

SABINE OIL & GAS CORP
Form 10-Q
May 16, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016
or

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

For the transition period from to

Commission File Number: 01-13515

SABINE OIL & GAS CORPORATION

(Exact name of registrant as specified in its charter)

Table of Contents

Table of Contents

Part I-FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	4
<u>Condensed Consolidated Balance Sheets at March 31, 2016 and December 31, 2015</u>	4
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015</u>	5
<u>Condensed Consolidated Statement of Shareholders' Deficit for the Three Months Ended March 31, 2016 and the Year Ended December 31, 2015</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 4. Controls and Procedures</u>	44

Part II-OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 3. Defaults Upon Senior Securities</u>	50
<u>Item 4. Mine Safety Disclosures</u>	50
<u>Item 5. Other Information</u>	50
<u>Item 6. Exhibits</u>	50
<u>Signatures</u>	51

Table of Contents

Certain Terms Used in this Quarterly Report on Form 10-Q

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to the following terms have the meanings set forth below:

- “Bankruptcy Code” refers to title 11 of the United States Code.
- “Bankruptcy Court” refers to the United States Bankruptcy Court for the Southern District of New York.
- “Bar Dates” means the deadlines for filing certain proofs of claims in the Debtors’ Chapter 11 cases, which deadline was December 22, 2015 for general claims and January 11, 2016 for governmental claims.
- “Chapter 11” refers to chapter 11 of the Bankruptcy Code which may also be referred to herein as “Chapter 11 Cases” or “Chapter 11 Proceedings”.
- “Combination” refers to the consummation of a series of transactions whereby certain indirect equity holders of Sabine O&G contributed the equity interests in Sabine O&G to Sabine Oil & Gas Corporation (which was then known as “Forest Oil Corporation”). In exchange for this contribution, the equity holders of Sabine O&G received shares of Sabine common stock and Series A senior non-voting equity-equivalent preferred stock (“Sabine Series A preferred stock”) collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. The Combination was completed on December 16, 2014.
- “Debtors” refers to the Company and certain of its subsidiaries, including Giant Gas Gathering LLC, Sabine Bear Paw Basin LLC, Sabine East Texas Basin LLC, Sabine Mid-Continent Gathering LLC, Sabine Mid-Continent LLC, Sabine Oil & Gas Finance Corp., Sabine South Texas Gathering LLC, Sabine South Texas LLC and Sabine Williston Basin LLC.
- “Forest” refers to Sabine Oil & Gas Corporation, a New York corporation, prior to the Combination, which was then known as “Forest Oil Corporation.” Forest changed its name to “Sabine Oil & Gas Corporation” on December 19, 2014.
- “Sabine,” “we,” “us” or the “Company” refers (i) with respect to the period from and after December 16, 2014, the date of the Combination, to the group of entities within the consolidated group of Sabine Oil & Gas Corporation, a New York corporation and the entity which survived the Combination and (ii) with respect to the period prior to December 16, 2014, to the group of entities within the consolidated group of Sabine O&G.
- “Sabine Investor Holdings” refers to Sabine Investor Holdings LLC, a Delaware limited liability company, of which the common equity interests are owned by affiliates of First Reserve, certain members of the Company’s management and board of directors.
- “Sabine O&G” refers to Sabine Oil & Gas LLC, a Delaware limited liability company and the accounting predecessor of Sabine.
- “Sabine O&G Properties” refer to the oil and natural gas properties historically owned by Sabine O&G prior to the Combination.
- “Sabine Oil & Gas Corporation” refers to Sabine Oil & Gas Corporation, a New York corporation.
- “Substantial Equityholder” refers to all persons or entities who beneficially owns or in the future beneficially owns at least 4.75% of our outstanding equity securities.

Table of Contents

Condensed Consolidated Financial Statements

Sabine Oil & Gas Corporation (Debtors-in-possession)

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except per share amounts)

	March 31, 2016 (in thousands)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 170,379	\$ 208,637
Accounts receivable	22,693	35,074
Prepaid expenses and other current assets	10,218	9,699
Total current assets	203,290	253,410
Property, plant and equipment:		
Oil and natural gas properties (full cost method)		
Proved	4,739,021	4,730,537
Gas gathering and processing equipment	15,812	15,811
Office furniture and fixtures	16,002	15,838
Total property, plant and equipment	4,770,835	4,762,186
Accumulated depletion, depreciation and amortization	(4,359,776)	(4,253,806)
Total property, plant and equipment, net	411,059	508,380
Other assets:		
Other long-term assets	35,887	35,931
Total other assets	35,887	35,931
Total assets	\$ 650,236	\$ 797,721
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable – trade	\$ 9,772	\$ 11,012
Royalties payable	11,236	15,039
Accrued exploration and development	1,875	6,897
Accrued operating expenses and other	65,162	69,245
Accrued interest payable	130	128
Other short-term liabilities	1,263	1,161
Total current liabilities	89,438	103,482
Asset retirement obligation	41,392	40,860
Other long-term liabilities	48,316	48,197
Liabilities subject to compromise	2,908,538	2,908,130
Total liabilities	3,087,684	3,100,669

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Commitments and contingencies (Note 12)

Shareholders' deficit:

Preferred stock, \$0.01 par value, 10,000,000 authorized shares, 2,508,945 shares issued and outstanding at March 31, 2016 and December 31, 2015	25	25
Common stock, \$0.10 par value, 650,000,000 authorized shares; 202,758,722 and 202,041,900 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	20,273	20,203
Additional paid in capital	1,566,801	1,566,289
Accumulated deficit	(4,023,443)	(3,888,361)
Accumulated other comprehensive loss	(1,104)	(1,104)
Total shareholders' deficit	(2,437,448)	(2,302,948)
Total liabilities and shareholders' deficit	\$ 650,236	\$ 797,721

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

Table of Contents

Condensed Consolidated Financial Statements

Sabine Oil & Gas Corporation (Debtors-in-possession)

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2016	2015
Revenues		
Oil, natural gas liquids and natural gas	\$ 47,852	\$ 97,628
Other	308	397
Total revenues	48,160	98,025
Operating expenses		
Lease operating	17,379	24,355
Marketing, gathering, transportation and other	7,142	9,357
Production and ad valorem taxes	3,383	2,768
General and administrative	5,320	15,038
Depletion, depreciation and amortization	19,979	54,063
Accretion	545	474
Impairments	86,298	236,485
Other operating expenses	2,247	5,393
Total operating expenses	142,293	347,933
Other income (expenses)		
Interest expense, net of capitalized interest (contractual interest expense equals \$51,073 three months ended March 31, 2016)	(11,575)	(70,247)
Gain on derivative instruments	—	36,124
Total other income (expenses)	(11,575)	(34,123)
Reorganization items, net	(29,374)	—
Net loss before income taxes	(135,082)	(284,031)
Income tax expense	—	—
Net loss	\$ (135,082)	\$ (284,031)
Net loss per share:		
Basic	\$ (0.67)	\$ (1.42)
Diluted	\$ (0.67)	\$ (1.42)
Weighted average shares outstanding – basic	202,351	200,298
Weighted average shares outstanding – diluted	202,351	200,298

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

Table of Contents

Condensed Consolidated Financial Statements

Sabine Oil & Gas Corporation (Debtors-in-possession)

Condensed Consolidated Statement of Shareholders' Deficit (Unaudited)

(in thousands)

	Preferred Stock Shares	Value	Common Stock Shares	Value	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Deficit
Balance as of January 1, 2015	2,509	\$ 25	200,976	\$ 20,096	\$ 1,564,805	\$ (1,648,718)	\$ —	\$ (63,792)
Pension and post retirement benefit - net actuarial loss	—	—	—	—	—	—	(1,104)	(1,104)
Restricted stock granted and repurchased	—	—	1,066	107	(288)	—	—	(181)
Amortization of stock based compensation	—	—	—	—	1,772	—	—	1,772
Net loss	—	—	—	—	—	(2,239,643)	—	(2,239,643)
Balance as of December 31, 2015	2,509	\$ 25	202,042	\$ 20,203	\$ 1,566,289	\$ (3,888,361)	\$ (1,104)	\$ (2,302,948)
Restricted stock granted and repurchased	—	—	717	70	(71)	—	—	(1)
Amortization of stock based compensation	—	—	—	—	583	—	—	583
Net loss	—	—	—	—	—	(135,082)	—	(135,082)
Balance as of March 31, 2016	2,509	\$ 25	202,759	\$ 20,273	\$ 1,566,801	\$ (4,023,443)	\$ (1,104)	\$ (2,437,448)

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

Table of Contents

Condensed Consolidated Financial Statements

Sabine Oil & Gas Corporation (Debtors-in-possession)

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (135,082)	\$ (284,031)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	19,979	54,063
Impairments	86,298	236,485
Accretion expense	545	474
Non-cash interest expense	2	20,249
Amortization of deferred financing costs	—	6,044
Non-cash gain on derivative instruments	—	11,004
Amortization of option premiums	—	(1,145)
Amortization of prepaid expenses	1,577	1,503
Non-cash stock based compensation	583	417
Other, net	(65)	557
Working capital and other changes:		
Decrease in accounts receivable	12,391	36,964
Increase in other assets	(2,301)	(2,840)
Decrease in liabilities	(8,703)	(37,573)
Net cash (used in) / provided by operating activities	(24,776)	42,171
Cash flows from investing activities:		
Oil and natural gas property additions	(13,335)	(164,211)
Gas processing equipment additions	(1)	(457)
Other asset additions	(164)	(742)
Cash received from sale of assets	20	660
Net cash used in investing activities	(13,480)	(164,750)
Cash flows from financing activities:		
Borrowings under senior secured revolving credit facility	—	425,987
Debt issuance costs	—	(870)
Shares repurchased	(2)	(174)
Net cash provided by (used in) financing activities	(2)	424,943
Net increase (decrease) in cash and cash equivalents	(38,258)	302,364
Cash and cash equivalents, beginning of period	208,637	3,252

Cash and cash equivalents, end of period	\$ 170,379	\$ 305,616
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The accompanying notes are an integral part of these condensed consolidated financial statements.

7

Table of Contents

Sabine Oil & Gas Corporation (Debtors-in-possession)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization

Sabine Oil & Gas Corporation (“Sabine” or the “Company”) is an independent oil and natural gas company engaged in the acquisition, development, exploitation and exploration of oil and natural gas properties in North America. Sabine was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969.

2. Chapter 11 Proceedings, Liquidity and Ability to Continue as a Going Concern
Voluntary Reorganization Under Chapter 11

On July 15, 2015, the Company and certain of its subsidiaries, including Giant Gas Gathering LLC, Sabine Bear Paw Basin LLC, Sabine East Texas Basin LLC, Sabine Mid-Continent Gathering LLC, Sabine Mid-Continent LLC, Sabine Oil & Gas Finance Corporation, Sabine South Texas Gathering LLC, Sabine South Texas LLC and Sabine Williston Basin LLC (collectively, the “Filing Subsidiaries” and, together with the Company, the “Debtors”), filed voluntary petitions (the “Bankruptcy Petitions”) for reorganization under the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). The Debtors’ Chapter 11 cases (the “Chapter 11 Cases”) are being jointly administered under the case styled In re Sabine Oil & Gas Corporation, et al, No. 15-11835. The Debtors will continue to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Company has applied ASC 852, Reorganizations, in preparing its Condensed Consolidated Financial Statements.

By certain “first day” motions filed in the Chapter 11 Cases, the Company obtained Bankruptcy Court approval (on an interim basis) to, among other things and subject to the terms of the orders entered by the Bankruptcy Court pay pre-petition employee wages, health benefits and certain other employee obligations, pay certain lienholders and forward funds to third parties, including royalty holders and other partners, as well as expenses incurred post-petition to these and additional ordinary course creditors.

Appointment of Creditors Committee. On July 28, 2015, The United States Trustee for the Southern District of New York appointed the official committee for unsecured creditors (the “Creditors Committee”). The Creditors Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtors. Disagreements between the Debtors and the Creditors Committee has protracted and will likely continue to protract the Chapter 11 proceedings, negatively impact the Debtors’ ability to operate, and delay the Debtors’ emergence from the Chapter 11 proceedings.

Rejection of Executory Contracts. Subject to certain exceptions, under the Bankruptcy Code, the Debtors may assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. The rejection of an executory contract or unexpired lease is generally treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Debtors of performing their future obligations under such executory contract or unexpired lease but entitles the contract

counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts of leases may assert claims against the applicable Debtors' estate for such damages. The assumption of an executory contract or unexpired lease generally requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease with the Debtors in this Quarterly Report, including where applicable a quantification of our obligations under any such executory contract or unexpired lease with the Debtors, is qualified by any overriding rejection rights we have under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the

Table of Contents

rejection of any executory contract or unexpired lease and the Debtors expressly preserve all of their rights with respect thereto.

The Debtors' condensed consolidated financial statements include amounts classified as Liabilities Subject to Compromise (as defined below) that the Debtors believe the Bankruptcy Court will allow as claim amounts resulting from the Debtors' rejection of various executory contracts and unexpired leases and defaults under the debt agreements. Additional amounts may be included in Liabilities Subject to Compromise in future periods if additional executory contracts and unexpired leases are rejected. Conversely, the Debtors expect that the assumption of certain executory contracts and unexpired leases may convert certain liabilities shown in future financial statements as subject to compromise to post-petition liabilities. Due to the uncertain nature of many of the potential claims, the magnitude of such claims is not reasonably estimable at this time. Such claims may be material (see "Liabilities Subject to Compromise" below).

Magnitude of Potential Claims. On August 28, 2015, the Debtors filed with the Bankruptcy Court schedules and statements setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith (the "Schedules and Statements"). The Debtors amended their Schedules and Statements on October 14, 2015, and may subsequently decide to further amend or modify their Schedules and Statements.

