Gastar Exploration Inc.
Form 424B3
August 09, 2018
Filed Pursuant to Rule 424(b)(3)

Registration No. 333-217168

PROSPECTUS SUPPLEMENT NO. 9

(to Prospectus dated March 23, 2018)

169,933,626 Shares

GASTAR EXPLORATION INC.

Common Stock

This prospectus supplement is being filed to update and supplement information contained in the prospectus dated March 23, 2018, relating to the resale or other disposition of our common stock par value $0.001 per share, which may be offered for sale from time to time by the selling stockholders named in the prospectus, with information contained in our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August [_], 2018.

This prospectus supplement updates and supplements the information in the prospectus and is not complete without, and may not be delivered or utilized except in combination with, the prospectus, including any amendments or supplements thereto. This prospectus supplement should be read in conjunction with the prospectus and if there is any inconsistency between the information in the prospectus and this prospectus supplement, you should rely on the information in this prospectus supplement.

Investing in our securities involves risk. Please see “Risk Factors” beginning on page 3 of the prospectus for a discussion of certain risks that you should consider in connection with an investment in the securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus supplement is dated August 9, 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.

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

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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

(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 stock or, in certain circumstances, cash in lieu of common stock or a combination of cash and shares of common stock as described below and (ii) 29,408,305 shares of common stock for a purchase price of $50.0 million. In addition, an affiliate of Ares concurrently loaned the Company $250.0 million pursuant to the Third Amended and Restated Credit Agreement among the Company (the "Term Loan"), as borrower, the guarantors party thereto, AF V Energy I Holdings, L.P., a fund managed indirectly by Ares Management LLC, as lender, and Wilmington Trust, National Association, as Administrative Agent as further described below. The proceeds from the sale of the Notes, the common stock and the Term Loan were used to fully repay and redeem the Company's prior Revolving Credit Facility (as defined below) and to satisfy and discharge its $325.0 million of 8.625% senior secured notes due May 2018, which were satisfied and discharged on March 3, 2017 by irrevocably calling for redemption and depositing with the indenture trustee cash in the amount of the redemption price of 102.156% of their principal amount plus accrued and unpaid interest to the redemption date of March 24, 2017, and to pay the expenses from the Ares transactions.

In order to provide funding for the STACK Leasehold Acquisition and a portion of the Company's 2017 capital budget, on March 21, 2017, the Purchasers purchased from the Company for cash an additional $75.0 million aggregate principal amount of its Notes sold at par (the "Additional Notes").

The Notes, including the Additional Notes, were issued with conversion rights that were subject to the approval of holders of issued and outstanding common stock (other than the Purchasers), which approval was obtained May 2, 2017 (the "Requisite Stockholder Approval"). Pursuant to the purchase agreement for the Additional Notes, upon receipt of Requisite Stockholder Approval, Purchasers and the Company exchanged $37.5 million principal amount of the Additional Notes for (a) 25,456,521 newly issued shares of common stock (the "Repurchase Shares") and (b) 2,000 shares of the Company's Special Voting Preferred Stock, par value $0.01 per share (the "Mandatory Repurchase"). The terms of Mandatory Repurchase, which was effected May 5, 2017, provided for one Repurchase Share issued for each $1.4731 of outstanding principal of the repurchased Notes, which was based on the 10-day volume weighted average trading price ("VWAP") of the common stock for the period ended March 17, 2017. The exchange reduced the aggregate principal amount of issued and outstanding Notes from $200.0 million to $162.5 million at June 30, 2017, which principal amount remains outstanding at June 30, 2018.

Term Loan

On March 3, 2017, the Company entered into a credit agreement for the Term Loan. The Term Loan bears interest at a per annum rate equal to 8.5%, payable on a quarterly basis on each March 31, June 30, September 30 and December 31 of each year, commencing March 31, 2017. The Term Loan has a scheduled maturity of March 3, 2022. In addition, prepayment of the Term Loan is subject to an interest "make-whole" and prepayment premium, such that any prepayment of the loans thereunder prior to the stated maturity date shall be subject to the payment of a prepayment premium, and depending on the date of such prepayment, the applicable interest “make-whole” amount, with the amount of such prepayment premium decreasing over the life of the Term Loan.

