

WHITING PETROLEUM CORP
Form 10-Q
October 31, 2018
Table of Contents

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 September 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 31899

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

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

80290 2300
(Zip code)

(303) 837 1661

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes No

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

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Smaller reporting company |
| Accelerated filer | Emerging growth company |
| Non-accelerated filer | |

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

Number of shares of the registrant's common stock outstanding at October 19, 2018: 90,994,611 shares.

TABLE OF CONTENTS

| | |
|--|----|
| <u>Glossary of Certain Definitions</u> | 1 |
| <u>PART I – FINANCIAL INFORMATION</u> | |
| <u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u> | 4 |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u> | 4 |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u> | 6 |
| <u>Condensed Consolidated Statements of Equity for the Nine Months Ended September 30, 2018 and 2017</u> | 8 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 9 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 26 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 41 |
| <u>Item 4. Controls and Procedures</u> | 42 |
| <u>PART II – OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 43 |
| <u>Item 1A. Risk Factors</u> | 43 |
| <u>Item 6. Exhibits</u> | 43 |

Table of Contents

GLOSSARY OF CERTAIN DEFINITIONS

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

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

“ASC” Accounting Standards Codification.

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

“Bcf” One billion cubic feet, used in reference to natural gas.

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

“Btu” or “British thermal unit” The quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

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

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

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

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

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

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

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

“FASB” Financial Accounting Standards Board.

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

opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

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

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

“ISDA” International Swaps and Derivatives Association, Inc.

1

Table of Contents

“lease operating expense” or “LOE” The expenses of lifting oil or gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs and other expenses incidental to production, but not including lease acquisition or drilling or completion expenses.

“LIBOR” London interbank offered rate.

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

“MBbl/d” One MBbl per day.

“MBOE” One thousand BOE.

“MBOE/d” One MBOE per day.

“Mcf” One thousand cubic feet, used in reference to natural gas.

“MMBbl” One million barrels of oil, NGLs, or other liquid hydrocarbons.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units, used in reference to natural gas.

“MMcf” One million cubic feet, used in reference to natural gas.

“MMcf/d” One MMcf per day.

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

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

“NGL” Natural gas liquid.

“NYMEX” The New York Mercantile Exchange.

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

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

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

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

“proved reserves” Those reserves which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time.

Table of Contents

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

- a. The area identified by drilling and limited by fluid contacts, if any, and
- b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data. Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when both of the following occur:

- a. Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based, and
- b. The project has been approved for development by all necessary parties and entities, including governmental entities.

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

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

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

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

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

“SEC” The United States Securities and Exchange Commission.

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

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

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share data)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,187 | \$ 879,379 |
| Accounts receivable trade, net | 315,929 | 284,214 |
| Prepaid expenses and other | 22,617 | 26,035 |
| Total current assets | 352,733 | 1,189,628 |
| Property and equipment: | | |
| Oil and gas properties, successful efforts method | 11,994,921 | 11,293,650 |
| Other property and equipment | 134,663 | 134,524 |
| Total property and equipment | 12,129,584 | 11,428,174 |
| Less accumulated depreciation, depletion and amortization | (4,809,558) | (4,244,735) |
| Total property and equipment, net | 7,320,026 | 7,183,439 |
| Other long-term assets | 36,580 | 29,967 |
| TOTAL ASSETS | \$ 7,709,339 | \$ 8,403,034 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ - | \$ 958,713 |
| Accounts payable trade | 77,495 | 32,761 |
| Revenues and royalties payable | 184,343 | 171,028 |
| Accrued capital expenditures | 74,757 | 69,744 |
| Accrued interest | 35,183 | 40,971 |
| Accrued liabilities and other | 109,399 | 118,815 |
| Taxes payable | 38,494 | 28,771 |
| Derivative liabilities | 106,255 | 132,525 |
| Total current liabilities | 625,926 | 1,553,328 |
| Long-term debt | 2,835,128 | 2,764,716 |
| Asset retirement obligations | 147,941 | 129,206 |
| Other long-term liabilities | 36,491 | 36,642 |
| Total liabilities | 3,645,486 | 4,483,892 |
| Commitments and contingencies | | |
| Equity: | | |
| Common stock, \$0.001 par value, 225,000,000 shares authorized; 92,130,240 issued and 90,967,365 outstanding as of September 30, 2018 and 92,094,837 issued and 90,698,889 outstanding as of December 31, 2017 | 92 | 92 |
| Additional paid-in capital | 6,411,669 | 6,405,490 |

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

| | | |
|------------------------------|--------------|--------------|
| Accumulated deficit | (2,347,908) | (2,486,440) |
| Total equity | 4,063,853 | 3,919,142 |
| TOTAL LIABILITIES AND EQUITY | \$ 7,709,339 | \$ 8,403,034 |

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

4

Table of Contents

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| OPERATING REVENUES | | | | |
| Oil, NGL and natural gas sales | \$ 566,695 | \$ 324,191 | \$ 1,608,181 | \$ 1,007,023 |
| OPERATING EXPENSES | | | | |
| Lease operating expenses | 92,461 | 90,615 | 274,763 | 267,277 |
| Production taxes | 46,509 | 27,499 | 127,653 | 86,621 |
| Depreciation, depletion and amortization | 197,006 | 212,846 | 584,219 | 673,288 |
| Exploration and impairment | 11,030 | 17,657 | 39,011 | 63,793 |
| General and administrative | 31,901 | 30,084 | 94,982 | 92,644 |
| Derivative loss, net | 21,063 | 30,867 | 177,210 | 47,281 |
| Loss on sale of properties | 230 | 398,752 | 1,716 | 401,050 |
| Amortization of deferred gain on sale | (2,870) | (3,175) | (8,699) | (9,757) |
| Total operating expenses | 397,330 | 805,145 | 1,290,855 | 1,622,197 |
| INCOME (LOSS) FROM OPERATIONS | 169,365 | (480,954) | 317,326 | (615,174) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (48,328) | (47,693) | (149,558) | (143,641) |
| Loss on extinguishment of debt | - | - | (31,968) | (1,540) |
| Interest income and other | 363 | (83) | 2,732 | 970 |
| Total other expense | (47,965) | (47,776) | (178,794) | (144,211) |
| INCOME (LOSS) BEFORE INCOME TAXES | 121,400 | (528,730) | 138,532 | (759,385) |
| INCOME TAX BENEFIT | | | | |
| Current | - | (3,161) | - | (6,367) |
| Deferred | - | (239,137) | - | (313,634) |
| Total income tax benefit | - | (242,298) | - | (320,001) |
| NET INCOME (LOSS) | 121,400 | (286,432) | 138,532 | (439,384) |
| Net loss attributable to noncontrolling interests | - | - | - | 14 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ 121,400 | \$ (286,432) | \$ 138,532 | \$ (439,370) |
| INCOME (LOSS) PER COMMON SHARE (1) | | | | |
| Basic | \$ 1.33 | \$ (3.16) | \$ 1.52 | \$ (4.85) |
| Diluted | \$ 1.32 | \$ (3.16) | \$ 1.51 | \$ (4.85) |
| WEIGHTED AVERAGE SHARES OUTSTANDING (1) | | | | |
| Basic | 90,967 | 90,698 | 90,934 | 90,678 |
| Diluted | 91,823 | 90,698 | 91,862 | 90,678 |