Certain holders of pre-petition claims were required to file proofs of claim by the Bar Date. As of May 5, 2016, approximately 1,516 claims totaling approximately \$4.90 billion had been filed with the Bankruptcy Court against the Debtors. It is possible that claimants will file amended claims in the future, including claims amended to assign values to claims originally filed with no designated value. Through the claims resolution process, we have identified, and we expect to continue to identify, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. We will file objections with the Bankruptcy Court as necessary for claims we believe should be disallowed. Claims we believe are allowable are reflected in "Liabilities Subject to Compromise" in the Condensed Consolidated Balance Sheets.

Through the claims resolution process, differences in amounts scheduled by the Debtors and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate. In light of the number of claims filed, the claims resolution process will take additional time to complete, and it may continue after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

Costs of Reorganization. The Debtors have incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations. For additional information, see "Reorganization Items, net" below.

Effect of Filing on Creditors and Shareholders. Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before the holders of our existing common stock are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation and implementation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 proceedings to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of Debtors' liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. As discussed below, if certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by the holders of our common stock and notwithstanding the fact that such holders do not receive or retain any property on account of their equity interests under the plan. Because of such possibilities, the value of our securities, including our common stock, is highly speculative.

Subject to certain exceptions, under the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or filing of other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the date of the Bankruptcy Petitions. Accordingly, although the filing of the Bankruptcy Petitions triggered defaults on the Debtors' debt obligations, creditors are stayed from taking any actions against the Debtors as a result of such defaults, subject to certain limited exceptions

Table of Contents

permitted by the Bankruptcy Code. Absent an order of the Bankruptcy Court, substantially all of the Debtors' prepetition liabilities are subject to settlement under the Bankruptcy Code.

Notice and Hearing Procedures for Trading in Claims and Equity Securities. The Bankruptcy Court issued a final order pursuant to Sections 105(a), 362(a)(3) and 541 of the Bankruptcy Code to enable the Debtors to avoid limitations on the use of their tax net operating loss carryforwards and certain other tax attributes by imposing certain notice procedures and transfer restrictions on the trading of our equity securities.

In general, the order applies to any person or entity that, directly or indirectly, beneficially owns (or would beneficially own as a result of a proposed transfer) at least 4.75% of our outstanding equity securities. Substantial Equityholders are required to file with the Bankruptcy Court and serve us with notice of such status. In addition, the order provides that a person or entity that would become a Substantial Equityholder by reason of a proposed acquisition of our equity securities is also required to comply with the notice and service provisions before effecting that transaction. The order gives the Debtors the right to seek an injunction from the Bankruptcy Court to prevent certain acquisitions or sales of our equity securities if the acquisition or sale might adversely affect our ability to utilize such tax attributes.

Under the order, prior to any proposed acquisition of equity securities that would result in an increase in the amount of our equity securities owned by a Substantial Equityholder, or that would result in a person or entity becoming a Substantial Equityholder, such person, entity or Substantial Equityholder is required to file with the Bankruptcy Court, and serve on the Company, a Notice of Intent to Purchase, Acquire or Otherwise Accumulate an Equity Security. In addition, prior to effecting any disposition of our equity securities that would result in a decrease in the amount of our equity securities beneficially owned by a Substantial Equityholder, such Substantial Equityholder is required to file with the Bankruptcy Court, and serve on the Company, a Notice of Intent to Sell, Trade or Otherwise Transfer Equity Securities. Lastly, prior to filing any federal or state tax return or any amendment to such return that claims any deduction for worthlessness regarding our equity securities for a tax year ending before our emergence from Chapter 11, certain shareholders must file with the Bankruptcy Court, and serve on the Company, a Declaration of Intent to Claim a Worthless Stock Deduction, which the Debtors may object to if the claim might adversely affect our ability to utilize our tax attributes.

Any purchase, sale or other transfer of our equity securities in violation of the restrictions of the order would be null and void ab initio as an act in violation of such order and would therefore confer no rights on a proposed transferee.

Plan of Reorganization. A Chapter 11 plan of reorganization, among other things, determines the rights and satisfaction of claims of various creditors and security holders of an entity operating under the protection of the Bankruptcy Court and is subject to the ultimate outcome of stakeholder negotiations and Bankruptcy Court decisions ongoing through the date on which the Chapter 11 plan is confirmed. In order for the Debtors to emerge successfully from the Chapter 11 Cases as reorganized companies, they must obtain approval from the Bankruptcy Court and certain of their respective creditors for a Chapter 11 plan of reorganization. On January 26, 2016, the Debtors filed with the Bankruptcy Court the Disclosure Statement for Joint Chapter 11 Plan of Reorganization of Sabine Oil & Gas Corporation and its Debtor Affiliates (as further amended, modified, or supplemented from time to time and including all exhibits and supplements thereto, the "Disclosure Statement") filed in support of the Join Chapter 11 Plan of Reorganization of Sabine Oil & Gas Corporation and its Debtor Affiliates (as further amended, modified, or supplemented from time to time and including all exhibits and supplements thereto, the "Plan of Reorganization") subsequently amended on March 31, 2016 and on April 27, 2016. If the Plan of Reorganization currently on file is confirmed it would significantly reduce our outstanding long-term debt and annual interest payments. On April 29, 2016, the Bankruptcy Court approved the adequacy of the Disclosure Statement. On May 2, 2016, the Debtors filed the solicitation versions of the Plan of Reorganization and the Disclosure Statement. The hearing to consider confirmation of the Plan of Reorganization is expected to commence on June 13, 2016. Although the Debtors

currently have the exclusive right to file a plan and solicit the appropriate votes thereon, such rights expire on June 9, 2016 and August 9, 2016, respectively. There can be no assurances regarding our ability to successfully develop, confirm or consummate the Plan of Reorganization, an alternative plan of reorganization or alternative restructuring transaction, including a sale of all or substantially all of our assets.

In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in

Table of Contents

order to become effective. A plan of reorganization would be accepted by holders of claims against and equity interests in the Debtors if (i) at least one-half in number and two-thirds in dollar amount of claims actually voting in each class of claims impaired by the plan have voted to accept the plan and (ii) at least two-thirds in amount of equity interests actually voting in each class of equity interests impaired by the plan has voted to accept the plan. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan.

Under certain circumstances set forth in Section 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. The precise requirements and evidentiary showing for confirming a plan notwithstanding its rejection by one or more impaired classes of claims or equity interests depends upon a number of factors, including the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock). Generally, with respect to common stock interests, a plan may be “crammed down” even if the shareowners receive no recovery if the proponent of the plan demonstrates that (1) no class junior to the common stock is receiving or retaining property under the plan and (2) no class of claims or interests senior to the common stock is being paid more than in full.

For the duration of the Company’s Chapter 11 proceedings, the Company’s operations and ability to develop and execute its business plan are subject to the risks and uncertainties associated with the Chapter 11 process as described in Item 1A, “Risk Factors.” As a result of these risks and uncertainties, the number of the Company’s outstanding shares and shareholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 proceedings, and the description of the Company’s operations, properties and capital plans included in this quarterly report may not accurately reflect its operations, properties and capital plans following the Chapter 11 process.

Liquidity and Ability to Continue as a Going Concern

The Company’s filing of the Bankruptcy Petitions described in Note 2 herein constituted an event of default that accelerated the Company’s obligations under the New Revolving Credit Facility, the Term Loan Facility, the 2017 Notes and the Legacy Forest Notes. The Company has classified all debt as long term as “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet as of March 31, 2016 (see Note 3). If the Company cannot continue as a going concern, adjustments to the carrying values and classification of its assets and liabilities and the reported income and expenses could be required and could be material. For additional description of the defaults present under the Company’s debt obligations, please see Note 6 herein.

On February 25, 2015, the Company borrowed approximately \$356 million under its New Revolving Credit Facility which represented the remaining undrawn amount under the New Revolving Credit Facility. As of March 31, 2016, the Company did not have credit extensions available under the New Revolving Credit Facility due to the going concern qualification in the Company’s 2015 and 2014 audited financial statements and certain other defaults described below. As of March 31, 2016, the total outstanding principal amount of the Company’s debt obligations was \$2.8 billion, consisting of approximately \$902 million of borrowings under the New Revolving Credit Facility, \$350 million of the 2017 Notes, \$800 million of the Legacy Forest Notes, and a \$700 million Term Loan Facility. Additionally, the Company’s cash balance at March 31, 2016 was approximately \$170.4 million. For additional detail on each of the debt obligations, including definitions of the terms “New Revolving Credit Facility,” “2017 Notes,” “Term Loan Facility” and “Legacy Forest Notes,” please see Note 6 herein.

Events of default, including cross-defaults, are present due to the failure to make interest payments, the failure to make the borrowing base deficiency payments, the “going concern” qualification in the Company’s 2015 and 2014 audited financial statements and other matters. For additional detail regarding the Company’s other defaults under its

debt obligations please see Note 6 herein.

We are making adequate protection payments to the lenders under the New Revolving Credit Facility in an amount equal to the non-default rate of interest, fees and costs due and payable on a monthly basis under the New Revolving Credit Facility, in accordance with the cash collateral order filed with the Bankruptcy Court. Additionally, cash generated by the Company deemed to be proceeds of the oil and gas properties that represent prepetition collateral is

11

Table of Contents

deposited into a segregated account, which is reflected as Cash in the Condensed Consolidated Balance Sheet as of March 31, 2016, and it is used solely to pay for the operations of the prepetition collateral properties.

Given uncertainty surrounding Chapter 11 proceedings, recurring losses from operations and shareholders' deficit, there is substantial doubt about our ability to continue as a going concern.

The number of our outstanding shares and shareholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 proceedings.

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of the uncertainties as discussed above.

3. Significant Accounting Policies

Basis of Presentation

The Company presents its condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The accompanying condensed consolidated financial statements include Sabine and its wholly owned subsidiaries. All intercompany transactions have been eliminated. In the opinion of management, all adjustments, which are of a normal recurring nature, have been made that are necessary for a fair presentation of the financial position of the Company at March 31, 2016, and the results of its operations and its cash flows for the periods presented. Interim results are not necessarily indicative of expected future results because of various factors including the impact of fluctuations in the prices of oil, natural gas, and NGLs and the impact the prices have on the Company's revenues and the fair values of its derivative instruments.

For a more complete understanding of the Company's operations, financial position, and accounting policies, reference is made to the consolidated financial statements of the Company, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, previously filed with the Securities and Exchange Commission ("SEC") on March 24, 2016.

As a result of sustained losses and our Chapter 11 proceedings, the realization of assets and satisfaction of liabilities, without substantial adjustments and/or changes in ownership, are subject to uncertainty.

The accompanying condensed consolidated interim financial statements do not purport to reflect or provide for the consequences of our Chapter 11 proceedings. In particular, the condensed consolidated financial statements do not purport to show (i) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (ii) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (iii) as to shareholders' equity accounts, the effect of any changes that may be made in our capitalization; or (iv) as to operations, the effect of any changes that may be made to our business.

We have applied ASC 852 "Reorganizations," in preparing our condensed consolidated interim financial statements. ASC 852 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that are realized

or incurred in the bankruptcy proceedings are recorded in “Reorganization Items, net” in the accompanying Condensed Consolidated Statements of Operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified in our Condensed Consolidated Balance Sheets at March 31, 2016 in “Liabilities Subject to Compromise”. These liabilities include unsecured and under secured obligations which are reported at the amounts expected to be allowed as claims by the Bankruptcy Court, even if they may be settled for lesser amounts.

While operating as debtors in possession under Chapter 11 of the Bankruptcy Code, the Debtors may sell or otherwise dispose of or liquidate assets or settle liabilities in amounts other than those reflected in our condensed consolidated interim financial statements, subject to the approval of the Bankruptcy Court or otherwise as permitted in the ordinary course of business.

Table of Contents

Liabilities Subject to Compromise

The following table summarizes the components of liabilities subject to compromise (herein referred to as the “Liabilities Subject to Compromise”) included in our Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015:

	March 31, 2016 (in thousands)	December 31, 2015
Accounts payable	\$ 23,649	\$ 23,655
Accrued liabilities	12,522	12,108
Accrued interest payable	74,222	74,222
Debt	2,752,149	2,752,149
Other short-term liabilities	9,400	9,400
Legal and terminated contracts	36,596	36,596
Liabilities subject to compromise	\$ 2,908,538	\$ 2,908,130

Liabilities Subject to Compromise refers to pre-petition obligations that may be impacted by the Chapter 11 reorganization process. The amounts represent our current estimate of known or potential obligations to be resolved in connection with our Chapter 11 proceedings.

Differences between liabilities we have estimated and the claims filed, or to be filed, will be investigated and resolved in connection with the claims resolution process. We will continue to evaluate these liabilities throughout the Chapter 11 process and adjust amounts prospectively as necessary. Such adjustments may be material.

Reorganization Items, net

The following table summarizes the components included in “Reorganization Items, net” in our Condensed Consolidated Statement of Operations for the three months ended March 31, 2016:

	For the Three Months Ended March 31, 2016 (in thousands)
Professional fees	\$ 29,388
Deferred financing costs and unamortized discounts	-
Terminated contracts	-
Interest and other	(14)
Total Reorganization items, net	\$ 29,374

The Company uses this category to reflect the net revenues, expenses, gains and losses that are the result of the reorganization and restructuring of the business.

Professional fees included in Reorganization items, net represent professional fees for post-petition expenses.

During the pendency of the bankruptcy proceedings, the Company will operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. ASC 852-10 applies to entities that have filed a petition for bankruptcy under Chapter 11 of the Bankruptcy Code. The guidance requires that transactions and events directly associated with the reorganization be distinguished from the ongoing operations of the business. In addition, the guidance provides for changes in the accounting and presentation of liabilities, as well as expenses and income directly associated with the Chapter 11 Cases.

Table of Contents

Cash and Cash Equivalents

All highly liquid investments purchased with an initial maturity of three months or less are considered to be cash equivalents.

Concentration of Credit Risk

The Company's significant receivables are comprised of oil and natural gas revenue receivables. The amounts are due from a limited number of entities; therefore, the collectability is dependent upon the general economic conditions of a few purchasers. The Company regularly reviews collectability and establishes the allowance for doubtful accounts as necessary using the specific identification method. The receivables are not collateralized.