The Term Loan is guaranteed by the Company’s sole domestic subsidiary and will be guaranteed by all of the Company's future domestic subsidiaries formed during the term of the Term Loan. The Term Loan is secured by a first-priority lien on substantially all of the assets of the Company and its subsidiaries, excluding certain assets as customary exceptions.

The Term Loan contains various customary covenants for credit facilities of this type, including, among others, restrictions on granting liens, incurrence of other indebtedness, payments of certain dividends and other restricted payments, engaging in transactions with affiliates, dispositions of assets and other, in each case subject to certain baskets and exceptions. As of June 30, 2018, the Company was in compliance with such covenants.

All outstanding amounts owed become due and payable upon the occurrence of certain usual and customary events of default, including among others (i) failure to make payments; (ii) non-performance of covenants and obligations continuing beyond any applicable grace period; and (iii) the occurrence of a change in control of the Company, as defined in the Term Loan. As of June 30, 2018, no events of default had occurred.

The Company accounted for the Term Loan in accordance with guidance relating to "Debt with Conversion and Other Options" which indicates that when multiple securities are issued in a single transaction, total proceeds should be allocated based on the relative fair values of each instrument, assuming no instrument is subsequently required to be recorded at fair value. The fair value of the Term Loan at the date of issuance was determined to be at a discounted $224.8 million based on the fair value of similar debt instruments. The $25.2 million debt discount related to the Term Loan was initially recorded as a reduction to the Term Loan liability and as additional paid-in capital on the Company's consolidated balance sheet. The $5.5 million of issuance costs associated with the Term Loan are recorded as a reduction to the Term Loan liability. Both the debt discount and issuance costs will be amortized over the life of the Term Loan using the effective interest method. The effective interest rate for the Term Loan is approximately 13.0% per annum.

On March 20, 2017, the Company, together with the parties thereto, entered into Amendment No. 1 to the Term Loan credit agreement which amendment permitted the issuance of the Additional Notes.

On August 2, 2017, the Company, together with the parties thereto, entered into an Amendment No. 2 to Term Loan credit agreement ("Amendment No. 2"). Amendment No. 2 amended the Term Loan, to among other things, (i) allow for the payment of pay in kind ("PIK") interest on the Term Loan at the applicable PIK percentage and (ii) increased the applicable interest rate for periods ending after June 30, 2017 from 8.5% per annum to 10.25% per annum. Amendment No. 2 allows the Company to elect to PIK upon proper notice 100% of interest payments due after June 30, 2017 and prior to December 31, 2018 and at the Company's election, PIK between 0% and 50% of any interest payments occurring after December 31, 2018 (other than interest due on the maturity date or the date of any repayment or prepayment). The Term Loan interest rate increased from 8.5% per annum to 10.25% per annum for all interest periods post June 30, 2017 and the PIK interest shall be payable by capitalizing and adding such amounts to the outstanding principal amount of the Term Loan on the applicable interest payment date.

On September 18, 2017, the Company, together with the parties thereto, entered into Amendment No. 3 to the Term Loan credit agreement ("Amendment No. 3"). Amendment No. 3 amended the Term Loan to, among other things, expressly provide that certain assignments of oil and natural gas properties made or to be made by the Company to Red Bluff Resources Operating, LLC ("Red Bluff"), pursuant to the Red Bluff Purchase and Sale Agreement dated October 19, 2016 between the Company and Red Bluff ("Red Bluff PSA"), are permitted by the Term Loan and are not subject to the mandatory prepayment provisions applicable to "Asset Sales" under the Term Loan.

On June 29, 2018, the Company, together with the parties thereto, entered into Amendment No. 4 to the Term Loan credit agreement ("Amendment No. 4"). Amendment No. 4, among other things, (i) reduced the period the Company could cure a default resulting from the failure to comply with certain covenants applicable to the Term Loan from 30 days to 15 days, (ii) waived certain defaults under the Term Loan and (iii) prohibited the Company from making cash dividends or distributions on or with respect to its capital stock, other than cash dividends on its Series A Preferred Stock and Series B Preferred Stock declared for the month of June 2018.

The carrying amounts of the Term Loan for the periods indicated are as follows:

	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

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(1) Pursuant to Amendment No. 2, 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 based on the effective interest method.