(1)

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

All share and per share amounts have been retroactively adjusted for the 2017 periods to reflect the Company's one-for-four reverse stock split in November 2017, as described in Note 8 to these condensed consolidated financial statements.

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

Table of Contents

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 138,532 | \$ (439,384) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 584,219 | 673,288 |
| Deferred income tax benefit | - | (313,634) |
| Amortization of debt issuance costs, debt discount and debt premium | 22,976 | 22,927 |
| Stock-based compensation | 10,243 | 19,051 |
| Amortization of deferred gain on sale | (8,699) | (9,757) |
| Loss on sale of properties | 1,716 | 401,050 |
| Oil and gas property impairments | 25,612 | 44,270 |
| Loss on extinguishment of debt | 31,968 | 1,540 |
| Non-cash derivative loss | 36,585 | 57,937 |
| Payment for settlement of commodity derivative contract | (61,036) | - |
| Other, net | (102) | (7,008) |
| Changes in current assets and liabilities: | | |
| Accounts receivable trade, net | (32,919) | (51,319) |
| Prepaid expenses and other | 3,418 | (6,441) |
| Accounts payable trade and accrued liabilities | 31,990 | (68,881) |
| Revenues and royalties payable | 12,810 | (16,782) |
| Taxes payable | 9,723 | (16,451) |
| Net cash provided by operating activities | 807,036 | 290,406 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Drilling and development capital expenditures | (579,746) | (616,753) |
| Acquisition of oil and gas properties | (140,427) | (18,452) |
| Other property and equipment | (543) | (3,371) |
| Proceeds from sale of oil and gas properties | 3,284 | 916,176 |
| Net cash provided by (used in) investing activities | (717,432) | 277,600 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under credit agreement | 1,672,265 | 1,630,000 |
| Repayments of borrowings under credit agreement | (1,622,265) | (1,980,000) |
| Redemption of 6.5% Senior Subordinated Notes due 2018 | - | (275,121) |
| Redemption of 5.0% Senior Notes due 2019 | (990,023) | - |
| Debt issuance costs | (10,709) | - |
| Restricted stock used for tax withholdings | (4,064) | (4,938) |
| Net cash used in financing activities | \$ (954,796) | \$ (630,059) |

(Continued)

Table of Contents

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

| | Nine Months Ended September | |
|---|-----------------------------|-------------|
| | 30, | |
| | 2018 | 2017 |
| NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | \$ (865,192) | \$ (62,053) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH | | |
| Beginning of period | 879,379 | 73,225 |
| End of period | \$ 14,187 | \$ 11,172 |
| NONCASH INVESTING ACTIVITIES | | |
| Accrued capital expenditures and accounts payable related to property additions | \$ 88,880 | \$ 147,084 |

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

Table of Contents

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

(in thousands)

| | Common Stock Shares (1) | Amount | Additional Paid-in Capital | Accumulated Deficit | Total Whiting Shareholders' Equity | Noncontrolling Interest | Total Equity |
|--|-------------------------------|--------|----------------------------------|------------------------|---|----------------------------|-----------------|
| BALANCES - January 1, 2017 | 91,793 | \$ 367 | \$ 6,389,435 | \$ (1,248,572) | \$ 5,141,230 | \$ 7,962 | \$ 5,149,192 |
| Net loss | - | - | - | (439,370) | (439,370) | (14) | (439,384) |
| Conveyance of third party ownership interest in Sustainable Water Resources, LLC | - | - | - | - | - | (7,948) | (7,948) |
| Restricted stock issued | 568 | 2 | (2) | - | - | - | - |
| Restricted stock forfeited | (255) | (1) | 1 | - | - | - | - |
| Restricted stock used for tax withholdings | (101) | - | (4,938) | - | (4,938) | - | (4,938) |
| Stock-based compensation | - | - | 19,051 | - | 19,051 | - | 19,051 |
| Cumulative effect of change in accounting principle | - | - | 220 | (220) | - | - | - |
| BALANCES - September 30, 2017 | 92,005 | \$ 368 | \$ 6,403,767 | \$ (1,688,162) | \$ 4,715,973 | \$ - | \$ 4,715,973 |
| BALANCES - January 1, 2018 | 92,095 | \$ 92 | \$ 6,405,490 | \$ (2,486,440) | \$ 3,919,142 | \$ - | \$ 3,919,142 |
| Net income | - | - | - | 138,532 | 138,532 | - | 138,532 |
| Restricted stock issued | 451 | - | - | - | - | - | - |
| Restricted stock forfeited | (291) | - | - | - | - | - | - |

| | | | | | | | |
|--|--------|-------|--------------|----------------|--------------|------|--------------|
| Restricted stock used for tax withholdings | (125) | - | (4,064) | - | (4,064) | - | (4,064) |
| Stock-based compensation | - | - | 10,243 | - | 10,243 | - | 10,243 |
| BALANCES - September 30, 2018 | 92,130 | \$ 92 | \$ 6,411,669 | \$ (2,347,908) | \$ 4,063,853 | \$ - | \$ 4,063,853 |

(1) All common share amounts have been retroactively adjusted for the 2017 period to reflect the Company's one-for-four reverse stock split in November 2017, as described in Note 8 to these condensed consolidated financial statements.