Oil and Natural Gas Properties and Equipment

For the three months ended March 31, 2016, the Company recognized an impairment of \$86.0 million for the carrying value of oil and natural gas properties. For the three months ended March 31, 2015, the Company recognized an impairment of \$236.5 million for the carrying value of proved oil and natural gas properties. The impairments in 2016 are primarily related to a significant drop in commodity prices for oil and natural gas. The average of the historical unweighted first day of the month prices for the prior twelve month periods ended March 31, 2016 and 2015 were \$2.39 and \$3.88, respectively, for natural gas. The average of the historical unweighted first day of the month prices for the prior twelve month periods ended March 31, 2016 and 2015 were \$46.26 and \$82.72, respectively, for oil. The Company could experience additional reductions in the carrying value of its oil and natural gas properties if the average of the unweighted first day of the month oil and natural gas prices for the prior twelve month periods continue to decline.

The Company's depletion expense on oil and natural gas properties is calculated each quarter utilizing period end proved reserve quantities. The Company recorded \$19.1 million and \$53.2 million of depletion on oil and natural gas properties for the three months ended March 31, 2016 and 2015, respectively. As a rate of production, depletion was \$0.90 per Mcfe and \$1.94 per Mcfe for the three months ended March 31, 2016 and 2015, respectively.

Financial Instruments

The Company's financial instruments including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The New Revolving Credit Facility, The Term Loan Facility, 2017 Notes, 2019 Notes and 2020 Notes are carried at face value as of March 31, 2016 and December 31, 2015. See Note 11 for fair value measurements related to these instruments. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the amounts the Company could realize upon the purchase or refinancing of such instruments.

Use of Estimates

The preparation of the condensed consolidated financial statements for the Company in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company's condensed consolidated financial statements are based on a number of significant estimates, including acquisition purchase price allocations, fair value of derivative instruments, oil, natural gas liquids and natural gas reserve quantities that are the basis for the calculation of Depreciation, Depletion and Amortization ("DD&A") and impairment of oil, natural gas liquids and natural gas properties, assumptions for timing and costs associated with its asset retirement obligations and estimates for certain damages that may be accepted in the Chapter 11 process.

Loss per Share

No potential common shares are included in the computation of any diluted per share amount when a net loss exists because they would be deemed antidilutive, as was the case for the three months ended March 31, 2016 and 2015.

14

Table of Contents

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 requires lessees to record the assets and liabilities arising from leases in the balance sheet. This guidance also requires additional qualitative disclosures along with specific quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and sets rules for how this information should be disclosed in the financial statements. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. The Company plans to adopt ASU 2014-15 prospectively for the annual period ending December 31, 2016. Pursuant to ASU 2014-15, the Company is required to consider whether there are adverse conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued and the probability that management’s plans will mitigate the adverse conditions or events (if any). Adverse conditions or events would include, but not be limited to, negative financial trends (such as recurring operating losses, working capital deficiencies, or insufficient liquidity), a need to restructure outstanding debt to avoid default, and industry developments (for example commodity price declines and regulatory changes).

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under existing generally accepted accounting principles. This new standard is based upon the principal that revenue is recognized to depict the transfer of 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. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In July 2015, the FASB elected to defer the effective date of ASU 2014-09 until annual and interim periods beginning after December 15, 2017. Entities have the option of using either a retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

4. Significant Customers

During the three months ended March 31, 2016 purchases by Enbridge Pipeline (East Texas) LP, Laclede Energy, NGL Crude Logistics LLC and Eastex Crude Company accounted for approximately 35%, 24%, 13% and 13%, respectively, of oil, natural gas liquids and natural gas sales. During the three months ended March 31, 2015 purchases by Enbridge Pipeline (East Texas) LP, NGL Crude Logistics LLC and Laclede Energy accounted for approximately 22%, 15% and 12%, respectively, of oil, natural gas liquids and natural gas sales.

5. Income Taxes

Effective Tax Rate

For the three months ended March 31, 2016 and March 31, 2015, we recorded no income tax expense or benefit, resulting in an effective tax rate of 0%. The significant difference between our effective tax rate and the federal statutory income tax rate of 35% is due to a full valuation allowance recorded on net deferred tax assets in excess of deferred tax liabilities. A valuation allowance is established to reduce deferred tax assets when it is more likely than

not that some portion or all of the deferred tax asset will not be realized. As of March 31, 2016 and December 31, 2015, the Company believes it is more likely than not that the overall deferred tax asset will not be realized. As of March 31, 2016, the Company did not have any uncertain tax positions requiring adjustments to its liability.

Table of Contents

6. Debt

Senior Notes

2017 Notes

The Company and the Company's subsidiary Sabine Oil & Gas Finance Corporation, formerly NFR Energy Finance Corporation, have \$350 million in 9.75% senior unsecured notes due 2017 (the "2017 Notes") currently outstanding. The 2017 Notes are unsecured obligations that bear interest at a rate of 9.75% per annum, payable semi-annually on February 15 and August 15 each year. No interest expense has been recognized subsequent to the petition date.

As of March 31, 2016 and December 31, 2015 the 2017 Notes are presented as "Liabilities Subject to Compromise," whereas the carrying value equals the face value. As of the petition date, the Company had accrued \$14.1 million of interest related to the 2017 notes, reflected in "Liabilities Subject to Compromise".

The 2017 Notes were issued under, and are governed by, an indenture dated February 12, 2010 by and among Sabine Oil & Gas Corporation, Sabine Oil & Gas Finance Corporation, the Bank of New York Mellon Trust Company, N.A. as trustee, and guarantors party thereto. The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the 2017 Notes.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the defaults.

2019 Notes

The Company has \$577.9 million in 7¼% senior notes due 2019 (the "2019 Notes"). Interest on the 2019 Notes is payable semiannually on June 15 and December 15. No interest expense has been recognized subsequent to the petition date.

Certain subsidiaries of the Company are guarantors to the 2019 Notes. See Note 14 for additional details.

As of March 31, 2016 and December 31, 2015, the 2019 Notes are presented as "Liabilities Subject to Compromise," whereas the carrying value equals the face value. As of the petition date the Company had accrued \$24.3 million of interest related to the 2019 notes, reflected in "Liabilities Subject to Compromise".

On February 25, 2015, the Company received notice that Wilmington Savings Fund Society, FSB was appointed as successor trustee under the indenture governing the 2019 Notes. The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the 2019 Notes.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

2020 Notes

The Company has \$222.1 million in 7½% senior notes due 2020 (the "2020 Notes", and collectively with the 2019 Notes, the "Legacy Forest Notes"). Interest on the 2020 Notes is payable semiannually on March 15 and September 15. No interest expense has been recognized subsequent to the petition date.

Certain subsidiaries of the Company are guarantors to the 2020 Notes. See Note 14 for additional details.

As of March 31, 2016 and December 31, 2015, the 2020 Notes are presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$5.5 million of interest related to the 2020 notes, reflected in “Liabilities Subject to Compromise”.

Table of Contents

On May 14, 2015, the Company received notice that Delaware Trust Company was appointed as successor trustee under the indenture governing the 2020 Notes. The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the 2020 Notes.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

The New Revolving Credit Facility

The New Revolving Credit Facility provides for a \$2 billion revolving credit facility, with an initial borrowing base of \$1 billion. The New Revolving Credit Facility includes a sub-limit permitting up to \$100 million of letters of credit. On April 27, 2015 the borrowing base for the New Revolving Credit Facility was reduced to \$750 million. The New Revolving Credit Facility matured on April 7, 2016; however, as a result of the filing of the Bankruptcy Petitions, the obligations are subject to the Bankruptcy Court automatic stay.

The Company's filing of the Bankruptcy Petitions described in Note 2 herein constituted an event of default that accelerated the Company's obligations under the New Revolving Credit Facility. Additionally other events of default, including cross-defaults, are present due to the failure to make interest payments, the failure to make the borrowing base deficiency payments, the "going concern" qualification in the Company's 2015 and 2014 audited financial statements and other matters.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

The Company is making adequate protection payments to the lenders under the New Revolving Credit Facility in an amount equal to the non-default rate of interest, fees and costs due and payable on a monthly basis under the New Revolving Credit Facility, in accordance with the cash collateral order filed with the Bankruptcy Court. Additionally, cash generated by the Company deemed to be proceeds of the oil and gas properties that represent prepetition collateral is deposited into a segregated account, which is reflected as Cash in the Condensed Consolidated Balance Sheet as of March 31, 2016, and it is used solely to pay for the operations of the prepetition collateral properties.

Prior to May 29, 2015, loans under the New Revolving Credit Facility bore interest at the Company's option at either:

- the sum of (1) the Alternate Base Rate, which is defined as the highest of (a) Wells Fargo Bank, National Association's prime rate; (b) the federal funds effective rate plus 0.50%; or (c) the Eurodollar Rate (as defined in the New Revolving Credit Facility) for a one-month interest period plus 1% and (2) a margin varying from 0.50% to 1.50% depending on the Company's most recent borrowing base utilization percentage (the "Revolving Base Rate"); or
- the Eurodollar Rate plus a margin varying from 1.50% to 2.50% depending on the Company's most recent borrowing base utilization percentage.

Beginning in May 29, 2015 and thereafter during the occurrence of an event of default under the New Revolving Credit Facility, the loans under the New Revolving Credit Facility bear interest at the Revolving Base Rate.

Borrowings outstanding under the New Revolving Credit Facility totaled approximately \$902 million at both March 31, 2016 and December 31, 2015. Additionally, borrowings outstanding under the New Revolving Credit Facility had a weighted average interest rate of 5.1% and 2.6% for the three months ended March 31, 2016 and 2015, respectively.

The New Revolving Credit Facility provides that all such obligations and the guarantees will be secured by a lien on at least 80% of the PV-9 of the borrowing base properties evaluated in the most recent reserve report delivered to the administrative agent and a pledge of all of the capital stock of the Company's restricted subsidiaries, subject to certain

customary grace periods and exceptions.

17

Table of Contents

As of March 31, 2016 and December 31, 2015 the New Revolving Credit Facility is presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. Interest expense continues to be recognized on the New Revolving Credit Facility subsequent to the petition date.

Term Loan Facility

The Company has a \$700 million second lien term loan agreement (“Term Loan Facility”) with a maturity date of December 31, 2018 (provided that if the 2017 Notes are not refinanced to mature at least 91 days thereafter, the maturity date shall be 91 days prior to the February 15, 2017 maturity date of the 2017 Notes).

The Term Loan Facility, including with respect to interest and, in the case of eurodollar borrowings, bears interest at the Adjusted Eurodollar Rate plus 7.50%, with an interest rate floor of 1.25%, and, in the case of alternate base rate borrowings, bears interest at the Alternate Base Rate plus 6.50%, with an interest rate floor of 2.25%. Any time an interest period for loans expires during an event of default under the Term Loan Facility, such loans will bear interest at the Term Base Rate. The weighted average interest rate incurred on this indebtedness for the three months ended March 31, 2016 and 2015, was zero and 8.8%, respectively.

The Company’s filing of the Bankruptcy Petitions described above in Note 2 constituted an event of default that accelerated the Company’s obligations under the Term Loan Facility. Additionally other events of default are present due to the failure to make interest payments, the “going concern” qualification in the Company’s 2015 and 2014 audited financial statements and other matters. Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

As of March 31, 2016 and December 31, 2015 the Term Loan is presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$30.2 million of interest related to the Term Loan Facility, reflected in “Liabilities Subject to Compromise”. No interest expense has been recognized subsequent to the petition date.

All of the Company’s guarantees for its New Revolving Credit Facility have guaranteed the Term Loan Facility. The obligations under the Term Loan Facility are secured by the same collateral that secures the New Revolving Credit Facility, but the liens securing such obligations are second priority liens to the liens securing the New Revolving Credit Facility. However, the validity of certain liens securing the Term Loan Facility are currently in dispute pursuant to the lawsuit filed by the Company against the Term Loan Facility administrative agent, Wilmington Trust, N.A.

7.Shareholders’ Deficit

Common Stock

At March 31, 2016, the Company had 650.0 million Common Shares, par value \$0.10 per share, authorized and 202.8 million shares issued and outstanding.

Approximately 0.7 million shares of service-based restricted stock were awarded in the three months ended March 31, 2015. No additional shares of service-based restricted stock were awarded subsequent to March 31, 2015. Refer to Note 8.

The Company has a significant amount of indebtedness that is senior to its existing common stock in its capital structure. As a result, the Company believes that it is highly likely that the shares of its existing common stock will be cancelled in its Chapter 11 proceedings and will be entitled to a limited recovery, if any. Additionally, as a result of the filing of the Bankruptcy Petitions, the Company’s common stock can no longer be traded on the OTCQB Marketplace and is now trading on the OTC Pink Marketplace.

Preferred Stock

At March 31, 2016, the Company had 10.0 million Series A Preferred Shares, par value \$0.01, authorized and 2.5 million shares issued and outstanding.

18

Table of Contents

The Series A Preferred Shares are convertible into Sabine Common Shares at the option of Legacy Sabine Investors if (1) the Legacy Sabine Investors are able to convert a portion of the Series A Preferred Shares into Common Shares and, as a result of such conversion, would not, together with affiliates, hold more than 50% of the Company's voting power and (2) Sabine's board of directors (the "Board") approves such conversion (such approval not to be unreasonably withheld). In addition, Series A Preferred Shares will convert automatically if the Legacy Sabine Investors transfer such shares to a third party and such third party would not, together with its affiliates, hold more than 50% of the Company's voting power upon receipt of such shares as voting securities.

The Series A Preferred Shares are non-voting. Initially, in connection with a conversion of Series A Preferred Shares into Common Shares as described in the preceding paragraph, each Series A Preferred Share will be convertible into 100 Common Shares.

The Company has a significant amount of indebtedness that is senior to its existing preferred stock in its capital structure. As a result, the Company believes that it is highly likely that the shares of its existing preferred stock will be cancelled in its Chapter 11 proceedings and will be entitled to a limited recovery, if any.

