital raising transaction. Without any apparent sources of additional capital, the Company has engaged in a broader restructuring process, including the engagement of legal and financial advisors to assist in exploring strategic alternatives. In addition, as a result of the recent further significant deterioration of the Company's equity trading values, there is significant risk that its common and preferred stock will be delisted from the NYSE American LLC (the "NYSE American") stock exchange, which delisting could result in an event of default under the Company's indebtedness and give the holders of the Company's long-term indebtedness the right to accelerate the maturity of such indebtedness.

On July 20, 2018, Ares Management, L.P. and certain affiliated funds (collectively with Ares Management LLC, "Ares") that hold substantially all of the Company's long-term indebtedness delivered a non-binding preliminary term sheet (the "Term Sheet") to the Company proposing that the Company consider a sale of the Company or other potential restructuring transaction. Ares proposed transactions whereby the Company would sell substantially all of its assets and distribute proceeds in full satisfaction of the Company's indebtedness, or if such sale is not successful engage in a restructuring of the outstanding indebtedness of the Company, including a court-approved bankruptcy sale process that pays Ares, as holder of all of the outstanding secured indebtedness of the Company, in full or a Chapter 11 plan of reorganization that provides for an exchange of a portion of the Ares indebtedness for 100% of the equity of the Company.

The significant risks and uncertainties related to the Company's liquidity described above and the risk of acceleration of the maturity of the Company's indebtedness as a result of the Company's inability to service its indebtedness, or otherwise, a delisting of the Company's common stock raise substantial doubt about the Company's ability to continue as a going concern. These unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty. If the Company cannot continue as a going concern, adjustments to the carrying values and classification of its assets and liabilities and the reported amounts of income and expenses could be required and could be material.

To address the foregoing concerns, the Company has formed a special committee of its board of directors (the "Strategy Committee"), and the Company and its advisors are considering the Ares proposal and evaluating other alternatives for recommendation to the board of directors (the "Board") of the Company. In connection with developing and evaluating alternatives for the Board, the Company and its advisors, with oversight from the Strategy Committee, are engaging in a restructuring process to consider potential strategic transactions, including financing, refinancing, sale or merger transactions and is encouraging proposals from existing stakeholders and interested third-parties. The Company has also recently elected to suspend its current operated drilling and development program in order to preserve capital for other cash needs including debt service while it considers other strategic alternatives or a possible restructuring of the Company's debt and equity. Beyond suspension of the operated drilling program, it is unlikely that the Company could further reduce capital expenditures without creating the risk for deterioration of the Company's core business. Thus, the Company has determined that it is appropriate to pursue a broader restructuring process at this time. While there are certain costs attendant to pursuing such a process, the Company believes that incurring these costs at this time will ultimately allow the Company to maximize value for the benefit of its stakeholders. The Company believes that delaying the exploration of comprehensive restructuring and strategic alternatives could potentially lead to a restructuring at a later date, when the

Company lacks liquidity to fund an organized process, which could ultimately lead to the loss of significant value. The Company believes it needs to consummate a substantial financing, refinancing or other financial restructuring in the relative near term to re-engage in normal operated drilling activities and fund a go-forward development plan.

At the time of the filing of these unaudited condensed consolidated financial statements as part of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, the Company and its advisors were considering the Term Sheet, as well as proposals from other stakeholders and third-parties, and evaluating alternatives for recommendation to the board of directors of the Company. There is no assurance that a sale of significant assets of the Company, a sale of the Company or a transaction involving a restructuring of the Company will occur.

3. Summary of Significant Accounting Policies

The accounting policies followed by the Company are set forth in the notes to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") filed with the SEC. Please refer to the notes to the consolidated financial statements included in the 2017 Form 10-K for additional details of the Company's financial condition, results of operations and cash flows. No material item included in those notes has changed except as a result of normal transactions in the interim or as disclosed within this report.