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

Table of Contents

WHITING PETROLEUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

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

Condensed Consolidated Financial Statements—The unaudited condensed consolidated financial statements include the accounts of Whiting Petroleum Corporation and its consolidated subsidiaries. Investments in entities which give Whiting significant influence, but not control, over the investee are accounted for using the equity method. Under the equity method, investments are stated at cost plus the Company’s equity in undistributed earnings and losses. All intercompany balances and transactions have been eliminated upon consolidation. These financial statements have been prepared in accordance with GAAP and the SEC rules and regulations for interim financial reporting. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly, in all material respects, the Company’s interim results. However, operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. The condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10 Q should be read in conjunction with Whiting’s consolidated financial statements and related notes included in the Company’s Annual Report on Form 10 K for the period ended December 31, 2017. Except as disclosed herein, there have been no material changes to the information disclosed in the notes to consolidated financial statements included in the Company’s 2017 Annual Report on Form 10 K.

Reclassifications—Certain prior period balances in the condensed consolidated balance sheets have been reclassified to conform to the current year presentation. Such reclassifications had no impact on net income, cash flows or shareholders’ equity previously reported.

Adopted and Recently Issued Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update No. 2014 09, Revenue from Contracts with Customers (“ASU 2014 09”). The FASB subsequently issued various ASUs which provided additional implementation guidance, and these ASUs collectively make up FASB ASC Topic 606 – Revenue from Contracts with Customers (“ASC 606”). The objective of ASC 606 is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. ASC 606 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard permits retrospective application using either of the following methodologies: (i) restatement of each prior reporting period presented or (ii) recognition of a cumulative-effect adjustment as of the date of initial application. The Company adopted ASC 606 effective January 1, 2018 using the modified retrospective approach. The adoption did not have an impact on the Company’s net income or cash flows, and the Company did not record a cumulative-effect adjustment to retained earnings as a result. However, the adoption did result in changes to the classification of certain fees incurred under pipeline gathering and transportation agreements and gas processing agreements, as well as certain costs attributable to non-operated properties, which led to an overall decrease in total

revenues with a corresponding decrease in lease operating expenses under the new standard. Refer to the “Revenue Recognition” footnote for further information on the Company’s implementation of this standard.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (“ASU 2016-02”). The objective of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The FASB subsequently issued various ASUs which provided additional implementation guidance. ASU 2016-02 and its amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The standard permits retrospective application through recognition of a cumulative-effect adjustment at the beginning of either the earliest reporting period presented or the period of adoption. The Company plans to recognize a cumulative-effect adjustment as of the beginning of the period of adoption. Early adoption is permitted. The Company is in the process of implementing a lease accounting software and is currently evaluating the effect of adopting ASU 2016-02 on its financial statements, accounting policies, and internal controls. The adoption is primarily expected to result in an increase in the assets and liabilities recorded

Table of Contents

on its consolidated balance sheet and additional disclosures. The Company does not expect a material impact to its consolidated statement of operations. As of September 30, 2018, the Company had approximately \$115 million of contractual obligations related to its non-cancelable leases, drilling rig contracts and pipeline transportation agreements, and it will evaluate those contracts as well as other existing arrangements to determine if they qualify for lease accounting under this standard.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). The objective of this ASU is to codify the guidance provided by Staff Accounting Bulletin No. 118 regarding the accounting for the income tax effects of the Tax Cuts and Jobs Act (the “TCJA”) passed by Congress in December 2017 if such accounting is not complete by the time a company issues its financial statements that include the reporting period in which the TCJA was enacted. ASU 2018-05 was effective upon addition to the FASB Codification in March 2018.

2. OIL AND GAS PROPERTIES

Net capitalized costs related to the Company’s oil and gas producing activities at September 30, 2018 and December 31, 2017 are as follows (in thousands):

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Proved leasehold costs | \$ 2,739,348 | \$ 2,622,576 |
| Unproved leasehold costs | 144,143 | 137,694 |
| Costs of completed wells and facilities | 8,864,185 | 8,288,591 |
| Wells and facilities in progress | 247,245 | 244,789 |
| Total oil and gas properties, successful efforts method | 11,994,921 | 11,293,650 |
| Accumulated depletion | (4,745,391) | (4,185,301) |
| Oil and gas properties, net | \$ 7,249,530 | \$ 7,108,349 |

3. ACQUISITIONS AND DIVESTITURES

2018 Acquisitions and Divestitures

On July 31, 2018, the Company completed the acquisition of certain oil and gas properties located in Richland County, Montana and McKenzie County, North Dakota for an aggregate purchase price of \$130 million (before closing adjustments). The properties consist of approximately 54,800 net acres in the Williston Basin, including interests in 117 producing oil and gas wells and undeveloped acreage. The revenue and earnings from these properties since the acquisition date are included in our condensed consolidated financial statements for the three and nine months ended September 30, 2018 and are not material. Pro forma revenue and earnings for the acquired properties are not material to our condensed consolidated financial statements and have not been presented accordingly.

The acquisition was recorded using the acquisition method of accounting. The following table summarizes the preliminary allocation of the \$127 million adjusted purchase price (which is still subject to post-closing adjustments) to the tangible assets acquired and liabilities assumed in this acquisition based on their relative fair values at the acquisition date, which did not result in the recognition of goodwill or a bargain purchase gain. As the purchase price

is further adjusted for post-close adjustments and as oil and gas property valuations are completed, the final purchase price allocation may result in a different allocation to the tangible assets from that which is presented in the table below (in thousands):

| | |
|---|------------|
| Cash consideration | \$ 126,938 |
| Fair value of assets and liabilities acquired: | |
| Proved oil and gas properties | \$ 107,701 |
| Unproved oil and gas properties | 21,769 |
| Total fair value of oil and gas properties acquired | 129,470 |
| Asset retirement obligations | 2,532 |
| Total fair value of net assets acquired | \$ 126,938 |

Table of Contents

There were no significant divestitures during the nine months ended September 30, 2018.