Incentive Units

The Incentive Units represent the equivalent of stock appreciation rights redeemable for an applicable number of common shares of the Company (based on the value of the common shares) awarded to certain employees and directors of the Company on or before December 16, 2014. The Incentive Units were considered to be equity-based awards with a total grant date fair value of approximately \$2.1 million, of which compensation expense will be recognized on a straight line basis over the requisite derived service period. The compensation expense recognized during the three months ended March 31, 2016 was approximately \$0.1 million.

The Company has a significant amount of indebtedness that is senior to its existing Incentive Units in its capital structure. As a result, the Company believes that it is highly likely that the shares of its existing Incentive Units will be cancelled in its Chapter 11 proceedings and will be entitled to a limited recovery, if any.

8. Stock-Based Compensation**Description of plan**

The Company's 2014 LTIP includes non-statutory options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock, dividend equivalents, and other stock-based awards which may be granted to employees, directors and consultants of the Company. The aggregate number of shares of common stock that the Company may issue under the 2014 LTIP may not exceed 40 million shares. As of March 31, 2016, the Company had 4.4 million shares available for issuance under the 2014 LTIP.

Restricted stock

The following table summarizes the restricted stock activity in the 2014 LTIP for the year ended March 31, 2016.

	Restricted Stock Awards		
	Weighted		
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares Remaining Available for Future Issuance under 2014 LTIP
Unvested at December 31, 2015	10,099,291	\$ 0.33	4,301,665

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Awarded	—	—	—
Vested	(1,064,331)	0.32	—
Forfeited	(100,318)	0.34	100,318
Unvested at March 31, 2016	8,934,642	0.33	4,401,983

Table of Contents

The grant date fair value of restricted stock is determined by averaging the high and low stock price of a share of Sabine common stock as published by the OTC Bulletin Board on the date of grant. Of the unvested restricted stock as of March 31, 2016, 8,019,175 shares vest as follows: (i) two-thirds will vest in one-fourth increments on each of the first four anniversaries of the date of grant and (ii) one-third will vest in full on the fourth anniversary of the date of grant; 465,467 shares vest ratably over three years and 450,000 shares vest ratably over four years. Restricted stock may vest earlier upon a qualifying disability, death, certain involuntary terminations, or a change in control of the Company in accordance with the terms of the underlying agreement.

The Company has a significant amount of indebtedness that is senior to its existing common stock in its capital structure. As a result, the Company believes that it is highly likely that the shares of its existing restricted stock will be cancelled in its Chapter 11 proceedings and will be entitled to a limited recovery, if any.

Compensation costs

During the three months ended March 31, 2016 and 2015, the Company recognized approximately \$0.6 million, and \$0.4 million, respectively, in stock based compensation expense which is included in General and Administrative expense in the Condensed Consolidated Statement of Operations.

9.Statement of Cash Flows

The Company paid \$11.2 million and \$42.8 million for interest during the three months ended March 31, 2016 and 2015, respectively, net of capitalized interest. During the three months ended March 31, 2016 the Company paid \$21.7 million for reorganization items.

During the three months ended March 31, 2016, Sabine's noncash investing and financing activities consisted primarily of the following transactions:

- Accrued and payable capital expenditures as of March 31, 2016 were approximately \$4.4 million.

During the three months ended March 31, 2015, Sabine's noncash investing and financing activities consisted primarily of the following transactions:

- Accrued and payable capital expenditures as of March 31, 2015 were \$76.4 million.

10.Derivative Financial Instruments

The Company's Bankruptcy Petition in July 2015 represented an event of default under Sabine's existing derivative agreements resulting in a termination right by counterparties on all derivative positions at July 15, 2015. Additionally, certain of the Company's derivative positions were terminated prior to July 15, 2015 as a result of defaults under Sabine's derivative agreements that occurred prior to the filing of the Bankruptcy Petition. As a result, the Company no longer has any derivatives beyond July 2015.

The table below presents the Company's "Gain on derivative instruments" located in Other income (expenses) in the Condensed Consolidated Statements of Operations:

	For the Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Gain on derivative instruments	\$ —	\$ 36,124

Sabine received zero and \$46.0 million on settlements of derivatives in three months ended March 31, 2016 and 2015, respectively.

Table of Contents

11. Fair Value Measurements

Fair value is the price 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 (exit price). 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 Company classifies fair value balances based on the observability of those inputs.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, basis swaps, options, and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Table of Contents

The Company measures fair value of its debt based on recent trade activity for fixed rate obligations, 2017 Notes, 2019 Notes and 2020 Notes, on a Level 2 methodology using quoted market prices which include consideration of the Company's credit risk. The value of the New Revolving Credit Facility and Term Loan Facility were stated at the carrying value, as a basis for fair value is indeterminable. The following table outlines the fair value of the 2017 Notes, 2019 Notes and 2020 Notes as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	(in thousands)	
New Revolving Credit Facility		
Carrying Value	\$ 902,148	\$ 902,148
Fair Value	(1)	\$ (1)
Term Loan Facility		
Carrying Value	\$ 700,000	\$ 700,000
Fair Value	(1)	\$ (1)
2017 Senior Notes		
Carrying Value (2)	\$ 350,000	\$ 350,000
Fair Value	\$ 3,281	\$ 17,281
2019 Senior Notes		
Carrying Value (2)	\$ 577,914	\$ 577,914
Fair Value	\$ 6,863	\$ 27,090
2020 Senior Notes		
Carrying Value (2)	\$ 222,087	\$ 222,087
Fair Value	\$ 2,498	\$ 10,827

(1) The value of the New Revolving Credit Facility and Term Loan Facility were stated at the carrying value, as a basis for fair value is indeterminable.

(2) The carrying value equals the face value and are presented as a long term liability in "Liabilities Subject to Compromise".

Assets and liabilities acquired in business combinations were recorded at their fair value as of the date of acquisition. The inputs used to determine such fair value were primarily based upon internally developed cash flow models and would generally be classified as Level 3. Additionally, the Company uses fair value to determine the inception value of the Company's asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified as Level 3.

12. Commitments and Contingencies

Legal and Regulatory

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. All known liabilities are accrued when probable and reasonably estimable based on

the Company's best estimate of the potential loss. The Company has recognized \$29.0 million of accrued liabilities in relation to legal proceedings, of which \$27.0 million is classified within "Other long-term liabilities" and \$2 million is classified within "Liabilities Subject to Compromise" in the Condensed Consolidated Balance Sheet as of March 31, 2016. As of December 31, 2015 the Company recognized \$28.7 million of accrued liabilities in relation to legal proceedings, of which \$26.7 million was classified within "Other long-term liabilities" and \$2 million was classified within "Liabilities Subject to Compromise" in the Condensed Consolidated Balance Sheet. Additionally, as of March 31, 2016, the Company had Asset Retirement Obligations ("ARO") of approximately \$50.8 million, of which

Table of Contents

\$9.4 million was reported in “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet. As of December 31, 2015, the Company had AROs of approximately \$50.3 million, of which \$9.4 million was reported in “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet attributable to the plugging of abandoned wells. There have been no updates to significant legal cases in the three months ended March 31, 2016 other than that all pre-petition litigation (with the exception of Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al., discussed below) has been stayed due to the filing of Sabine’s voluntary petition for relief under Chapter 11 of the Bankruptcy Code.

Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

On February 29, 2012, two members of a three-member arbitration panel reached a decision adverse to the Company in the proceeding styled Forest Oil Corp. et al. v. El Rucio Land & Cattle Co. et al. The third member of the arbitration panel dissented. The proceeding was initiated in January 2005 and involves claims asserted by the landowner-claimant based on the diminution in value of its land and related damages allegedly resulting from operational and reclamation practices employed by Forest Oil in the 1970s, 1980s, and early 1990s. The arbitration decision awarded the claimant \$23 million in damages and attorneys’ fees and additional injunctive relief regarding future surface-use issues. On October 9, 2012, after vacating a portion of the decision imposing a future bonding requirement on the Company, the trial court for the 55th Judicial District of Harris County, Texas, reduced the arbitration decision to a judgment. The judgment was affirmed by the Court of Appeals for the First District of Texas on July 24, 2014, and a motion for rehearing was denied on August 8, 2014. The Company filed a petition for review with the Texas Supreme Court on January 5, 2015. On May 1, 2015, the Texas Supreme Court requested full briefing on the merits. On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. On September 15, 2015, the bankruptcy court granted an unopposed motion to lift the automatic stay thereby allowing the appeal currently pending in the Texas Supreme Court to move forward. All briefing in the matter is now completed.

Stourbridge Investments, LLC v. Forest Oil Corporation, et al., Raul v. Carroll, et al., Rothenberg v. Forest Oil Corporation, et al., Gawlikowski v. Forest Oil Corporation, et al., Edwards v. Carroll, et al., Jabri v. Forest Oil Corporation, et al., Olinatz v. Forest Oil Corporation, et al.

Following the May 6, 2014 announcement of the proposed Combination, six putative class action lawsuits were filed by Forest Oil shareholder in the Supreme Court of the State of New York, County of New York, alleging breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by Sabine entities in connection with the proposed Combination. By order dated July 8, 2014, the six New York cases were consolidated for all purposes under the caption In re Forest Oil Corporation Shareholder Litigation, Index No. 651418/2014. On July 17, 2014, plaintiffs in the consolidated New York action filed a Consolidated Class Action Complaint (the “Consolidated Complaint”). The Consolidated Complaint seeks to certify a plaintiff class consisting of all holders of Forest Oil common stock other than the defendants and their affiliates. The defendants named in these actions include the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), as well as Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC). The Consolidated Complaint also purports to identify FR XI Onshore AIV, L.L.C. as a defendant, but no causes of action are alleged against that entity.

The Consolidated Complaint alleges that the proposed Combination arises out of a series of unlawful actions by the board of directors of Forest Oil seeking to ensure that Sabine and affiliates of First Reserve Corporation (“First Reserve”) acquire the assets of, and take control over, Forest Oil through an alleged “three-step merger transaction” that allegedly does not represent a value-maximizing transaction for the shareholders of Forest Oil. The Consolidated Complaint also complains that the proposed Combination has been improperly restructured to require only a majority

vote of current Forest Oil shareholders to approve the Combination with Sabine, rather than a two-thirds majority as would have been required under the original transaction structure. The Consolidated Complaint additionally alleges that members of Forest Oil's board, as well as Forest Oil's financial adviser for the proposed Combination, are subject to conflicts of interest that compromise their loyalty to Forest Oil's shareholders, that the defendants have improperly sought to "lock up" the proposed Combination with certain inappropriate "deal protection devices" that impede Forest Oil from pursuing superior potential transactions with other bidders.

Table of Contents

The Consolidated Complaint asserts causes of action against the directors of Forest Oil for breaches of fiduciary duty and violations of the New York Business Corporation Law, as well as a cause of action against the Sabine defendants for aiding and abetting the directors' breaches of duty and violations of law, and it seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission and/or rescissory and other damages in the event that the proposed Combination is consummated before the lawsuit is resolved.

In addition to these New York proceedings, one putative class action lawsuit has been filed by Forest Oil shareholders in the United States District Court for the District of Colorado. That action, captioned Olinatz v. Forest Oil Corp., No. 1:14-cv-01409-MSK-CBS, was commenced on May 19, 2014, and plaintiffs filed an Amended Complaint (the "Olinatz Complaint") on June 13, 2014. The Olinatz Complaint also alleges breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by the Sabine defendants in connection with the proposed Combination, as well as related claims alleging violations of Section 14 (a) and 20 (a) of the Securities Exchange Act of 1934, and Securities and Exchange Commission Rule 14a-9 promulgated thereunder, in connection with alleged misstatements in a Form S-4 Registration Statement filed by Forest Oil on May 29, 2014, which recommends that Forest Oil shareholders approve the proposed Combination. The Olinatz Complaint names as defendants Forest Oil and certain of its affiliates (specifically, Forest Oil Corporation, New Forest Oil Inc., and Forest Oil Merger Sub Inc.), the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), and Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC), and seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission in the event the proposed Combination is consummated before the lawsuit is resolved, as well as imposition of a constructive trust on any alleged benefits improperly received by defendants.

On October 14, 2014, on motion by the Colorado plaintiffs, the Court in the Colorado action entered an order directing the Clerk of the Court to administratively close the action, subject to reopening on good cause shown.

On November 11, 2014, the defendants reached an agreement in principle with plaintiffs in the New York action regarding a settlement of that action, and that agreement is reflected in a memorandum of understanding executed by the parties on that date. The settlement, if consummated, will also resolve the Colorado action. In connection with the settlement contemplated by the memorandum of understanding, Forest Oil agreed to make certain additional disclosures related to the proposed transaction with Sabine, which are contained in Forest Oil's November 12, 2014 Form 8-K, and Sabine agreed that, within 120 days after the closing of the proposed combination transaction, Sabine Investor Holdings LLC will designate for a period of no less than three (3) years at least one additional independent director, as defined in Section 303A.02 of the New York Stock Exchange Listed Company Manual, as a Sabine Nominee (as defined in Section 1.4 of the Amended and Restated Agreement and Plan of Merger). The total number of Sabine Nominees will remain unchanged, but at least one of the remaining two Sabine Nominees that had not yet been determined was required to be independent. In connection with the closing of the Combination, Thomas Chewing, an independent director as defined in Section 303A.02 of the New York Exchange Listed Company Manual, was appointed as a Sabine Nominee. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement.

On March 13, 2015, plaintiffs informed Sabine that they believed Sabine had materially violated the terms of the memorandum of understanding by (i) failing to replace or create a mechanism to replace an independent director who resigned from the board of directors in January of 2015, and (ii) making changes to the terms of the merger agreement that were not necessary or required to facilitate the consummation of the proposed transaction without first disclosing and permitting shareholders to vote on the changes. Sabine disagrees with plaintiffs' position and believes it has fully complied with the memorandum of understanding. In an attempt to facilitate a resolution, however, Sabine offered to:

(i) appoint an independent director if an additional director was added to the Board of Directors (bringing the total number of directors eight in the next twelve months, and (ii) remove or waive the “Reincorporation Penalty” provision. Plaintiffs accepted the offer on April 22, 2015, contingent upon the Parties’ reaching agreement on a stipulation of settlement, which they are presently negotiating.