The unaudited interim condensed consolidated financial statements of the Company included herein are stated in U.S. dollars and were prepared from the records of the Company by management in accordance with U.S. GAAP applicable to interim financial statements and reflect all normal and recurring adjustments, which are, in the opinion of management, necessary to provide a fair presentation of the results of operations and financial position for the interim periods. Such financial statements conform to the presentation reflected in the 2017 Form 10-K except for revenue which, for the three and six months ended June 30, 2018, is presented net of treating, transportation and gathering costs pursuant to current authoritative accounting guidance. The current interim period reported herein should be read in conjunction with the financial statements and accompanying notes, including Item 8. "Financial Statements and Supplementary Data, Note 3 – Summary of Significant Accounting Policies," included in the 2017 Form 10-K.

The preparation of financial statements in conformity with U.S. 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. Actual results could differ from those estimates. Significant estimates with regard to these financial statements include the valuation of convertible debt, estimate of proved oil and natural gas reserve quantities and the related present value of estimated future net cash flows.

The unaudited interim condensed consolidated financial statements of the Company include the consolidated accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued and has disclosed certain subsequent events in these condensed consolidated financial statements, as appropriate.

Accounts Receivable

Accounts receivable are reported net of the allowance for doubtful accounts. The allowance for doubtful accounts is determined based on a review of the Company's receivables. Receivable accounts are charged off when collection efforts have failed or the account is deemed uncollectible. During 2016, the Company determined that a receivable account from a third-party natural gas and NGLs purchaser would no longer be collectible as a result of the third-party purchaser filing for bankruptcy. A summary of the activity related to the allowance for doubtful accounts is as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Allowance for doubtful accounts, beginning of period	$1,953	$ 1,953
Expense	—	—
Reductions/write-offs	—	—
Allowance for doubtful accounts, end of period	$1,953	$ 1,953

Recent Accounting Developments

Leases. In February 2016, the FASB issued updated guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and enhance disclosures regarding key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Additionally, in January 2018, the FASB issued an amendment to the updated guidance to permit an entity to elect an optional transition practical expedient to not evaluate under the new guidance land easements that exist or expire before the adoption of the updated guidance and that were not previously accounted for as leases under previous guidance. The amendments in this update are effective beginning on January 1, 2019 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has commenced analyzing its lease contracts but has not yet determined what the effects of adopting this updated guidance will be on its consolidated financial statements.

Revenue Recognition. In May 2014, the FASB issued an amendment to previously issued guidance regarding the recognition of revenue, which supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, "Revenue Recognition," ("ASC 605") and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In 2015, the FASB delayed the effective date one year, beginning in fiscal year 2018.

On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606") using the modified retrospective method of transition. Under the modified retrospective approach, the standard has been applied to all existing contracts as of the date of initial application with the cumulative effect of applying the standard, if any, recognized in retained earnings.

In order to determine the impact of adoption, the Company evaluated a representative sample of revenue contracts related to its oil, natural gas and NGLs revenues. For these contracts, the Company reviewed the contract provisions and evaluated the contracts under the new standard to assess the impact on the quantum and timing of revenue recognition and presentation of revenues on adoption of the new guidance. The Company believes that it has identified all material contract types and contractual features that represent the Company's revenue.

The impact of adoption on our current period results is as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Under ASC 606	Under ASC 605	Increase (Decrease)	Under ASC 606	Under ASC 605	Increase (Decrease)
	(in thousands)			(in thousands)		
Revenues:						
Oil and condensate	$16,079	$16,090	$ (11)	$37,061	$37,082	$ (21)
Natural gas	1,451	2,200	(749)	3,632	4,956	(1,324)
NGLs	1,948	2,413	(465)	5,223	6,036	(813)
Total oil and condensate, natural gas and NGLs revenues	$19,478	$20,703	$ (1,225)	$45,916	$48,074	$ (2,158)
Expenses:						
Transportation, treating and gathering	$—	$1,225	$ (1,225)	$—	$2,158	$ (2,158)
Net income (loss)	$19,478	$19,478	$ —	$45,916	$45,916	$ —
Retained earnings	$19,478	$19,478	$ —	$45,916	$45,916	$ —