Indenture and Notes

On March 3, 2017, the Company entered into an indenture (the "Indenture") by and among the Company, the subsidiary guarantor named therein, and Wilmington Trust, National Association, as trustee (the "Trustee") and collateral trustee, with respect to the Notes. The principal terms of the Notes are governed by the Indenture. Pursuant to the Indenture, the Notes were issued for cash at par, bear interest at 6.0% per annum and will mature on March 1, 2022, unless earlier repurchased, redeemed or converted in accordance with the terms of the Indenture. Interest is payable on the Notes on each March 1, June 1, September 1 and December 1 of each year, commencing on June 1, 2017.

Pursuant to the Indenture, Requisite Stockholder Approval was required on or before July 3, 2017 to approve the conversion rights of the Notes (including the Additional Notes) to be convertible at the option of the holder into shares of common stock based on the terms of the Indenture. Requisite Stockholder Approval was obtained on May 2, 2017 at a special meeting of stockholders.

The interest rate on the Notes was subject to an increase in certain circumstances if the Company fails to comply with certain obligations under a Registration Rights Agreement and on the Notes in the case of certain issuances of common stock by the Company at a price below $1.7002 per share (subject to adjustment).

The Notes are secured by a second-priority lien on substantially all of the assets of the Company and its sole subsidiary. If at least a majority of the Notes issued pursuant to the Securities Purchase Agreement dated February 16, 2017 (the "Purchase Agreement") cease to be held by affiliates of Ares as provided in the Indenture, the liens securing the Notes will be released and substantially all of the restrictive covenants in the Indenture will terminate.

The Indenture restricts the ability of the Company and certain of its subsidiaries to, among other things: (i) pay dividends or make other distributions in respect of the Company's capital stock or make other restricted payments; (ii) incur additional indebtedness and issue preferred stock; (iii) make certain dispositions and transfers of assets; (iv) engage in transactions with affiliates; (v) create liens; (vi) engage in certain business activities that are not related to oil and gas; and (vii) impair any security interest. These covenants are subject to a number of exceptions and qualifications.

The Indenture provides that a number of events will constitute an Event of Default (as defined in the Indenture), including, among other things: (i) a failure to pay the Notes when due at maturity, upon redemption or repurchase; (ii) failure to pay interest for 30 days; (iii) the Company's failure to deliver certain notices; (iv) a default in the Company's obligation to convert the Notes; (v) the Company's failure to comply with certain covenants relating to merger, consolidation or sale of assets; (vi) the Company's failure to comply, for 60 days following notice, with any of the other covenants or agreements in the Indenture; (vii) a default, which is not cured within 30 days, by the Company or any Restricted Subsidiaries (as defined in the Indenture) with respect to any mortgages or any indebtedness for money borrowed of at least $15 million; (viii) one or more final judgments against the Company or any of its Restricted Subsidiaries for the payment of at least $15 million; (ix) the Company's failure to make any payments required under that certain development agreement, which is not cured within 30 days; (x) causing any Guarantee (as defined in the Indenture) to cease to be in full force and effect; (xi) the cessation to be in full force and effect of any of the collateral agreements entered into with respect to the Notes; and (xii) certain events of bankruptcy or insolvency. In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Company, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. At June 30, 2018, no Event of Default had occurred.

On June 29, 2018, the Company, the subsidiary guarantor named therein and the Trustee, entered into a Second Supplemental Indenture (the "Second Supplemental Indenture"), which supplements the Indenture. The Second Supplemental Indenture, among other things, (i) waived certain defaults, (ii) reduced the period the Company could cure certain covenant defaults under the Indenture from 60 days to 15 days and (iii) prohibited the Company and its subsidiary from making cash dividends or distributions on or with respect to its capital stock, other than cash dividends on its Series A Preferred Stock and its Series B Preferred Stock declared for the month of June 2018.