2017 Acquisitions and Divestitures

On September 1, 2017, the Company completed the sale of its interests in certain producing oil and gas properties located in the Fort Berthold Indian Reservation area in Dunn and McLean counties of North Dakota, as well as other related assets and liabilities, for aggregate sales proceeds of \$500 million (before closing adjustments). The sale was effective September 1, 2017 and resulted in a pre-tax loss on sale of \$402 million. The Company used the net proceeds from the sale to repay a portion of the debt outstanding under its credit agreement.

On January 1, 2017, the Company completed the sale of its 50% interest in the Robinson Lake gas processing plant located in Mountrail County, North Dakota and its 50% interest in the Belfield gas processing plant located in Stark County, North Dakota, as well as the associated natural gas, crude oil and water gathering systems, effective January 1, 2017, for aggregate sales proceeds of \$375 million (before closing adjustments). The Company used the net proceeds from this transaction to repay a portion of the debt outstanding under its credit agreement.

There were no significant acquisitions during the year ended December 31, 2017.

4. LONG-TERM DEBT

Long-term debt, including the current portion, consisted of the following at September 30, 2018 and December 31, 2017 (in thousands):

| | September 30, 2018 | December 31, 2017 |
|--|--------------------------|----------------------|
| Credit agreement | \$ 50,000 | \$ - |
| 5.0% Senior Notes due 2019 | - | 961,409 |
| 1.25% Convertible Senior Notes due 2020 | 562,075 | 562,075 |
| 5.75% Senior Notes due 2021 | 873,609 | 873,609 |
| 6.25% Senior Notes due 2023 | 408,296 | 408,296 |
| 6.625% Senior Notes due 2026 | 1,000,000 | 1,000,000 |
| Total principal | 2,893,980 | 3,805,389 |
| Unamortized debt discounts and premiums | (34,598) | (50,945) |
| Unamortized debt issuance costs on notes | (24,254) | (31,015) |
| Total debt | 2,835,128 | 3,723,429 |
| Less current portion of long-term debt | - | (958,713) |
| Total long-term debt | \$ 2,835,128 | \$ 2,764,716 |

Credit Agreement

Whiting Oil and Gas, the Company's wholly owned subsidiary, has a credit agreement with a syndicate of banks that as of September 30, 2018 had a borrowing base of \$2.4 billion and aggregate commitments of \$1.75 billion. As of September 30, 2018, the Company had \$1.7 billion of available borrowing capacity under the credit agreement, which was net of \$50 million of borrowings outstanding and \$2 million in letters of credit outstanding.

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

Table of Contents

A portion of the revolving credit facility in an aggregate amount not to exceed \$50 million may be used to issue letters of credit for the account of Whiting Oil and Gas or other designated subsidiaries of the Company. As of September 30, 2018, \$48 million was available for additional letters of credit under the agreement.

The credit agreement provides for interest only payments until maturity, when the credit agreement expires and all outstanding borrowings are due. Interest under the credit agreement accrues at the Company's option at either (i) a base rate for a base rate loan plus the margin in the table below, where the base rate is defined as the greatest of the prime rate, the federal funds rate plus 0.5% per annum, or an adjusted LIBOR rate plus 1.0% per annum, or (ii) an adjusted LIBOR rate for a Eurodollar loan plus the margin in the table below. Additionally, the Company also incurs commitment fees as set forth in the table below on the unused portion of the aggregate commitments of the lenders under the credit agreement, which are included as a component of interest expense. At September 30, 2018, the weighted average interest rate on the outstanding principal balance under the credit agreement was 3.7%.

| | Applicable Margin for Base Rate Loans | Applicable Margin for Eurodollar Loans | Commitment Fee |
|--|---|--|-------------------|
| Ratio of Outstanding Borrowings to Borrowing Base Less than 0.25 to 1.0 | 0.50% | 1.50% | 0.375% |
| Greater than or equal to 0.25 to 1.0 but less than 0.50 to 1.0 | 0.75% | 1.75% | 0.375% |
| Greater than or equal to 0.50 to 1.0 but less than 0.75 to 1.0 | 1.00% | 2.00% | 0.50% |
| Greater than or equal to 0.75 to 1.0 but less than 0.90 to 1.0 | 1.25% | 2.25% | 0.50% |
| Greater than or equal to 0.90 to 1.0 | 1.50% | 2.50% | 0.50% |

The credit agreement contains restrictive covenants that may limit the Company's ability to, among other things, incur additional indebtedness, sell assets, make loans to others, make investments, enter into mergers, enter into hedging contracts, incur liens and engage in certain other transactions without the prior consent of its lenders. Except for limited exceptions, the credit agreement also restricts the Company's ability to make any dividend payments or distributions on its common stock. These restrictions apply to all of the Company's restricted subsidiaries (as defined in the credit agreement). As of September 30, 2018, there were no retained earnings free from restrictions. The credit agreement requires the Company, as of the last day of any quarter, to maintain the following ratios (as defined in the credit agreement): (i) a consolidated current assets to consolidated current liabilities ratio (which includes an add back of the available borrowing capacity under the credit agreement) of not less than 1.0 to 1.0 and (ii) a total debt to last four quarters' EBITDAX ratio of not greater than 4.0 to 1.0. The Company was in compliance with its covenants under the credit agreement as of September 30, 2018.

The obligations of Whiting Oil and Gas under the credit agreement are collateralized by a first lien on substantially all of Whiting Oil and Gas' and Whiting Resource Corporation's properties. The Company has guaranteed the obligations of Whiting Oil and Gas under the credit agreement and has pledged the stock of its subsidiaries as security for its guarantee.