The primary impact to our revenues as a result of the adoption of ASC 606 is the recording of transportation, treating, gathering and compression expenses ("Post-Production Expenses") as a direct reduction to revenues instead of our historical practice of presenting such expenses gross in transportation, treating and gathering. These changes are due to the conclusion that the Company represents the agent in the sale of natural gas and NGLs under its gas processing and marketing agreements with midstream entities in accordance with the control model in ASC 606. As a result, the Company is required to record revenue on a net basis for amounts expected to be received from third-party customers through the marketing process, with Post-Production Expenses incurred subsequent to control of the product(s) transferring to the midstream entity at the wellhead being netted against revenue.

4. Property, Plant and Equipment

The amount capitalized as oil and natural gas properties was incurred for the purchase and development of various properties in the U.S., specifically in the State of Oklahoma.

The following table summarizes the components of unproved properties excluded from amortization at the dates indicated:

	June 30, 2018	December 31, 2017
	(in thousands)	
Unproved properties, excluded from amortization:		
Drilling in progress costs	$3,076	$4,772
Acreage acquisition costs	119,354	113,191
Capitalized interest	18,597	13,992
Total unproved properties excluded from amortization	$141,027	$131,955

The full cost method of accounting for oil and natural gas properties requires a quarterly calculation of a limitation on capitalized costs, often referred to as a full cost ceiling calculation. The ceiling is the present value (discounted at 10% per annum) of estimated future cash flow from proved oil, condensate, natural gas and NGLs reserves reduced by future operating expenses, development expenditures, abandonment costs (net of salvage) to the extent not included in oil and natural gas properties pursuant to authoritative guidance and estimated future income taxes thereon. To the extent that the Company's capitalized costs (net of accumulated depletion and deferred taxes) exceed the ceiling at the end of each reporting period, the excess must be written off to expense for such period. Once incurred, this impairment of oil and natural gas properties is not reversible at a later date even if oil and natural gas prices increase. The ceiling calculation is determined using a mandatory trailing 12-month unweighted arithmetic average of the first-day-of-the-month commodities pricing and costs in effect at the end of the period, each of which are held constant indefinitely (absent specific contracts with respect to future prices and costs) with respect to valuing future net cash flows from proved reserves for this purpose. The 12-month unweighted arithmetic average of the first-day-of-the-month commodities prices are adjusted for basis and quality differentials in determining the present value of the proved reserves. The table below sets forth relevant pricing assumptions utilized in the quarterly ceiling test computations for the respective periods noted before adjustment for basis and quality differentials:

	2018 Total Year to Date Impairment	June 30	March 31
Henry Hub natural gas price (per MMBtu)(1)		$2.92	$3.00
WTI oil price (per Bbl)(1)		$57.67	$53.49
Impairment recorded (pre-tax) (in thousands)	$17,993	$17,993	$—

	2017 Total Year to Date Impairment	June 30	March 31
Henry Hub natural gas price (per MMBtu)(1)		$3.01	$2.73
WTI oil price (per Bbl)(1)		$48.95	$47.61
Impairment recorded (pre-tax) (in thousands)	$—	$—	$—

(1) For the respective periods, oil and natural gas prices are calculated using the trailing 12-month unweighted arithmetic average of the first-day-of-the-month prices based on Henry Hub spot natural gas prices and WTI spot oil prices.

The Company could potentially incur additional ceiling test impairments in the future should commodities prices decline or the value of its estimates of proved reserves declines. However, it is difficult to project future impairment charges in light of numerous variables involved.

The Company’s proved reserves estimates and their estimated discounted value and standardized measure will also be impacted by changes in lease operating costs, future development costs, production, exploration and development activities and estimated future income taxes. The ceiling limitation calculation is not intended to be indicative of the fair market value of the Company’s proved reserves or future results.