The stipulation of settlement will be subject to customary conditions, including court approval. In the event the parties enter into a stipulation of settlement, a hearing will be scheduled at which the New York Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the Court, it will resolve and release all claims or actions that were or could have been brought challenging any aspect of the proposed

Table of Contents

combination transaction, the Amended and Restated Agreement and Plan of Merger, the merger agreement originally entered into by Sabine Investor Holdings LLC, Forest Oil, New Forest Oil Inc. and certain of their affiliated entities on May 5, 2014, any disclosure made in connection therewith, including the Definitive Proxy Statement, and all other matters that were the subject of the complaint in the New York action, pursuant to terms that will be disclosed to shareholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that the parties will negotiate in good faith regarding the amount of attorney's fees and expenses that shall be paid to plaintiffs' counsel in connection with the Actions. There can be no assurances that the parties will ultimately enter into a stipulation of settlement or that the New York Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. The parties are presently negotiating the stipulation of settlement. At this time, the Company is unable to estimate the potential outcome of this litigation or the ultimate exposure.

On July 15, 2015, Sabine filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, this matter is currently stayed.

HPIP-Gonzales Holdings, LLC v. Forest Oil Corporation

On November 11, 2014, HPIP-Gonzales Holdings, LLC ("HPIP") initiated arbitration against the Company alleging that the Company breached various provisions, along with its duty of good faith and fair dealing, of the Gathering, Treating and Processing Agreement with HPIP entered into in May 2013 (the "HPIP Gathering Agreement") and the Acid Gas Handling Agreement with HPIP entered into in May 2014 (together with the HPIP Gathering Agreement, the "HPIP Agreements"). HPIP also sought to exercise a contractual provision requiring Sabine to purchase the facilities governed by the HPIP Agreements in the event the related drilling program terminates. On December 19, 2014, the Company filed its Answering Statement and Notice of Counterclaim, denying HPIP's claims and asserting generally that HPIP breached various provisions of the agreements, resulting in damages to the Company. The Company further alleged that its drilling program had not terminated. On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, the arbitration is currently stayed. On May 11, 2016 the Bankruptcy Court issued an order authorizing rejection of the Company's midstream gathering agreements with HPIP Gonzales Holdings, LLC (the "HPIP Gathering Agreement") effective September 30, 2015.

Wilmington Savings Fund Society, FSB v. Forest Oil Corporation

On February 26, 2015, the Company was served with a complaint concerning the indenture governing its 2019 Notes. The complaint is pending in the Supreme Court of the State of New York and generally alleges that certain events of default occurred with respect to the 2019 Notes due to the business combination between Forest Oil Corporation and Sabine Oil & Gas LLC. The Company also received a notice of default and acceleration from the trustee with respect to the 2019 Notes containing similar allegations. If the Company is not successful in their defense of this complaint, the Company may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes. The Company filed its Answer to the complaint on April 17, 2015. The Company believes the allegations against it are without merit and intend to vigorously defend against such claims and pursue any and all defenses available. However, the Company is unable to predict the outcome of such matter, and the proceedings may have a negative impact on the Company's liquidity, financial condition and results of operations.

While the Company intends to vigorously defend the claims against it and believe they are without merit, an adverse ruling could cause the Company's indebtedness to become immediately due and payable.

Additional claims, lawsuits, or proceedings may be filed or commenced arising out of the indentures to which we are a party and with respect to the business combination.

On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, this matter is currently stayed.

Sabine Oil & Gas Corporation v. Wilmington Trust, N.A.

On July 15, 2015, the Company filed an adversary proceeding asserting, on its behalf, a constructive fraudulent transfer claim against the Term Loan Facility administrative agent Wilmington Trust, N.A. Specifically, the complaint

Table of Contents

(the “Complaint”) states that at the time of the Business Combination between Sabine Oil & Gas LLC and Forest Oil Corporation, Forest Oil Corporation was insolvent from a balance-sheet standpoint. The Complaint also alleges that Forest Oil Corporation did not receive reasonably equivalent value in exchange for pledging hundreds of millions of dollars of oil and gas assets to secure the Term Loan Facility debt that Sabine Oil & Gas LLC had previously incurred. Accordingly, pursuant to Bankruptcy Code Section 551, Sabine is seeking to avoid and preserve, for the benefit of the Company’s unsecured creditors, the liens imposed on legacy Forest Oil Corporation assets that secured the \$650 million in preexisting Sabine Oil & Gas LLC debt under the Term Loan Facility. In August 2015, the defendant filed a motion to dismiss, which is now fully briefed, and the Court heard oral argument on October 15, 2015, but did not rule.

On December 30, 2015, the official committee for unsecured creditors (the “Creditors Committee”) and counsel for the Forest Notes Trustees filed motions to intervene in the adversary proceeding. On January 5, 2016, the Creditors Committee also filed an objection to Wilmington Trust, N.A.’s motion to dismiss the complaint. The Court held a second hearing on the motion to dismiss on January 12, 2016, but has yet to rule.

Drilling and Completion

On August 10, 2015 the Bankruptcy Court issued orders allowing the Company to reject its rig and servicing contracts with Nabors effective July 15, 2015 and the total estimated allowable claim has been included in “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet. The rejections impacted and eliminated approximately \$29 million due over the life of the secured contracts as of the date the contracts were rejected.

On May 11, 2016, the Bankruptcy Court issued an order authorizing the rejection of the Company’s midstream gathering agreements with HPIP Gonzales Holdings, LLC (the “HPIP Gathering Agreement”) effective September 30, 2015. The rejection of the HPIP Gathering Agreement eliminates the Company’s obligation to drill at least one well per year on the relevant acreage and avoids triggering the agreement’s “put” provision, which would require the Company to purchase the gathering and processing facilities at a contractually mandated price if the drilling program terminated prior to May 2, 2017. On May 3, 2016, the Bankruptcy Court also issued an opinion finding that certain covenants contained in the HPIP Gathering Agreement do not “run with the land” as real covenants or as equitable servitudes. Due to the uncertainty of any appeals that may be filed by HPIP and the uncertainties surrounding the claims reconciliation process as well as the pending arbitration between HPIP and the Company (which is currently subject to the automatic stay) and HPIP’s pending claims against the Company in bankruptcy court, the Company is not currently able to estimate an allowable claim in relation to this matter. The Company has not recognized any amounts related to the HPIP Gathering Agreements as of March 31, 2016 or December 31, 2015.

As is customary in the oil and natural gas industry, the Company may at times have commitments in place to reserve or earn certain acreage positions or wells. If the Company does not pay such commitments, the acreage positions or wells may be lost.

Other Commitments

The Company’s filing of the Bankruptcy Petitions described in Note 2 herein constituted an event of default that accelerated the Company’s obligations under the New Revolving Credit Facility, the Term Loan Facility, the 2017 Notes and the Legacy Forest Notes. As a result, the Company has classified all debt as long term as “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet as of March 31, 2016 and December 31, 2015. For additional description of the defaults present under the Company’s debt obligations, please see Note 6 herein.

The Bankruptcy Court also issued orders allowing the Company to reject certain office leases effective September 1, 2015 and the total estimated allowable claim of approximately \$3.6 million has been included in “Liabilities Subject to

Compromise” in the Condensed Consolidated Balance Sheet as of March 31, 2016 and December 31, 2015.

On May 11, 2016, the Bankruptcy Court entered an order approving the rejection of the Company’s midstream gathering agreements with Nordheim Eagle Ford Gathering, LLC (“Nordheim”) effective December 31, 2015. During 2014, the Company had executed ten-year gas and condensate gathering agreements with Nordheim for the transportation and processing of natural gas and condensate, covering certain properties in South Texas with contractually obligated annual minimum volume commitments to deliver a cumulative 88.5 Bcfe of gas and 5,150 MBbl

Table of Contents

of condensate by September 22, 2024 (the “Nordheim Gathering Agreements”). Under the terms of the Nordheim Gathering Agreements, the Company was required to make annual deficiency payments for any shortfalls in delivering the minimum annual volumes under these commitments beginning in the third quarter of 2015, which would be partially offset by then-existing credit balances for production in excess of minimum commitments, if any. As of December 31, 2015, the Company had not delivered the minimum volumes required for the prior contract year, resulting in a deficiency of approximately \$3.0 million, which was recognized as “Liabilities subject to compromise” in the Condensed Consolidated Balance Sheet as of December 31, 2015. No additional shortfalls have been recognized subsequent to the effective date of the rejection of the Nordheim Gathering Agreements. As of March 31, 2016, the Company has not made the deficiency payment. The Company believes that rejection of the Nordheim Gathering Agreements eliminates any future obligation under the agreements to deliver minimum volumes of gas or condensate, or to make deficiency payments in the event minimum volumes are not delivered. Due to the uncertainty of any appeals that may be filed by Nordheim and the uncertainties surrounding the claims reconciliation process, the Company is not currently able to estimate an allowable claim in relation to this matter. The Company has not recognized any additional amounts related to the rejection of the Nordheim Gathering Agreements as of March 31, 2016.

The Company has executed additional gas gathering agreements for the transportation and processing of natural gas, covering certain properties in our core operating areas and contractually obligated minimum volume commitments to deliver a cumulative 6.8 Bcfe of gas by August 2018. Under the terms of these agreements, the Company is required to make deficiency payments at the end of the contractual term for any shortfalls in delivering the minimum volumes under these commitments. Based on the current development plan for these oil and gas assets, the Company does not anticipate that future production from the applicable assets and dedicated area will satisfy the future volume commitments, resulting in deficiency payments over the life of the agreements. The Company has recognized an estimated deficiency of approximately \$1.6 million and \$1.3 million as “Liabilities subject to compromise” in the Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015.

There have been no other material changes to commitments and contingencies in the three months ended March 31, 2016.

13. Subsequent Events

See Note 2, “Chapter 11 Proceedings, Liquidity and Ability to Continue as a Going Concern,” for information on the Company’s Voluntary Reorganization under Chapter 11 of the Bankruptcy Code.

14. Condensed Consolidating Financial Information

In connection with the consummation of the Combination, Forest entered into that certain (a) First Supplemental Indenture (the “2019 Forest Supplemental Indenture”) to the Indenture, dated as of June 6, 2007, (the “2019 Forest Indenture”), by and among Forest, Sabine East Texas Basin LLC, Sabine Oil & Gas Finance Corporation, Sabine Williston Basin LLC, Sabine Bear Paw Basin LLC, Redrock Drilling, LLC, Sabine South Texas LLC, Giant Gas Gathering LLC, Sabine Mid-Continent Gathering LLC, Sabine South Texas Gathering LLC and Sabine Mid-Continent LLC (collectively, the “New Guarantors”), and U.S. Bank National Association, as trustee (the “Trustee”), relating to the 7.25% Senior Notes due 2019 (the “2019 Notes”) and (b) First Supplemental Indenture (the “2020 Forest Supplemental Indenture” and, together with the 2019 Forest Supplemental Indenture, the “Forest Supplemental Indentures”) to the Indenture, dated as of September 17, 2012 (the “2020 Forest Indenture” and, together with the 2019 Forest Indenture, the “Forest Indentures”), by and among Forest, the New Guarantors and the Trustee, relating to the 7.50% Senior Notes due 2020 (the “2020 Notes” and, together with the 2019 Notes, the “Legacy Forest Notes”). Pursuant to the Forest Supplemental Indentures, each of the New Guarantors is 100% owned by the Parent Company Issuer, the guarantees are full and unconditional and joint and several.

The assets acquired and liabilities assumed in the Combination were recognized in the Consolidated Balance Sheet at their preliminary fair value as of December 16, 2014 and the operating results of the acquired properties are included in the Condensed Consolidated Financial Information for the period beginning thereafter.

As of March 31, 2016, the majority of the Company's subsidiaries were guarantors under the indentures governing the Legacy Forest Notes. All of our non-guarantor subsidiaries were considered minor unrestricted subsidiaries under the

27

Table of Contents

indenture governing the Legacy Forest Notes. As such, the financial information for minor non-guarantor subsidiaries has been combined with the Parent Company Issuer.

Set forth below is condensed consolidating financial information of the Parent Company Issuer, the subsidiary guarantors on a combined basis, and consolidating adjustments. The Legacy Forest Notes, which were issued by Sabine Oil & Gas Corporation, are guaranteed by some of our subsidiaries (referred to as Guarantor Subsidiaries). For purposes of this footnote, Sabine Oil & Gas Corporation is referred to as the Parent Company Issuer to distinguish it from the Guarantor Subsidiaries. Each of the Guarantor Subsidiaries is 100% owned by the Parent Company Issuer.

The following financial information presents consolidating financial statements, which include:

- Parent Company, including minor non-guarantor subsidiaries;
- the Guarantor Subsidiaries;
- elimination entries necessary to consolidate the Parent and Guarantor Subsidiaries; and
- Sabine on a consolidated basis.

The elimination entries primarily eliminate investments in subsidiaries and intercompany balances and transactions. Cash is primarily managed by the Parent Company.

The condensed consolidating Balance Sheets as of March 31, 2016 and December 31, 2015 and condensed consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2016 and 2015 are presented below. The financial information set forth below is restated for the previously omitted reporting period ended March 31, 2015.