Senior Notes, Convertible Senior Notes and Senior Subordinated Notes

The following table summarizes the material terms of the Company's senior notes and convertible senior notes outstanding at September 30, 2018:

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

| | 2020 | 2021 | 2023 | 2026 |
|--------------------------------------|--------------|----------------|--------------|----------------|
| | Convertible | Senior Notes | Senior Notes | Senior Notes |
| Outstanding principal (in thousands) | \$ 562,075 | \$ 873,609 | \$ 408,296 | \$ 1,000,000 |
| Interest rate | 1.25% | 5.75% | 6.25% | 6.625% |
| Maturity date | Apr 1, 2020 | Mar 15, 2021 | Apr 1, 2023 | Jan 15, 2026 |
| Interest payment dates | Apr 1, Oct 1 | Mar 15, Sep 15 | Apr 1, Oct 1 | Jan 15, Jul 15 |
| Make-whole redemption date (1) | N/A (2) | Dec 15, 2020 | Jan 1, 2023 | Oct 15, 2025 |

12

Table of Contents

- (1) On or after these dates, the Company may redeem the applicable series of notes, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed, together with accrued and unpaid interest up to the redemption date. At any time prior to these dates, the Company may redeem the notes at a redemption price that includes an applicable premium as defined in the indentures to such notes.
- (2) The indenture governing our 1.25% Convertible Senior Notes due 2020 does not allow for optional redemption by the Company prior to the maturity date.

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

In September 2013, the Company issued at par \$1.1 billion of 5.0% Senior Notes due March 2019 (the “2019 Senior Notes”) and \$800 million of 5.75% Senior Notes due March 2021, and issued at 101% of par an additional \$400 million of 5.75% Senior Notes due March 2021 (collectively, the “2021 Senior Notes”). The debt premium recorded in connection with the issuance of the 2021 Senior Notes is being amortized to interest expense over the term of the notes using the effective interest method, with an effective interest rate of 5.5% per annum.

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

In December 2017, the Company issued at par \$1.0 billion of 6.625% Senior Notes due January 2026 (the “2026 Senior Notes” and together with the 2021 Senior Notes and the 2023 Senior Notes, the “Senior Notes”). The Company used the net proceeds from this offering to redeem on January 26, 2018 all of the then outstanding 2019 Senior Notes. Refer to “Redemption of 2019 Senior Notes” below for more information on the redemption of the 2019 Senior Notes.

Exchange of Senior Notes and Senior Subordinated Notes for Convertible Notes. During 2016, the Company exchanged (i) \$75 million aggregate principal amount of its 2018 Senior Subordinated Notes, (ii) \$139 million aggregate principal amount of its 2019 Senior Notes, (iii) \$326 million aggregate principal amount of its 2021 Senior Notes, and (iv) \$342 million aggregate principal amount of its 2023 Senior Notes, for the same aggregate principal amount of convertible notes. Subsequently during 2016, all \$882 million aggregate principal amount of these convertible notes was converted into approximately 21.6 million shares of the Company’s common stock pursuant to the terms of the notes.

Redemption of 2018 Senior Subordinated Notes. On February 2, 2017, the Company paid \$281 million to redeem all of the then outstanding \$275 million aggregate principal amount of 2018 Senior Subordinated Notes, which payment consisted of the 100% redemption price plus all accrued and unpaid interest on the notes. The Company financed the redemption with borrowings under its credit agreement. As a result of the redemption, Whiting recognized a \$2 million loss on extinguishment of debt, which consisted of a non-cash charge for the acceleration of unamortized debt issuance costs on the notes. As of March 31, 2017, no 2018 Senior Subordinated Notes remained outstanding.

Redemption of 2019 Senior Notes. On January 26, 2018, the Company paid \$1.0 billion to redeem all of the remaining \$961 million aggregate principal amount of the 2019 Senior Notes, which payment consisted of the 102.976% redemption price plus all accrued and unpaid interest on the notes. The Company financed the redemption with proceeds from the issuance of the 2026 Senior Notes and borrowings under its credit agreement. As a result of the redemption, the Company recognized a \$31 million loss on extinguishment of debt, which included the redemption premium and a non-cash charge for the acceleration of unamortized debt issuance costs on the notes. As of March 31, 2018, no 2019 Senior Notes remained outstanding.

2020 Convertible Senior Notes—In March 2015, the Company issued at par \$1,250 million of 1.25% Convertible Senior Notes due April 2020 (the “2020 Convertible Senior Notes”) for net proceeds of \$1.2 billion, net of initial purchasers’ fees of \$25 million. During 2016, the Company exchanged \$688 million aggregate principal amount of its 2020

Convertible Senior Notes for the same aggregate principal amount of new mandatory convertible senior notes. Subsequently during 2016, all \$688 million aggregate principal amount of these mandatory convertible notes was converted into approximately 17.8 million shares of the Company's common stock pursuant to the terms of the notes.

Table of Contents

For the remaining \$562 million aggregate principal amount of 2020 Convertible Senior Notes outstanding as of September 30, 2018, the Company has the option to settle conversions of these notes with cash, shares of common stock or a combination of cash and common stock at its election. The Company's intent is to settle the principal amount of the 2020 Convertible Senior Notes in cash upon conversion. Prior to January 1, 2020, the 2020 Convertible Senior Notes will be convertible at the holder's option only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on June 30, 2015 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the 2020 Convertible Senior Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events. On or after January 1, 2020, the 2020 Convertible Senior Notes will be convertible at any time until the second scheduled trading day immediately preceding the April 1, 2020 maturity date of the notes. The notes will be convertible at a current conversion rate of 6.4102 shares of Whiting's common stock per \$1,000 principal amount of the notes, which is equivalent to a current conversion price of approximately \$156.00. The conversion rate will be subject to adjustment in some events. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase, in certain circumstances, the conversion rate for a holder who elects to convert its 2020 Convertible Senior Notes in connection with such corporate event. As of September 30, 2018, none of the contingent conditions allowing holders of the 2020 Convertible Senior Notes to convert these notes had been met.

Upon issuance, the Company separately accounted for the liability and equity components of the 2020 Convertible Senior Notes. The liability component was recorded at the estimated fair value of a similar debt instrument without the conversion feature. The difference between the principal amount of the 2020 Convertible Senior Notes and the estimated fair value of the liability component was recorded as a debt discount and is being amortized to interest expense over the term of the notes using the effective interest method, with an effective interest rate of 5.6% per annum. The fair value of the liability component of the 2020 Convertible Senior Notes as of the issuance date was estimated at \$1.0 billion, resulting in a debt discount at inception of \$238 million. The equity component, representing the value of the conversion option, was computed by deducting the fair value of the liability component from the initial proceeds of the 2020 Convertible Senior Notes issuance. This equity component was recorded, net of deferred taxes and issuance costs, in additional paid-in capital within shareholders' equity, and will not be remeasured as long as it continues to meet the conditions for equity classification.