In accordance with accounting guidance relating to "Debt with Conversion and Other Options" which indicates that when multiple securities are issued in a single transaction, total proceeds should be allocated based on the relative fair values of each instrument, assuming no instrument is subsequently required to be recorded at fair value. The Company accounted for the Notes based on their relative fair value to the bundled transaction and subsequently separately accounted for the liability and equity conversion components of the Notes due to the Company's option to settle the conversion obligation in cash. The fair value of the debt portion of the Notes, excluding the conversion feature, at the dates of issuance was estimated to be approximately $147.8 million and was calculated based on the fair value of similar non-convertible debt instruments in conjunction with the relative fair value of the Term Loan issued on the same date. As a result of such valuation, a debt discount of $52.4 million related to the Notes was recorded. Additionally, the value of the conversion option at the dates of issuance was calculated to be $77.6 million based on the residual fair value after application of such to the debt and was recorded as additional paid-in capital on the Company's condensed consolidated balance sheet. Total debt issuance costs related to the Notes were $5.4 million, of which $3.2 million was allocated to the liability component of the Notes and $2.2 million to the equity component of the Notes. The debt discount and the liability component of the debt issuance costs will be amortized over the term of the Notes. The weighted average effective interest rate used to amortize the debt discount and the liability component of the debt issue costs for the Notes is approximately 16% based on the Company's estimated non-convertible borrowing rate as of the date the Notes were initially issued.

The carrying amount of the liability component of the Notes for the periods indicated are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Notes, principal balance	$162,500	$162,500
Less:		
Unamortized deferred financing costs[1]	(2,358)	(2,631)
Unamortized debt discount[1]	(42,206)	(46,328)
Notes, net	$117,936	$113,541

(1)The unamortized deferred financing costs and debt discount will be amortized over the remaining life of the Notes based on the effective interest method.

The carrying amount of the equity components of the Notes recorded in additional paid in capital for the periods indicated are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Value of conversion option	$77,626	$77,626
Debt issuance costs attributable to conversion option	$(2,164)	$(2,164)
Total	$75,462	$75,462

Second Amended and Restated Revolving Credit Facility

On June 7, 2013, the Company entered into the Second Amended and Restated Credit Agreement among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, Swing Line Lender and Issuing Lender and the lenders named therein (the “Revolving Credit Facility”). The Revolving Credit Facility had a scheduled maturity of November 14, 2017.

On January 10, 2017, the Company, together with the parties thereto, entered into an amendment to the Second Amended and Restated Credit Agreement (“Amendment No. 10”), which amended the Revolving Credit Facility to, among other things, permit the payment of certain cash dividends on its preferred stock, including the dividends declared payable on January 31, 2017, provided that (i) the Company’s borrowing base was correspondingly reduced in the amount of any such dividend payment and (ii) the Company paid down its outstanding indebtedness under the Revolving Credit Facility in the amount of any resulting borrowing base deficiency.

Under Amendment No. 10, payment of the declared January 2017 dividend and monthly preferred stock cash dividends through May 2017 was permitted contingent upon the satisfaction of certain conditions, including but not limited to, (i) the absence of any defaults or borrowing base deficiency, (ii) for any dividends declared and paid in respect of April 2017 and May 2017, having cash liquidity (including any available borrowings under the Revolving Credit Facility) of more than $30.0 million and (iii) paying any permitted dividends solely from proceeds received by the Company from sales of equity since November 30, 2016 (including through the Company’s at-the-market issuance sales agreement with a third-party sales agent to sell, from time to time, shares of the Company’s common stock (the “ATM Program”). Under Amendment No. 10, the Company also agreed to pay down indebtedness under its Revolving Credit Facility by at least an additional $8.1 million by April 30, 2017.

On March 3, 2017, the Company used a portion of the net proceeds from the transactions described in this Note 5 under the caption "Ares Investment Transactions" above to fully repay all of the $69.2 million borrowings outstanding under the Revolving Credit Facility (which was terminated on such date).

Senior Secured Notes

At December 31, 2016, the Company had $325.0 million aggregate principal amount of 8 5/8% Senior Secured Notes due May 15, 2018 (the "Former Notes") outstanding under an indenture by and among the Company, the Guarantors named therein (the "Guarantors"), Wells Fargo Bank, National Association, as Trustee (in such capacity, the "Former Notes Trustee") and Collateral Agent. The Notes bore interest at a rate of 8.625% per year, payable semi-annually in arrears on May 15 and November 15 of each year. Effective May 17, 2016, Wells Fargo Bank, National Association resigned as Former Notes Trustee and Collateral Agent and Wilmington Trust, National Association was appointed Trustee and Collateral Agent pursuant to the Indenture.