	Condensed Consolidating Balance Sheets (Unaudited)				December 31, 2015		
	March 31, 2016		Eliminations	Consolidated	Parent Company Issuer		Guarantor Subsidiaries
	Parent Company Issuer (in thousands)	Guarantor Subsidiaries			Parent Company Issuer (in thousands)	Guarantor Subsidiaries	
Assets							
Current assets:							
Cash and cash equivalents	\$ 170,379	\$ —	\$ —	\$ 170,379	\$ 208,636	\$ 1	\$
Accounts receivable	22,698	2,232	(2,237)	22,693	35,074	1,738	
Prepaid expenses and other current assets	9,784	434	—	10,218	9,692	7	
Total current assets	202,861	2,666	(2,237)	203,290	253,402	1,746	
Property, plant and equipment:							
Oil and natural gas	671,929	4,067,092	—	4,739,021	666,697	4,063,840	

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properties (full cost method)							
Gas gathering and processing equipment	—	15,812	—	15,812	—	15,811	
Office furniture and fixtures	16,002	—	—	16,002	15,838	—	
Total property, plant and equipment	687,931	4,082,904	—	4,770,835	682,535	4,079,651	
Accumulated depletion, depreciation and amortization	(558,336)	(3,801,440)	—	(4,359,776)	(521,662)	(3,732,144)	
Total property, plant and equipment, net	129,595	281,464	—	411,059	160,873	347,507	
Other assets:							
Investment in subsidiaries	(2,391,295)	—	2,391,295	—	(2,334,109)	—	
Due from subsidiaries	2,657,539	—	(2,657,539)	—	2,665,765	—	
Other long-term assets	35,887	—	—	35,887	35,931	—	
Total other assets	302,131	—	(266,244)	35,887	367,587	—	
Total assets	\$ 634,587	\$ 284,130	\$ (268,481)	\$ 650,236	\$ 781,862	\$ 349,253	\$
Liabilities and shareholders' deficit							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 90,293	\$ 119	\$ (2,237)	\$ 88,175	\$ 103,940	\$ 119	\$
Other short-term liabilities	1,202	61	—	1,263	1,102	59	
Total current liabilities	91,495	180	(2,237)	89,438	105,042	178	

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Asset retirement obligation	24,310	17,082	—	41,392	24,070	16,790	
Due to parent	—	2,657,539	(2,657,539)	—	—	2,665,765	
Other long-term liabilities	47,693	623	—	48,316	47,568	629	
Liabilities subject to compromise	2,908,537	1	—	2,908,538	2,908,130	—	
Total liabilities	3,072,035	2,675,425	(2,659,776)	3,087,684	3,084,810	2,683,362	
Commitments and contingencies							
Total shareholders' deficit	(2,437,448)	(2,391,295)	2,391,295	(2,437,448)	(2,302,948)	(2,334,109)	
Total liabilities and shareholders' deficit	\$ 634,587	\$ 284,130	\$ (268,481)	\$ 650,236	\$ 781,862	\$ 349,253	\$

Table of Contents

Condensed Consolidating Statements of Operations
(Unaudited)

For the three months Ended March 31,
2016

	Parent Company Issuer	Guarantor Subsidiaries	Eliminations	Consolidated	2015 Parent Company Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				(in thousands)			

Revenues

	\$ 16,912	\$ 30,940	\$ —	\$ 47,852	\$ 29,283	\$ 68,345	\$ —	\$ 97,628
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Oil, natural gas liquids and natural gas								
Other	365	265	(322)	308	478	298	(379)	
Total revenues	17,277	31,205	(322)	48,160	29,761	68,643	(379)	
Operating expenses								
Lease operating	7,951	9,428	—	17,379	12,157	12,198	—	
Marketing, gathering, transportation and other	3,105	4,359	(322)	7,142	3,492	6,244	(379)	
Production and ad valorem taxes	1,041	2,342	—	3,383	472	2,296	—	
General and administrative	1,822	3,498	—	5,320	5,208	9,830	—	
Depletion, depreciation and amortization	7,222	12,757	—	19,979	12,334	41,729	—	
Accretion	236	309	—	545	233	241	—	
Impairments	30,622	55,676	—	86,298	—	236,485	—	
Other operating expenses	2,226	21	—	2,247	5,409	(16)	—	
Total operating expenses	54,225	88,390	(322)	142,293	39,305	309,007	(379)	
Other income (expenses)								
Interest expense	(11,575)	—	—	(11,575)	(70,247)	—	—	
Gain on derivative instruments	—	—	—	—	36,124	—	—	
Equity losses in subsidiaries	(57,185)	—	57,185	—	(240,364)	—	240,364	
Total other income (expenses)	(68,760)	—	57,185	(11,575)	(274,487)	—	240,364	
Reorganization items, net	(29,374)	—	—	(29,374)	—	—	—	
Net income (loss) before income taxes	(135,082)	(57,185)	57,185	(135,082)	(284,031)	(240,364)	240,364	
Income tax expense	—	—	—	—	—	—	—	
Net income (loss)	\$ (135,082)	\$ (57,185)	\$ 57,185	\$ (135,082)	\$ (284,031)	\$ (240,364)	\$ 240,364	\$

Condensed Consolidating Statements of Cash Flows
(Unaudited)

For the three months ended March 31,

2016

Parent

Company

Issuer

(in thousands)

Guarantor

Subsidiaries

Eliminations

(in thousands)

Consolidated

2015

Parent

Company

Issuer

(in thousands)

Guarantor

Subsidiaries

Eliminations

(in thousands)

Consolidated

Cash flows from operating activities:								
Net cash (used in)/ provided by operating activities	(24,776)	-	-	(24,776)	42,171	-	-	42,171
Cash flows from investing activities:								
Oil and natural gas property additions	(13,335)	-	-	(13,335)	(164,211)	-	-	(164,211)
Gas processing equipment additions	(1)	-	-	(1)	(457)	-	-	(457)
Other asset additions	(164)	-	-	(164)	(742)	-	-	(742)
Cash received from sale of assets	20	-	-	20	660	-	-	660
Advances to subsidiaries	-	(1)	1	-	-	27	(27)	-
Net cash used in investing activities	(13,480)	(1)	1	(13,480)	(164,750)	27	(27)	(164,750)
Cash flows from financing activities:								
Borrowings under senior secured revolving credit facility	-	-	-	-	425,987	-	-	425,987
Debt issuance costs	-	-	-	-	(870)	-	-	(870)
Shares repurchased	(2)	-	-	(2)	(174)	-	-	(174)
Proceeds from subsidiaries	1	-	(1)	-	(27)	-	27	-
Net cash (used in)/ provided by financing activities	(1)	-	(1)	(2)	424,916	-	27	424,943
	(38,257)	(1)	-	(38,258)	302,337	27	-	302,364

Net (decrease)/increase in cash and cash equivalents								
Cash and cash equivalents, beginning of period	208,636	1	-	208,637	1,993	1,259	-	3,252
Cash and cash equivalents, end of period	\$ 170,379	\$ -	\$ -	\$ 170,379	\$ 304,330	\$ 1,286	\$ -	\$ 305,616

Table of Contents

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

We are an independent oil and natural gas company engaged in the acquisition, development, exploitation and exploration of oil and natural gas properties onshore in the United States. Our properties are primarily focused in three core geographic areas: East Texas targeting the Cotton Valley Sand and Haynesville Shale; South Texas, targeting the Eagle Ford Shale formation; and North Texas, targeting the Granite Wash formation.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report and in the Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors which could cause actual results to vary from expectations include changes in oil and natural gas prices, the timing of planned capital expenditures, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, as well as those factors discussed below and elsewhere in this report and in the Annual Report on Form 10-K, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. See "Cautionary Statement Regarding Forward-Looking Statements."

Our MD&A includes the following sections;

- Chapter 11 Filings – a description of our recent events and our Chapter 11 filings
 - Capital Program – a summary of planned capital expenditures during 2016
- Results of Operations – an analysis of our consolidated results of operations for the three month periods presented in our financial statements
- Liquidity, Capital Resources and Financial Position – an analysis of our cash flows, sources and uses of cash, contractual obligations and commercial commitments

Chapter 11 Filings

On July 15, 2015, we and certain of our subsidiaries, including Giant Gas Gathering LLC, Sabine Bear Paw Basin LLC, Sabine East Texas Basin LLC, Sabine Mid-Continent Gathering LLC, Sabine Mid-Continent LLC, Sabine Oil & Gas Finance Corporation, Sabine South Texas Gathering LLC, Sabine South Texas LLC and Sabine Williston Basin LLC (collectively, the "Filing Subsidiaries" and, together with us, the "Debtors"), filed voluntary petitions (the "Bankruptcy Petitions") for reorganization under the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The Debtors Chapter 11 cases (the "Chapter 11 Cases") are being jointly administered under the case styled In re Sabine Oil & Gas Corporation, et al, Case No. 15-11835. The Debtors will continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

By certain "first day" motions filed in the Chapter 11 Cases, we obtained Bankruptcy Court approval (on an interim basis) to, among other things and subject to the terms of the orders entered by the Bankruptcy Court, pay employee wages, health benefits and certain other employee obligations, pay pre-petition certain lienholders and forward funds to third parties, including royalty holders and other partners.

For the duration of our Chapter 11 proceedings, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process. For example, negative events

associated with our Chapter 11 proceedings could adversely affect our relationships with our suppliers, service providers, customers, and other third parties and our ability to retain employees, which in turn could adversely affect our operations and financial condition. As a result of these risks and uncertainties, the number of our outstanding shares and shareholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the

30

Table of Contents

Chapter 11 proceedings, and the description of our operations, properties and capital plans included in this Quarterly Report on Form 10-Q may not accurately reflect our operations, properties and capital plans following the Chapter 11 process.

In particular, subject to certain exceptions, under the Bankruptcy Code, the Debtors may assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. The rejection of an executory contract or unexpired lease is generally treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Debtors of performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases may assert claims against the applicable debtor's estate for such damages. The assumption of an executory contract or unexpired lease generally requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease with the Debtors in this Quarterly Report on Form 10-Q, including where applicable a quantification of our obligations under any such executory contract or unexpired lease with the Debtors, is qualified by any overriding rejection rights we have under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and the Debtors expressly preserve all of their rights with respect thereto.

Our filing of the Bankruptcy Petitions described above constitutes an event of default that accelerated our obligations under the New Revolving Credit Facility, the Term Loan Facility, the 2017 Notes and the Legacy Forest Notes. We have classified all debt as "Liabilities Subject to Compromise" in the Condensed Consolidated Balance Sheet at March 31, 2016. This debt includes unsecured and under-secured obligations with are reported at the amounts expected to be allowed as claims by the Bankruptcy Court, even if they may be settled for lesser amounts. If we cannot continue as a going concern, adjustments to the carrying values and classification of our assets and liabilities and the reported income and expenses could be required and could be material. For additional description of the defaults present under our debt obligations, please see Note 6 to our consolidated financial statements included herein.

We are making adequate protection payments to the lenders under the New Revolving Credit Facility in an amount equal to the non-default rate of interest, fees and costs due and payable on a monthly basis under the New Revolving Credit Facility, in accordance with the cash collateral order filed with the Bankruptcy Court. Additionally, cash generated by the Company deemed to be proceeds of the oil and gas properties that represent prepetition collateral is deposited into a segregated account, which is reflected as Cash in the Condensed Consolidated Balance Sheet as of March 31, 2016, and it is used solely to pay for the operations of the prepetition collateral properties.

On October 21, 2015, the Debtors filed a motion (the "Bar Date Motion") requesting that the Bankruptcy Court establish certain bar dates to assist with the claims reconciliation process. On November 10, 2015, the Bankruptcy Court granted the Bar Date Motion. On January 26, 2016, the Debtors filed the Disclosure Statement for Joint Chapter 11 Plan of Reorganization of Sabine Oil & Gas Corporation and its Debtor Affiliates (as further amended, modified or supplemented from time to time and including all exhibits and supplements thereto, the "Disclosure Statement") filed in support of the Joint Chapter 11 Plan of Reorganization of Sabine Oil & Gas Corporation and its Debtor Affiliates (as further amended, modified or supplemented from time to time and including all exhibits and supplements thereto, the "Plan of Reorganization"). Since the initial filing, the Plan of Reorganization and Disclosure Statement have been subsequently amended on March 31, 2016 and April 27, 2016. If the Plan of Reorganization currently on file is confirmed it would significantly reduce our outstanding long-term debt and annual interest payments. On April 29, 2016, the Bankruptcy Court approved the adequacy of the Disclosure Statement. On May 2, 2016, the Debtors filed the solicitation version of the Plan of Reorganization and the Disclosure Statement. The hearing to consider confirmation of the Plan of Reorganization is expected to commence on June 13, 2016. Although the Debtors currently have the exclusive right to file a plan and solicit the appropriate votes thereon, such rights expire on June 9,

2016 and August 9, 2016, respectively. There can be no assurances regarding our ability to successfully develop, confirm or consummate the Plan of Reorganization, an alternative plan of reorganization or alternative restructuring transaction, including a sale of all or substantially all of our assets.

Table of Contents

Capital Program

Our full year 2016 capital expenditures are forecasted to total approximately \$21 million, excluding acquisitions and divestitures. However, we expect production growth from our 2016 capital program will not offset production declines, which will result in material decreases to our production and related cash flows. Consistent with our historical practice, we periodically review our capital expenditures and adjust our budget based on liquidity, commodity prices and drilling results.

Results of Operations

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

The following table sets forth selected operating data for the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

	For the Three Months Ended March 31, 2016		Amount of Increase (Decrease)	Percent Change	
	2015	(in thousands)			
Revenues					
Oil, natural gas liquids and natural gas	\$ 47,852	\$ 97,628	\$ (49,776)	(51)	%
Other	308	397	(89)	(22)	%
Total revenues	48,160	98,025	(49,865)	(51)	%
Operating expenses					
Lease operating	17,379	24,355	(6,976)	(29)	%
Marketing, gathering, transportation and other	7,142	9,357	(2,215)	(24)	%
Production and ad valorem taxes	3,383	2,768	615	22	%
General and administrative	5,320	15,038	(9,718)	(65)	%
Depletion, depreciation and amortization	19,979	54,063	(34,084)	(63)	%
Accretion	545	474	71	15	%
Impairments	86,298	236,485	(150,187)		*
Other operating expenses	2,247	5,393	(3,146)		*
Total operating expenses	142,293	347,933	(205,640)	(59)	%
Other (expenses) income					
Interest, net of capitalized interest (2)	(11,575)	(70,247)	(58,672)	(84)	%
Gain on derivative instruments	—	36,124	36,124		*
Total other (expenses) income	(11,575)	(34,123)	(22,548)		*
Reorganization items, net	(29,374)	—	(29,374)		*
Net loss before income taxes	(135,082)	(284,031)	148,949		*
Income tax expense	—	—	—		*
Net loss	\$ (135,082)	\$ (284,031)	\$ 148,949		*
Reconciliation to derive Adjusted EBITDA (1):					
Interest, net of capitalized interest	11,575	70,247			

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Depletion, depreciation and amortization	19,979	54,063
Impairments	86,298	236,485
Other	2,041	3,969
Accretion	545	474
Loss on derivative instruments	—	11,004
Option premium amortization	—	(1,145)
Reorganization items, net	29,374	—
Adjusted EBITDA (1)	\$ 14,730	\$ 91,066

* Not meaningful or applicable

32

Table of Contents

(1) Adjusted EBITDA is a non-GAAP financial measure. Please see “—Non-GAAP Financial Measure.”