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

The 2020 Convertible Senior Notes consisted of the following at September 30, 2018 and December 31, 2017 (in thousands):

| | September 30, 2018 | December 31, 2017 |
|---------------------|--------------------------|-------------------------|
| Liability component | | |

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

| | | |
|---------------------------------------|------------|------------|
| Principal | \$ 562,075 | \$ 562,075 |
| Less: unamortized note discount | (35,161) | (51,666) |
| Less: unamortized debt issuance costs | (2,802) | (4,178) |
| Net carrying value | \$ 524,112 | \$ 506,231 |
| Equity component (1) | \$ 136,522 | \$ 136,522 |

(1) Recorded in additional paid-in capital, net of \$5 million of issuance costs and \$50 million of deferred taxes.

14

Table of Contents

The following table presents the interest expense recognized on the 2020 Convertible Senior Notes related to the stated interest rate and amortization of the debt discount for the three and nine months ended September 30, 2018 and 2017 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Interest expense on 2020 Convertible Senior Notes | \$ 7,335 | \$ 7,032 | \$ 21,774 | \$ 20,876 |

Security and Guarantees

The Senior Notes and the 2020 Convertible Senior Notes are unsecured obligations of Whiting Petroleum Corporation and these unsecured obligations are subordinated to all of the Company's secured indebtedness, which consists of Whiting Oil and Gas' credit agreement.

The Company's obligations under the Senior Notes and the 2020 Convertible Senior Notes are guaranteed by the Company's 100% owned subsidiaries, Whiting Oil and Gas, Whiting US Holding Company, Whiting Canadian Holding Company ULC and Whiting Resources Corporation (the "Guarantors"). These guarantees are full and unconditional and joint and several among the Guarantors. Any subsidiaries other than these Guarantors are minor subsidiaries as defined by Rule 3 10(h)(6) of Regulation S X of the SEC. Whiting Petroleum Corporation has no assets or operations independent of this debt and its investments in its consolidated subsidiaries.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations represent the present value of estimated future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage, and land restoration (including removal of certain onshore and offshore facilities in California) in accordance with applicable local, state and federal laws. The current portions at September 30, 2018 and December 31, 2017 were \$3 million and \$5 million, respectively, and have been included in accrued liabilities and other in the consolidated balance sheets. The following table provides a reconciliation of the Company's asset retirement obligations for the nine months ended September 30, 2018 (in thousands):

| | |
|---|------------|
| Asset retirement obligation at January 1, 2018 | \$ 134,237 |
| Additional liability incurred | 11,406 |
| Revisions to estimated cash flows | 1,239 |
| Accretion expense | 8,365 |
| Obligations on sold properties | (640) |
| Liabilities settled | (3,200) |
| Asset retirement obligation at September 30, 2018 | \$ 151,407 |

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations, and it uses derivative instruments to manage its commodity price risk. In addition, the Company periodically enters into contracts that contain embedded features which are required to be bifurcated and accounted for separately as derivatives.

Commodity Derivative Contracts—Historically, prices received for crude oil and natural gas production have been volatile because of supply and demand factors, worldwide political factors, general economic conditions and seasonal weather patterns. Whiting primarily enters into derivative contracts such as crude oil costless collars and swaps, as well as sales and delivery contracts, to achieve a more predictable cash flow by reducing its exposure to commodity price volatility, thereby ensuring adequate funding for the Company's capital programs and facilitating the management of returns on drilling programs and acquisitions. The Company does not enter into derivative contracts for speculative or trading purposes.

Table of Contents

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

The table below details the Company's costless collar and swap derivatives entered into to hedge forecasted crude oil production revenues as of October 1, 2018.

| Derivative Instrument | Period | Contracted Crude Oil Volumes (Bbl) | Weighted Average NYMEX Price for Crude Oil (per Bbl) |
|-----------------------|----------------|------------------------------------|--|
| Three-way collars (1) | Oct - Dec 2018 | 4,350,000 | \$37.07 - \$47.07 - \$57.30 |
| Swaps | Oct - Dec 2018 | 1,200,000 | \$61.74 |
| Collars | Jan - Dec 2019 | 9,900,000 | \$51.21 - \$77.14 |
| | Total | 15,450,000 | |

(1) A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The sold call establishes a maximum price (ceiling) Whiting will receive for the volumes under contract. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be NYMEX plus the difference between the purchased put and the sold put strike price.

Crude Oil Sales and Delivery Contract. As of December 31, 2017, the Company had a long-term crude oil sales and delivery contract for oil volumes produced from its Redtail field in Colorado. Under the terms of the agreement, Whiting had committed to deliver certain fixed volumes of crude oil through April 2020. The Company determined it was not probable that future oil production from its Redtail field would be sufficient to meet the minimum volume requirements specified in this contract; accordingly, the Company would not settle this contract through physical delivery of crude oil volumes. As a result, Whiting determined that this contract would not qualify for the "normal purchase normal sale" exclusion and has therefore reflected the contract at fair value in the consolidated financial statements. As of December 31, 2017, the estimated fair value of this derivative contract was a liability of \$63 million. On February 1, 2018, Whiting paid \$61 million to the counterparty to settle all future minimum volume commitments under this agreement. Accordingly, this crude oil sales and delivery contract was fully terminated, and the fair value of the corresponding derivative was therefore zero as of that date.

Embedded Derivatives—In July 2016, the Company entered into a purchase and sale agreement with the buyer of its North Ward Estes Properties, whereby the buyer agreed to pay Whiting additional proceeds of \$100,000 for every \$0.01 that, as of June 28, 2018, the average NYMEX crude oil futures contract price for each month from August 2018 through July 2021 is above \$50.00/Bbl up to a maximum amount of \$100 million. The Company determined that this NYMEX-linked contingent payment was not clearly and closely related to the host contract, and the Company therefore bifurcated this embedded feature and reflected it at its estimated fair value in the consolidated financial statements. On July 19, 2017, the buyer paid \$35 million to Whiting to settle this NYMEX-linked contingent payment, and accordingly, the embedded derivative's fair value was zero as of December 31, 2017 and September 30, 2018.