The Company’s undeveloped reserves previously classified as proved, other than the PUD reserves associated with certain wells developed prior to June 30, 2018 or in the process of drilling and completion at June 30, 2018, were reclassified as unproved at June 30, 2018 due to the inability to meet the reasonable certainty criteria for proved reserves, as prescribed under the SEC rules, primarily due to the uncertainties regarding the availability and timing of funds required to develop these reserves. A significant amount of the Company’s PUD reserves that were reclassified to unproved remain economically producible at current commodities prices.

WEHLU Sale

On January 23, 2018, the Company entered into a definitive agreement of sale and purchase (the “Sale Agreement”) to divest its interest in the West Edmund Hunton Lime Unit (“WEHLU”) and adjacent undeveloped acreage to Revolution Resources, LLC, for $107.5 million, subject to, among other customary adjustments, adjustments for a property sale effective date of October 1, 2017 (the “WEHLU Sale”). Pursuant to the Sale Agreement, the WEHLU Sale closed on February 28, 2018. After effective date and other adjustments of approximately $8.7 million primarily related to revenues and direct operating expenses, net cash proceeds from the WEHLU Sale were approximately $97.6 million. The WEHLU Sale was reflected as a reduction to the full cost pool and no gain or loss was recorded related to the divestiture as such divestiture did not result in a significant change to the depletion rate.

The following unaudited pro forma results for the three months ended June 30, 2017 and the six months ended June 30, 2018 and 2017 show the effect on the Company's consolidated results of operations as if the WEHLU Sale had occurred at the beginning of the periods presented. The pro forma results are the result of excluding from the statement of operations of the Company the revenues and direct operating expenses for the properties divested adjusted for (1) the reduction in asset retirement obligation liabilities and accretion expense for the properties divested and (2) the reduction in depreciation, depletion and amortization expense as a result of the divestiture. As a result, certain estimates and judgments were made in preparing the pro forma adjustments.

	For the Three Months Ended June 30, 2017 (in thousands, except per share data) (Unaudited)
Revenues	$ 13,467
Net loss	$ (9,827)
Loss per share:	
Basic	$ (0.05)
Diluted	$ (0.05)

	For the Six Months Ended June 30	
	2018	2017
	(in thousands, except per share data) (Unaudited)	
Revenues	$ 24,394	$ 22,047
Net loss	$ (60,828)	$ (36,224)
Loss per share:		
Basic	$ (0.29)	$ (0.20)
Diluted	$ (0.29)	$ (0.20)

STACK Leasehold Acquisition

On March 22, 2017, the Company completed the acquisition of additional working and net revenue interests in approximately 66 gross (9.5 net) producing wells and 5,670 net acres of additional undeveloped STACK Play leasehold in Kingfisher County, Oklahoma, effective March 1, 2017, for $51.4 million (the “STACK Leasehold Acquisition”). Prior to the completion of the STACK Leasehold Acquisition, the Company held an interest in the majority of acquired producing wells and acreage. The Company accounted for the STACK Leasehold Acquisition as an asset acquisition.

Development Agreement

On October 14, 2016, the Company executed an agreement with STACK Exploration LLC (the "Investor") (the "Development Agreement") to jointly develop up to 60 Gastar operated wells in the STACK Play in Kingfisher County, Oklahoma (the "Drilling Program"). The Drilling Program targeted the Meramec and Osage formations within the Mississippi Lime in a contract area within three townships covering approximately 32,900 gross (21,200 net) undeveloped mineral acres under leases held by the Company. The Company serves as the operator of all Drilling Program wells.

Under the Development Agreement, the Investor funded 90% of the Company's working interest portion of drilling and completion costs to initially earn 80% of the Company's working interest in each new well (in each case, proportionately reduced by other participating working interests in the well). As a result, the Company paid 10% of its working interest portion of such costs for 20% of its original working interest.