(2) Interest at contractual interest rates would have been approximately \$51.1 million. As of the petition date, interest is no longer being accrued on the Term Loan Facility, 2017 Notes and Legacy Forest Notes.

	For the Three Months Ended		Amount of	Percent	
	March 31, 2016	2015	Increase (Decrease)	Change	
Oil, NGL and natural gas sales by product (in thousands):					
Oil	\$ 11,304	\$ 37,928	\$ (26,624)	(70)	%
NGL	5,882	11,397	(5,515)	(48)	%
Natural gas	30,666	48,303	(17,637)	(37)	%
Total	\$ 47,852	\$ 97,628	\$ (49,776)	(51)	%
Production data:					
Oil (MBbl)	408.21	906.45	(498.24)	(55)	%
NGL (MBbl)	564.55	894.69	(330.14)	(37)	%
Natural gas (Bcf)	15.35	16.66	(1.31)	(8)	%
Combined (Bcfe) (1)	21.20	27.47	(6.27)	(23)	%
Average prices before effects of economic hedges (2):					
Oil (per Bbl)	\$ 27.69	\$ 41.84	\$ (14.15)	(34)	%
NGL (per Bbl)	\$ 10.42	\$ 12.74	\$ (2.32)	(18)	%
Natural gas (per Mcf)	\$ 2.00	\$ 2.90	\$ (0.90)	(31)	%
Combined (per Mcfe) (1)	\$ 2.26	\$ 3.55	\$ (1.29)	(36)	%
Average realized prices after effects of economic hedges (2):					
Oil (per Bbl)	\$ 27.69	\$ 68.78	\$ (41.09)	(60)	%
NGL (per Bbl)	\$ 10.42	\$ 12.74	\$ (2.32)	(18)	%
Natural gas (per Mcf)	\$ 2.00	\$ 4.19	\$ (2.19)	(52)	%
Combined (per Mcfe)(1)	\$ 2.26	\$ 5.23	\$ (2.97)	(57)	%
Average costs (per Mcfe) (1):					
Lease operating	\$ 0.82	\$ 0.89	\$ (0.07)	(8)	%
Marketing, gathering, transportation and other	\$ 0.34	\$ 0.34	\$ —	—	%
Production and ad valorem taxes	\$ 0.16	\$ 0.10	\$ 0.06	60	%
General and administrative	\$ 0.25	\$ 0.55	\$ (0.30)	(55)	%
Depletion, depreciation and amortization	\$ 0.94	\$ 1.97	\$ (1.03)	(52)	%

(1) Oil and NGL production was converted at 6 Mcf per Bbl to calculate combined production and per Mcfe amounts.

(2) Average prices shown in the table reflect prices both before and after the effects of cash settlements on commodity derivative transactions. The Company’s calculation of such effects includes gains or losses on cash settlements for commodity derivative transactions. All of our commodity derivatives were terminated as of July 15, 2015.

Oil, natural gas liquids and natural gas sales. Revenues from production of oil and natural gas decreased from \$97.6 million in the three months ended March 31, 2015 to \$47.9 million in the three months ended March 31, 2016, a decrease of 51%. This decrease of \$49.8 million was primarily the result of a decrease in oil, natural gas liquids and natural gas revenues of \$26.6 million, \$5.5 million and \$17.6 million, respectively, due to decreases in prices of \$14.15/Bbl, \$2.32/Bbl and \$0.90/Mcf, respectively, as well as lower South Texas and North Texas production of 58% and 47%, respectively, as a result of decline and reduction in development activities.

Table of Contents

The following table sets forth additional information concerning our production volumes for the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

	For the Three Months Ended			
	March 31, 2016	2015	Percent Change	
	(in Bcfe)			
South Texas	2.70	6.44	(58)	%
East Texas	17.04	18.25	(7)	%
North Texas	1.46	2.78	(47)	%
Total	21.20	27.47	(23)	%

Lease operating. Lease operating expenses decreased from \$24.4 million in the three months ended March 31, 2015 to \$17.4 million in the three months ended March 31, 2016, a decrease of 29%. The decrease in lease operating expense of \$7.0 million is primarily due operating efficiencies following the Combination. Lease operating expenses decreased from \$0.89 per Mcfe in the three months ended March 31, 2015 to \$0.82 per Mcfe in the three months ended March 31, 2016. The decrease of \$0.07 per Mcfe in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 is due to cost reduction efforts in East Texas. The following table displays the lease operating expense by area for the three months ended March 31, 2016 and 2015

	For the Three Months Ended			
	March 31, 2016	Per Mcfe	March 31, 2015	Per Mcfe
	(in thousands, except per Mcfe data)			
South Texas	\$ 3,182	\$ 1.18	\$ 4,633	\$ 0.72
East Texas	13,561	0.80	18,718	1.03
North Texas	636	0.44	1,003	0.36
Other	—	—	1	—
Total	\$ 17,379	\$ 0.82	\$ 24,355	\$ 0.89

Marketing, gathering, transportation and other. Marketing, gathering, transportation and other expenses decreased from \$9.4 million in the three months ended March 31, 2015 to \$7.1 million in the three months ended March 31, 2016, a decrease of 24%. The decrease of \$2.2 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, is primarily due to decreased production volumes.

Production and ad valorem taxes. Production and ad valorem taxes increased from \$2.8 million in the three months ended March 31, 2015 to \$3.4 million in the three months ended March 31, 2016, an increase of 22%. Production and ad valorem taxes increased on a per unit basis from \$0.10 per Mcfe in the three months ended March 31, 2015 to \$0.16 per Mcfe in the three months ended March 31, 2016. The increase of \$0.06 per Mcfe in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 is primarily due to a higher realized ad valorem tax rate related to development activities as well as the timing and amount of high cost gas exemptions. Production and ad valorem taxes as a percentage of oil and natural gas revenues were 7% and 3% for the three months ended March 31, 2016 and 2015, respectively.

General and administrative. General and administrative expenses decreased from \$15.0 million in the three months ended March 31, 2015 to \$5.3 million in the three months ended March 31, 2016, a decrease of \$9.7 million, or 65%. General and administrative expenses decreased on a per unit basis from \$0.55 per Mcfe in the three months ended March 31, 2015 to \$0.25 per Mcfe in the three months ended March 31, 2016. In the three months ended March 31, 2015 general and administrative expenses were higher as a result of the Combination. A transition plan to administratively combine the companies, was executed during the first several months of 2015, after which the Company was able to recognize operating efficiencies through a reduction in employee headcount, as well as the elimination of duplicative administrative costs, and the implementation of other cost saving efforts.

Table of Contents

Depletion, depreciation and amortization. DD&A decreased from \$54.1 million in the three months ended March 31, 2015 to \$20.0 million in the three months ended March 31, 2016, a decrease of \$34.1 million. Depletion, depreciation, and amortization decreased from \$1.97 per Mcfe in the three months ended March 31, 2015 to \$0.94 per Mcfe in the three months ended March 31, 2016, or a decrease of 52%. The decrease in the DD&A rate per Mcfe is driven by a lower amortization base due to recent ceiling test impairments resulting from declines in the prior twelve month pricing and lower PV-10 compared to net book value, coupled with a decreased drilling program driving reduced rates of production.

Impairments. In the three months ended March 31, 2016, we recorded a non-cash impairment charge of \$86.0 million for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation. The average of the historical unweighted first day of the month prices for the prior twelve month period ended March 31, 2016 was \$2.39 per MMBtu for natural gas and \$46.26 per Bbl for oil compared to \$3.88 per MMBtu for natural gas and \$82.72 per Bbl for oil for the prior twelve month period ended March 31, 2015. In the three months ended March 31, 2015 we recorded a non-cash impairment charge of \$236.5 million for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation.

Other operating expenses. Other operating expenses in the three months ended March 31, 2016 relate primarily to \$2.0 million of non-recurring organizational expenditures and \$0.3 million of charges related to marketing contract volume commitments. Other operating expenses in the three months ended March 31, 2015 of \$5.4 million primarily represent transactions costs related the Combination and prepetition restructure costs.

Interest expense. Interest expense decreased from \$70.2 million in the three months ended March 31, 2015 to \$11.6 million in the three months ended March 31, 2016, a decrease of \$58.7 million, or 84%, primarily because we discontinued the accrual and payment of interest on the Term Loan Facility, the 2017 Notes and the Legacy Forest Notes upon the filing of the Bankruptcy Petitions. As of the filing of the Bankruptcy Petitions, interest is no longer being accrued on the Term Loan Facility, 2017 Notes and the Legacy Forest Notes as part of Chapter 11 filings. For more information, please see Note 6 within "Part I, Item 1. Financial Statements."

Gain on derivative instruments. Gains and losses from the change in fair value of derivative instruments as well as cash settlements on commodity derivatives are recognized in our results of operations. During the three months ended March 31, 2016 and 2015, we recognized a net gain on derivative instruments of zero and \$36.1 million, respectively. The amount of gain or loss recognized on derivative instruments is dependent upon commodity prices, which affects the value of the contracts. The Company had no derivative instruments following settlements on or before July 15, 2015.

Reorganization items, net. Reorganization Items, net of \$29.4 million are primarily made up of professional fees incurred for post-petition expenses which would not have otherwise been incurred by the Company.

Income tax expense. For the three months ended March 31, 2015 and March 31, 2016, we recorded no income tax expense or benefit, resulting in an effective tax rate of 0%. The significant difference between our effective tax rate and the federal statutory income tax rate of 35% is due to a full valuation allowance recorded on net deferred tax assets in excess of deferred tax liabilities. A valuation allowance is established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. As of March 31, 2016, the Company believes it is more likely than not that the overall deferred tax asset will not be realized.

Capital Resources and Liquidity

Our primary sources of liquidity have historically been equity contributions, borrowings under the New Revolving Credit Facility, net cash provided by operating activities, net proceeds from the issuance of the 2017 Notes and

proceeds from the Term Loan Facility. Our primary use of capital has been the acquisition and development of oil and natural gas properties. Since the Chapter 11 filings, our principal sources of liquidity have been limited to cash flow from operations and cash on hand. In addition to the cash requirements necessary to fund ongoing operations, we have incurred and continue to incur significant professional fees and other costs in connection with the preparation and administration of the Chapter 11 proceedings. We anticipate that we will continue to incur significant professional fees and costs for the pendency of the Chapter 11 proceedings.

Table of Contents

Although we believe our cash flow from operations and cash on hand will be adequate to meet the operating costs of our existing business, there are no assurances that our cash flow from operations and cash on hand will be sufficient to continue to fund our operations or to allow us to continue as a going concern until a Chapter 11 plan is confirmed by the Bankruptcy Court or another alternative restructuring transaction is approved by the Bankruptcy Court and consummated. Our long-term liquidity requirements, the adequacy of our capital resources and our ability to continue as a going concern are difficult to predict at this time and ultimately cannot be determined until a Chapter 11 plan has been confirmed, if at all, by the Bankruptcy Court. If our future sources of liquidity are insufficient, we could face substantial liquidity constraints and be unable to continue as a going concern and will likely be required to significantly reduce, delay or eliminate capital expenditures, implement further cost reductions, seek other financing alternatives or seek the sale of some or all of our assets. The Company has temporarily deferred additional development activities. If we (i) continue to limit, defer or eliminate future capital expenditure plans, (ii) are unsuccessful in developing reserves and adding production through our capital program or (iii) implement cost-cutting efforts that are too overreaching, the value of our oil and natural gas properties and our financial condition and results of operations could be adversely affected.

In connection with funding our liquidity and the Combination, we have incurred substantial additional debt. As of March 31, 2016, the total outstanding principal amount of our long-term indebtedness was \$2.752 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, and, as of March 31, 2016, no extensions of credit are available under the New Revolving Credit Facility. In addition, our filing of the Bankruptcy Petitions constituted an event of default that accelerated our obligations under these debt instruments. For a description of our outstanding debt instruments, please see “—Net Cash Provided by Financing Activities.”

Our ability to service our debt obligations and fund our capital expenditures has been negatively impacted by significant decreases in the market price for oil, NGLs and natural gas during the fourth quarter of 2014 with continued weakness throughout 2015 and into the first quarter of 2016. The decrease in the market price for our production directly reduces our operating cash flow. While we previously used hedging arrangements to reduce our exposure to fluctuations in the prices of oil, NGLs and natural gas, all of our current and future hedging arrangements have been terminated as a result of the bankruptcy filing and events of default under our debt obligations. In addition, the decrease in the market price for our production indirectly impacts our other sources of potential liquidity.

On February 25, 2015, we borrowed approximately \$356 million under our New Revolving Credit Facility which represented the remaining undrawn amount under the New Revolving Credit Facility. Our borrowing base under our New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. The decrease in our borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which requires repayment in six monthly installments in an amount of \$41.54 million, beginning May 27, 2015. None of such payments has been made or will be made and pursuant to the automatic stay under the Bankruptcy Code, the creditors under the New Revolving Credit Facility are currently stayed from taking any action against us as a result of these non-payments. Our cash balance at May 10, 2016 was approximately \$156.4 million.