Derivative Instrument Reporting—All derivative instruments are recorded in the consolidated financial statements at fair value, other than derivative instruments that meet the "normal purchase normal sale" exclusion or other derivative scope exceptions. The following tables summarize the effects of derivative instruments on the consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 (in thousands):

| Not Designated as ASC 815 Hedges | Statement of Operations Classification | Loss Recognized in Income | |
|-------------------------------------|---|-------------------------------------|-----------|
| | | Three Months Ended September 30, | |
| Commodity contracts | Derivative loss, net | 2018 | 2017 |
| | | \$ 21,063 | \$ 30,867 |
| Total | | \$ 21,063 | \$ 30,867 |

Table of Contents

| Not Designated as ASC 815 Hedges | Statement of Operations Classification | Loss Recognized in Income Nine Months Ended | |
|-------------------------------------|---|---|-----------|
| | | September 30, 2018 | 2017 |
| Commodity contracts | Derivative loss, net | \$ 177,210 | \$ 28,572 |
| Embedded derivatives | Derivative loss, net | - | 18,709 |
| Total | | \$ 177,210 | \$ 47,281 |

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

| Not Designated as ASC 815 Hedges | Balance Sheet Classification | September 30, 2018 (1) | | |
|-------------------------------------|------------------------------|---|----------------------------|---|
| | | Gross Recognized Assets/ Liabilities | Gross Amounts Offset | Net Recognized Fair Value Assets/ Liabilities |
| Derivative assets | | | | |
| Commodity contracts - current | Prepaid expenses and other | \$ 3,834 | \$ (3,834) | \$ - |
| Commodity contracts - non-current | Other long-term assets | 2,406 | (2,320) | 86 |
| Total derivative assets | | \$ 6,240 | \$ (6,154) | \$ 86 |
| Derivative liabilities | | | | |
| Commodity contracts - current | Derivative liabilities | \$ 110,089 | \$ (3,834) | \$ 106,255 |
| Commodity contracts - non-current | Other long-term liabilities | 4,226 | (2,320) | 1,906 |
| Total derivative liabilities | | \$ 114,315 | \$ (6,154) | \$ 108,161 |

| Not Designated as ASC 815 Hedges | Balance Sheet Classification | December 31, 2017 (1) | | |
|-------------------------------------|------------------------------|---|----------------------------|---|
| | | Gross Recognized Assets/ Liabilities | Gross Amounts Offset | Net Recognized Fair Value Assets/ Liabilities |
| Derivative assets | | | | |
| Commodity contracts - current | Prepaid expenses and other | \$ 9,829 | \$ (9,829) | \$ - |
| Total derivative assets | | \$ 9,829 | \$ (9,829) | \$ - |
| Derivative liabilities | | | | |
| Commodity contracts - current | Derivative liabilities | \$ 142,354 | \$ (9,829) | \$ 132,525 |

| | | | |
|------------------------------|------------|------------|------------|
| Total derivative liabilities | \$ 142,354 | \$ (9,829) | \$ 132,525 |
|------------------------------|------------|------------|------------|

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

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

Table of Contents

7. FAIR VALUE MEASUREMENTS

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

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

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

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

The Company's senior notes are recorded at cost and the Company's convertible senior notes are recorded at fair value at the date of issuance. The following table summarizes the fair values and carrying values of these instruments as of September 30, 2018 and December 31, 2017 (in thousands):

| | September 30, 2018 | | December 31, 2017 | |
|---|--------------------|--------------------|-------------------|--------------------|
| | Fair Value (1) | Carrying Value (2) | Fair Value (1) | Carrying Value (2) |
| 5.0% Senior Notes due 2019 | \$ - | \$ - | \$ 985,444 | \$ 958,713 |
| 1.25% Convertible Senior Notes due 2020 | 540,716 | 524,112 | 517,109 | 506,231 |
| 5.75% Senior Notes due 2021 | 895,336 | 870,222 | 897,633 | 869,284 |
| 6.25% Senior Notes due 2023 | 422,586 | 404,475 | 418,503 | 403,940 |
| 6.625% Senior Notes due 2026 | 1,043,750 | 986,319 | 1,025,000 | 985,261 |
| Total | \$ 2,902,388 | \$ 2,785,128 | \$ 3,843,689 | \$ 3,723,429 |

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

(2) Carrying values are presented net of unamortized debt issuance costs and debt discounts or premiums.

The Company's derivative financial instruments are recorded at fair value and include a measure of the Company's own nonperformance risk or that of its counterparty, as appropriate. The following tables present information about the Company's financial liabilities

Table of Contents

measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values (in thousands):

| | Level 1 | Level 2 | Level 3 | Total Fair Value September 30, 2018 |
|-------------------------------------|------------|------------|---------|--|
| Financial Assets | | | | |
| Commodity derivatives – non-current | \$ - | \$ 86 | \$ - | \$ 86 |
| Total financial assets | \$ - | \$ 86 | \$ - | \$ 86 |
| Financial Liabilities | | | | |
| Commodity derivatives – current | \$ - | \$ 106,255 | \$ - | \$ 106,255 |
| Commodity derivatives – non-current | - | 1,906 | - | 1,906 |
| Total financial liabilities | \$ - | \$ 108,161 | \$ - | \$ 108,161 |

| | Level 1 | Level 2 | Level 3 | Total Fair Value December 31, 2017 |
|---------------------------------|------------|-----------|-----------|---|
| Financial Liabilities | | | | |
| Commodity derivatives – current | \$ - | \$ 69,247 | \$ 63,278 | \$ 132,525 |
| Total financial liabilities | \$ - | \$ 69,247 | \$ 63,278 | \$ 132,525 |

The following methods and assumptions were used to estimate the fair values of the Company's financial assets and liabilities that are measured on a recurring basis:

Commodity Derivatives. Commodity derivative instruments consist mainly of costless collars and swaps for crude oil. The Company's costless collars and swaps are valued based on an income approach. Both the option and swap models consider various assumptions, such as quoted forward prices for commodities, time value and volatility factors. These assumptions are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The discount rates used in the fair values of these instruments include a measure of either the Company's or the counterparty's nonperformance risk, as appropriate. The Company utilizes its counterparties' valuations to assess the reasonableness of its own valuations.