On March 3, 2017, the redemption price plus interest on all of the Company's outstanding $325.0 million principal of the Former Notes was funded to satisfy and discharge the Former Notes from a portion of the net proceeds from the transactions described in this Note 5 under the caption "Ares Investment Transactions" above. All of the Former Notes were satisfied and discharged on March 3, 2017 by irrevocably calling for redemption and depositing with the indenture trustee cash in the amount of the redemption price of 102.156% of the principal amount, or principal plus an additional $7.0 million, plus accrued and unpaid interest to the redemption date of March 24, 2017. Additionally, the Company wrote-off $5.2 million of remaining unamortized deferred financing costs related to the Former Notes upon redemption.

6. Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value on a recurring basis. The Company discloses its recognized non-financial assets and liabilities, such as asset retirement obligations, unproved properties and other property and equipment, at fair value on a non-recurring basis. For non-financial assets and liabilities, the Company is required to disclose information that enables users of its financial statements to assess the inputs used to develop these measurements. The Company assesses its unproved properties for impairment whenever events or circumstances indicate the carrying value of those properties may not be recoverable. The fair value of the unproved properties is measured using an income approach based upon internal estimates of future production levels, current and future prices, drilling and operating costs, discount rates, current drilling plans and favorable and unfavorable drilling activity on the properties being evaluated and/or adjacent properties, which are Level 3 (as defined below) inputs. Should an impairment of unproved properties occur, the value of the impaired properties would be reclassified into proved properties in the full cost pool subject to depletion. As no other fair value measurements are required to be recognized on a non-recurring basis at June 30, 2018, no additional disclosures are provided.

As defined in the guidance, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company's cash equivalents consist of short-term, highly liquid investments, which have maturities of 90 days or less, including sweep investments and money market funds.

- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources. These inputs may be used with internally developed methodologies or third party broker quotes that result in management's best estimate of fair value. The Company's valuation models consider various inputs including (a) quoted forward prices for commodities, (b) time value, (c) volatility factors and (d) current market and contractual prices for the underlying instruments. Significant increases or decreases in any of these inputs in isolation would result in a significantly higher or lower fair value measurement. Level 3 instruments are commodity costless collars, index swaps, basis and fixed price swaps and put and call options to hedge oil, natural gas and NGLs price risk. At each balance sheet date, the Company performs an analysis of all applicable instruments and includes in Level 3 all of those whose fair value is based on significant unobservable inputs. The fair values derived from counterparties and third-party brokers are verified by the Company using publicly available values for relevant NYMEX futures contracts and exchange traded contracts for each derivative settlement location. Although such counterparty and third-party broker quotes are used to assess the fair value of its commodity derivative instruments,

the Company does not have access to the specific assumptions used in its counterparties valuation models. Consequently, additional disclosures regarding significant Level 3 unobservable inputs were not provided and the Company does not currently have sufficient corroborating market evidence to support classifying these contracts as Level 2 instruments.

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values below incorporates various factors, including the impact of the counterparty's non-performance risk with respect to the Company's financial assets and the Company's non-performance risk with respect to the Company's financial liabilities. The Company has not elected to offset the fair value amounts recognized for multiple derivative instruments executed with the same counterparty, but reports them gross on its consolidated balance sheets.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the 2018 and 2017 periods.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

	Fair value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Commodity derivative contracts	$—	$ —	$140	$140
Liabilities:				
Commodity derivative contracts	—	—	(15,870)	(15,870)
Total	$—	$ —	$(15,730)	$(15,730)

	Fair value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Commodity derivative contracts	$—	$ —	$1,370	$1,370
Liabilities:				
Commodity derivative contracts	—	—	(6,988)	(6,988)
Total	$—	$ —	$(5,618)	$(5,618)

The table below presents a reconciliation of the assets and liabilities classified as Level 3 in the fair value hierarchy for the three and six months ended June 30, 2018 and 2017. Level 3 instruments presented in the table consist of net derivatives that, in management's opinion, reflect the assumptions a marketplace participant would have used at June 30, 2018 and 2017.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance at beginning of period	$(9,025)	$6,477	$(5,618)	$7,512
Total (losses) gains included in earnings	(9,256)	5,378	(14,785)	6,678
Purchases	—	—	552	470
Issuances	—	—	—	—
Settlements[(1)]	2,551	(2,419)	4,121	(5,224)
Balance at end of period	$(15,730)	$9,436	$(15,730)	$9,436
The amount of total losses for the period included in earnings attributable to the change in mark to market of commodity derivatives contracts still held at June 30, 2018 and 2017	$(6,133)	$		