The proposed Drilling Program wells were to be mutually developed in three tranches of 20 wells each. The locations of the first 20 wells, comprised of 18 Meramec formation wells and two Osage formation wells, were mutually agreed upon by the Company and the Investor. Participation in the second tranche of 20 Drilling Program wells was to be at the election of the Investor and the third tranche of 20 wells would require mutual consent. On July 31, 2017, the Investor elected not to participate in the second tranche of wells. With respect to each 20-well tranche, when the Investor has achieved an aggregate 15% internal rate of return for its investment in the tranche, Investor’s interest will be reduced from 80% to 40% of the Company’s original working interest and the Company’s working interest increases from 20% to 60% of the original working interest. When a tranche internal rate of return of 20% is achieved by the Investor, Investor’s working interest decreases to 10% and the Company’s working interest increases to 90% of the working interest originally owned by the Company.

If and when the final reversion of working interest in the completed 20 well tranche should occur, the Investor has the right, but not the obligation, for a period of six months to cause the Company to purchase the Investor’s remaining interest in the 20 wells in the Drilling Program (the “WI Tail”) for such tranche (the “Investor Put Right”) for fair market value by applying the methodology to determine a 15% discounted present value as defined by the Development Agreement. If the Investor fails to exercise the Investor Put Right within the six-month period after achieving final reversion, then for a period of six months thereafter, the Company shall have the right, but not the obligation, to purchase the WI Tail from the Investor on the same fair market value approach of the Investor Put Right. If final reversion has not been achieved by August 19, 2024, Investor will, for a period of six months thereafter, have the right to cause the Company to buy Investor’s then-current interest in the Drilling Program wells at an agreed upon valuation. Based on current commodity prices, well cost and production performance of the completed wells drilled in the first tranche, the 15% of internal rate of return is not anticipated to be achieved.

By December 31, 2017, the Company and the Investor had completed all 20 gross (15.8 net; 3.2 net to the Company) wells within the first tranche of the Drilling Program.

5. Long-Term Debt

The table below provides a reconciliation of the Company’s long-term debt balance as presented in the condensed consolidated balance sheets for the periods presented:

	June 30, 2018	December 31, 2017
	(in thousands)	
Term Loan, principal balance[1]	$269,882	$256,599
Less:		
Unamortized deferred financing costs[2]	(4,253)	(4,724)
Unamortized debt discount[2]	(20,813)	(22,464)
Term Loan, net	$244,816	$229,411
Notes, principal balance	$162,500	$162,500
Less:		
Unamortized deferred financing costs[2]	(2,358)	(2,631)
Unamortized debt discount[2]	(42,206)	(46,328)
Notes, net	$117,936	$113,541
Total long-term debt	$362,752	$342,952

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(1) Pursuant to Amendment No. 2 (as defined below), the Company can elect to pay in kind 100% of the interest due after June 30, 2017 to December 31, 2018. The Company elected to pay in kind 100% of the interest due for the period June 30, 2017 to April 2, 2018 in the amount of $19.9 million, thus increasing the outstanding principal balance of the Term Loan to $269.9 million. The Company elected to pay in kind 100% of the interest due for the period April 2, 2018 to June 30, 2018 in the amount of $6.7 million and such was accrued at June 30, 2018 due to the interest payment date falling on a weekend outside of quarter end.
(2) The unamortized deferred financing costs and debt discount will be amortized over the remaining life of the Term Loan and Notes (as defined below), respectively, based on the effective interest method.

Ares Investment Transactions

On March 3, 2017, certain funds (the “Purchasers”) managed indirectly by Ares Management LLC (collectively with Ares Management LLC, “Ares”) purchased from the Company for cash (i) $125.0 million aggregate principal amount of its Convertible Notes due 2022 (“Notes”) sold at par, which Notes, subject to the receipt of approval of the Company’s stockholders which was obtained on May 2, 2017, are convertible into common s