In addition, the Company had a long-term crude oil sales and delivery contract, whereby it had committed to deliver certain fixed volumes of crude oil through April 2020. Whiting determined that the contract did not meet the "normal purchase normal sale" exclusion, and therefore reflected this contract at fair value in its consolidated financial statements prior to settlement. This commodity derivative was valued based on a probability-weighted income approach which considered various assumptions, including quoted spot prices for commodities, market differentials for crude oil, U.S. Treasury rates and either the Company's or the counterparty's nonperformance risk, as appropriate. The assumptions used in the valuation of the crude oil sales and delivery contract included certain market differential metrics that were unobservable during the term of the contract. Such unobservable inputs were significant to the contract valuation methodology, and the contract's fair value was therefore designated as Level 3 within the valuation hierarchy. On February 1, 2018, Whiting paid \$61 million to the counterparty to settle all future minimum volume

commitments under this agreement. Accordingly, this derivative was settled in its entirety as of that date.

Embedded Derivatives. The Company had an embedded derivative related to its purchase and sale agreement with the buyer of the North Ward Estes Properties. The agreement included a contingent payment linked to NYMEX crude oil prices which the Company determined was not clearly and closely related to the host contract, and the Company therefore bifurcated this embedded feature and reflected it at fair value in the consolidated financial statements prior to settlement. The fair value of this embedded derivative was determined using a modified Black-Scholes swaption pricing model which considers various assumptions, including quoted forward prices for commodities, time value and volatility factors. These assumptions were observable in the marketplace throughout the full term of the financial instrument, could be derived from observable data or were supported by observable levels at which transactions are executed in the marketplace, and were therefore designated as Level 2 within the valuation hierarchy. The discount rate used in the fair value of this instrument included a measure of the counterparty's nonperformance risk. On July 19, 2017, the buyer paid \$35 million to Whiting in satisfaction of this contingent payment. Accordingly, the embedded derivative was settled in its entirety as of that date.

Table of Contents

Level 3 Fair Value Measurements—A third-party valuation specialist was utilized in determining the fair value of the Company’s derivative instrument designated as Level 3. The Company reviewed these valuations, including the related model inputs and assumptions, and analyzed changes in fair value measurements between periods. The Company corroborated such inputs, calculations and fair value changes using various methodologies, and reviewed unobservable inputs for reasonableness utilizing relevant information from other published sources.

The following table presents a reconciliation of changes in the fair value of financial liabilities designated as Level 3 in the valuation hierarchy for the three and nine months ended September 30, 2018 and 2017 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Fair value liability, beginning of period | \$ - | \$ (61,952) | \$ (63,278) | \$ (9,214) |
| Unrealized gains (losses) on commodity derivative contracts included in earnings (1) | - | 5,178 | 2,242 | (47,560) |
| Settlement of commodity derivative contracts | - | - | 61,036 | - |
| Transfers into (out of) Level 3 | - | - | - | - |
| Fair value liability, end of period | \$ - | \$ (56,774) | \$ - | \$ (56,774) |

(1) Included in derivative loss, net in the consolidated statements of operations.

Non-recurring Fair Value Measurements—The Company applies the provisions of the fair value measurement standard on a non-recurring basis to its non-financial assets and liabilities, including proved property. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The Company did not recognize any impairment write-downs with respect to its proved property during the reporting periods presented.

8. SHAREHOLDERS’ EQUITY AND NONCONTROLLING INTEREST

Common Stock—On November 8, 2017 and following approval by the Company’s stockholders of an amendment to its certificate of incorporation to effect a reverse stock split, the Company’s Board of Directors approved a reverse stock split of Whiting’s common stock at a ratio of one-for-four and a reduction in the number of authorized shares of the Company’s common stock from 600,000,000 shares to 225,000,000. Whiting’s common stock began trading on a split-adjusted basis on November 9, 2017 upon opening of the New York Stock Exchange trading day. All share and per share amounts in these consolidated financial statements and related notes for periods prior to November 2017 have been retroactively adjusted to reflect the reverse stock split.

Noncontrolling Interest—The Company’s noncontrolling interest represented an unrelated third party’s 25% ownership interest in Sustainable Water Resources, LLC (“SWR”). During the third quarter of 2017, the third party’s ownership interest in SWR was assigned back to SWR.

9. REVENUE RECOGNITION

The Company adopted ASC 606 effective January 1, 2018, which replaces previous revenue recognition requirements under FASB ASC Topic 605 – Revenue Recognition (“ASC 605”). The standard was adopted using the modified retrospective approach which requires the Company to recognize in retained earnings at the date of adoption the cumulative effect of the application of ASC 606 to all existing revenue contracts which were not substantially complete as of January 1, 2018. The Company has elected the contract modification practical expedient which allows

the Company to reflect the aggregate effect of all modifications prior to the date of adoption when applying ASC 606.

Although the adoption of ASC 606 did not have an impact on the Company's net income or cash flows, it did result in the reclassification of certain fees incurred under pipeline gathering and transportation agreements and gas processing agreements, as well as certain costs

20

Table of Contents

attributable to non-operated properties. Such reclassification led to an overall decrease in total revenues with a corresponding decrease in lease operating expenses as follows (in thousands):

| | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
|---------------------------|--|------------|------------|--------------------------------------|--------------|------------|
| | Under | Under | Difference | Under | Under | Difference |
| | ASC 606 | ASC 605 | | ASC 606 | ASC 605 | |
| OPERATING REVENUES | | | | | | |
| Oil sales | \$ 511,904 | \$ 507,513 | \$ 4,391 | \$ 1,448,310 | \$ 1,436,984 | \$ 11,326 |
| NGL and natural gas sales | | | | | | |