Ability to Continue as a Going Concern

Our filing of the Bankruptcy Petitions described above accelerated our obligations under the New Revolving Credit Facility, the Term Loan Facility, the 2017 Notes and the Legacy Forest Notes. We have classified all debt as “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet at March 31, 2016. If we cannot continue as a going concern, adjustments to the carrying values and classification of our assets and liabilities and the

reported income and expenses could be required and would be material. For additional description of the defaults present under our debt obligations, please see Note 6 within "Part I, Item 1. Financial Statements."

Working Capital

Our working capital balance fluctuates as a result of timing and amount of borrowings or repayments under our credit arrangements, changes in the fair value of our outstanding commodity derivative instruments, the timing of receiving reimbursement of amounts paid by us for the benefit of joint venture partners as well as changes in revenue receivables as a result of price and volume fluctuations.

Table of Contents

For the three months ended March 31, 2016, we had a decrease in working capital of \$36.1 million. The decrease in working capital for the three months ended March 31, 2016 is primarily due to cash used in operations. For more information on the classification of debt, please see Note 2 within “Part I, Item 1. Financial Statements.”

Net Cash Provided by Operating Activities

Cash flows from operations are our primary source of capital and liquidity and are primarily affected by the sale of oil, NGLs and natural gas, as well as commodity prices, net of effects of derivative contract settlements and changes in working capital. Net cash used in operating activities was \$24.8 million for the three months ended March 31, 2016 compared to net cash provided by operating activities of \$42.2 million for the three months ended March 31, 2015. The decrease in cash flow from operations for the three months ended March 31, 2016 as compared to the same period in 2015 was primarily the result of a decrease in working capital.

Our operating cash flow is sensitive to many variables, the most significant of which is the volatility of prices for oil and natural gas production. Prices for these commodities are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather, infrastructure capacity to reach markets and other variable factors influence market conditions for these products. These factors are beyond our control and are difficult to predict.

Net Cash Used in Investing Activities

During the three months ended March 31, 2016 and 2015, cash flows used in investing activities were \$13.5 million and \$164.8 million, respectively, primarily related to capital expenditures for drilling, development and acquisition costs, including cash payments for accrued expenses as of the prior respective balance sheet date. The decrease in cash flows used in investing activities during the three months ended March 31, 2016 compared to 2015 was primarily the result of lower capital expenditures.

Our capital expenditures for property exploration, development, and leasehold acquisitions for the three months ended March 31, 2016 and 2015 were \$7.3 million and \$106.0 million, respectively.

Our planned 2016 capital expenditures budget is expected to total approximately \$21 million. The amount, timing and allocation of capital expenditures are largely discretionary and within our control. If oil and natural gas prices decline to levels below our acceptable levels or costs increase to levels above our acceptable levels, we could choose to defer a significant portion of budgeted capital expenditures until later periods to achieve the desired balance between sources and uses of liquidity and prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flow. We routinely monitor and adjust our capital expenditures in response to changes in prices, availability of financing, drilling and acquisition costs, industry conditions, the timing of regulatory approvals, the availability of rigs, success or lack of success in drilling activities, contractual obligations, internally generated cash flow and other factors both within and outside our control. The temporary reduction in our capital program could result in a decline in our oil and natural gas reserves and production and cash flows and limit our ability to obtain needed capital or financing. Refer to the “Capital Resources and Liquidity” section above for a discussion of our liquidity and planned actions.

Net Cash Provided by Financing Activities

Net cash provided by financing activities of zero during the three months ended March 31, 2016 was primarily the result of no borrowings under the New Revolving Credit Facility. Net cash provided by financing activities of \$424.9

million during the three months ended March 31, 2015 was the result of net borrowings under the Former Revolving Credit Facility of \$426.0 million and debt issuance costs of \$0.9 million.

New Revolving Credit Facility. On December 16, 2014, we amended and restated the Amended and Restated Credit Agreement, dated as of April 28, 2009, matured on April 7, 2016, by and among us, Wells Fargo Bank, National Association, as administrative agent, and the lenders and other parties party thereto with the New Revolving Credit Facility. The New Revolving Credit Facility provided for a \$2 billion revolving credit facility, with an initial borrowing base of \$1 billion. The New Revolving Credit Facility included a sub-limit permitting up to \$100 million of letters of credit. The borrowing base for the New Revolving Credit Facility was subsequently reduced to \$750 million on April 27, 2015.

Table of Contents

Our filing of the Bankruptcy Petitions described above under “—Chapter 11 Filings” above constitutes an event of default, not subject to the NRCF Forbearance Agreement, that accelerated our obligations under the New Revolving Credit Facility. Additionally other events of default, including cross-defaults, are present due to the failure to make interest payments, the failure to make the borrowing base deficiency payments, the “going concern” qualification in our 2015 and 2014 audited financial statements and other matters. Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

We are making adequate protection payments to the lenders under the New Revolving Credit Facility in an amount equal to the non-default rate of interest, fees and costs due and payable on a monthly basis under the New Revolving Credit Facility, in accordance with the cash collateral order filed with the Bankruptcy Court. Additionally, cash generated by the Company deemed to be proceeds of the oil and gas properties that represent prepetition collateral is deposited into a segregated account, which is reflected as Cash in the Condensed Consolidated Balance Sheet as of March 31, 2016, and it is used solely to pay for the operations of the prepetition collateral properties.

Prior to May 29, 2015, loans under the New Revolving Credit Facility bore interest at our option at either:

- the sum of (1) the Alternate Base Rate, which is defined as the highest of (a) Wells Fargo Bank, National Association’s prime rate; (b) the federal funds effective rate plus 0.50%; or (c) the Eurodollar Rate (as defined in the New Revolving Credit Facility) for a one-month interest period plus 1% and (2) a margin varying from 0.50% to 1.50% depending on our most recent borrowing base utilization percentage (the “Revolving Base Rate”); or
- the Eurodollar Rate plus a margin varying from 1.50% to 2.50% depending on our most recent borrowing base utilization percentage.

Beginning May 29, 2015 and thereafter during the occurrence of an event of default under the New Revolving Credit Facility, the loans under the New Revolving Credit Facility will bear interest at the Revolving Base Rate (as defined in the New Revolving Credit Facility).

Borrowings outstanding under the New Revolving Credit Facility and the Former Revolving Credit Facility totaled approximately \$902 million at both, March 31, 2016 and December 31, 2015. Additionally, borrowings outstanding under the New Revolving Credit Facility had a weighted average interest rate of 5.1% and 2.6% for the three months ending March 31, 2016 and 2015, respectively.

At March 31, 2016 and December 31, 2015 the New Revolving Credit Facility is presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. Interest expense continues to be recognized on the New Revolving Credit Facility subsequent to the petition date.

The unused portion of the New Revolving Credit Facility is subject to a commitment fee ranging from 0.375% to 0.5% per annum depending on the Company’s most recent borrowing base utilization.

The New Revolving Credit Facility provides that all such obligations and the guarantees will be secured by a lien on at least 80% of the PV-9 of the borrowing base properties evaluated in the most recent reserve report delivered to the administrative agent and a pledge of all of the capital stock of our restricted subsidiaries, subject to certain customary grace periods and exceptions. The New Revolving Credit Facility matured on April 7, 2016; however, the obligations under the New Revolving Credit Facility have already been accelerated and are subject to the bankruptcy stay as a result of the filing of the Bankruptcy Petitions.

Term Loan Facility. Sabine O&G entered into a \$700 million second lien term loan agreement with a maturity date of December 31, 2018 (provided that if the 2017 Notes are not refinanced to mature at least 91 days thereafter, the maturity date shall be 91 days prior to the February 15, 2017 maturity date of the 2017 Notes).

The Term Loan Facility, including with respect to interest and, in the case of eurodollar borrowings, bears interest at the Adjusted Eurodollar Rate plus 7.50%, with an interest rate floor of 1.25%, and, in the case of alternate base rate borrowings, bears interest at the Alternate Base Rate plus 6.50%, with an interest rate floor of 2.25%. Any time an interest period for Loans expires during an event of default under the Term Loan Facility, such Loans will bear interest at

38

Table of Contents

the Term Base Rate. The weighted average interest rate incurred on this indebtedness for the three months ended March 31, 2016 and 2015 was zero and 8.8%, respectively.

Our filing of the Bankruptcy Petitions described in Note 2 within “Part I, Item 1. Financial Statements” herein constitutes an event of default that accelerated our obligations under the Term Loan Facility. Additionally other events of default are present due to the failure to make interest payments, the “going concern” qualification in our 2014 audited financial statements and other matters. Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

The Term Loan Facility was presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$30.2 million of interest related to the Term Loan Facility, reflected in “Liabilities Subject to Compromise” in the Consolidated Balance Sheets. No interest expense has been recognized subsequent to the petition date.

All of our restricted subsidiaries that guarantee our New Revolving Credit Facility have guaranteed the Term Loan Facility. The obligations under the Term Loan Facility are secured by the same collateral that secures the New Revolving Credit Facility, but the liens securing such obligations are second priority liens to the liens securing the New Revolving Credit Facility. However, the validity of the liens securing the Term Loan Facility are currently in dispute pursuant to the lawsuit filed by us against the Term Loan Facility administrative agent, Wilmington Trust, N.A.

2017 Notes. On February 12, 2010, Sabine Oil & Gas Corporation, formerly NFR Energy LLC, and our subsidiary Sabine Oil & Gas Finance Corporation, formerly NFR Energy Finance Corporation, co-issued \$200 million in 9.75% senior unsecured notes due 2017 in a private placement to qualified institutional buyers in accordance with Rule 144A of the Securities Act and to persons outside the United States in compliance with Regulation S of the Securities Act. The 2017 Notes bear interest at a rate of 9.75% per annum, payable semi-annually on February 15 and August 15 each year commencing August 15, 2010. The 2017 Notes were issued at 98.73% of par.

On April 14, 2010, Sabine Oil & Gas Corporation and Sabine Oil & Gas Finance Corporation issued an additional \$150 million in senior notes at 9.75% due 2017. The additional notes were issued at 98.75% of par and bear interest at a rate of 9.75% per annum, payable semi-annually on February 15 and August 15 of each year commencing August 15, 2010. The additional notes were issued under the same indenture as the 2017 Notes issued on February 12, 2010. No interest expense has been recognized subsequent to the petition date.

As of March 31, 2016 and December 31, 2015 the 2017 Notes are presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$14.1 million of interest related to the 2017 Notes, reflected in “Liabilities Subject to Compromise”.

The 2017 Notes were issued under and are governed by an indenture dated February 12, 2010 by and among the Sabine Oil & Gas Corporation, Sabine Oil & Gas Finance Corporation, the Bank of New York Mellon Trust Company, N.A. as trustee, and guarantors party thereto.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

2019 Notes. The Company has \$577.9 million in 7¼% senior notes due 2019 (the “2019 Notes”). Interest on the 2019 Notes is payable semiannually on June 15 and December 15. No interest expense has been recognized subsequent to the petition date.

As of March 31, 2016 and December 31, 2015 the 2019 Notes are presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$24.3 million of interest related to the 2019 notes, reflected in “Liabilities Subject to Compromise”.

On February 25, 2015, we received notice that Wilmington Savings Fund Society, FSB has been appointed as successor trustee under the indenture governing the 2019 Notes.

Table of Contents

On February 25, 2015, we received a notice of default and acceleration from the trustee with respect to our 2019 Notes and on February 26, 2015 were served a complaint alleging the same. For more information, please see “Part II, Item 1. Legal Proceedings.”

The Company’s filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company’s obligations under the 2019 Notes. However, under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

2020 Notes. The Company has \$222.1 million in 7½% senior notes due 2020 (the “2020 Notes”) originally issued by Forest on September 17, 2012. Interest on the 2020 Notes is payable semiannually on March 15 and September 15. No interest expense has been recognized subsequent to the petition date.

As of March 31, 2016 and December 31, 2015 the 2020 Notes are presented as “Liabilities Subject to Compromise,” whereas the carrying value equals the face value. As of the petition date the Company had accrued \$5.5 million of interest related to the 2020 notes, reflected in “Liabilities Subject to Compromise”.

On May 14, 2015, we received notice that Delaware Trust Company has been appointed as successor trustee under the indenture governing the 2020 Notes. The Company’s filing of the Bankruptcy Petitions constitutes an event of default that accelerated the Company’s obligations under the 2020 Notes.

Under the Bankruptcy Code, the creditors under these debt agreements are stayed from taking any action against the Debtors as a result of the default.

Commodity Hedging Activities

Our primary market risk exposure is in the prices we receive for oil and natural gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot regional market prices applicable to our U.S. natural gas production. Pricing for oil and natural gas production has been volatile and unpredictable for several years, and we expect this volatility to continue in the future. The prices we receive for production depends on many factors outside of our control, including volatility in the differences between product prices at sales points and the applicable index price.

In the past, we entered into financial commodity derivative contracts to mitigate the potential negative impact on cash flow caused by changes in oil and natural gas prices. However, as a result of certain events of default under our derivative contracts, all our derivative contracts have been terminated. Subsequent to the termination of these derivative contracts, we have not entered into additional derivative contracts. As a result, we no longer have any commodity derivative contracts in place.

For the three months ended March 31, 2015, we economically hedged approximately 92% of our combined oil and natural gas volumes, which resulted in operating cash flows from commodity derivative instruments of approximately \$46.0 million. However, we currently have no commodity derivative instruments in place.

Our ability to service our debt obligations and fund our capital expenditures has been negatively impacted by significant decreases in the market price for oil, NGLs and natural gas during the fourth quarter of 2014 with continued weakness into the first quarter of 2016. The decrease in the market price for our production directly reduces our operating cash flow. We previously used hedging arrangements to reduce our exposure to fluctuations in the prices of oil, NGLs and natural gas. In addition, the decrease in the market price for our production indirectly impacts our other sources of potential liquidity. Lower market prices for our production may result in lower borrowing capacity under our New Revolving Credit Facility and any replacement thereof or higher borrowing costs from other

potential sources of debt financing as our borrowing capacity and borrowing costs are generally related to the value of our estimated proved reserves.

40

Table of Contents

The table below summarizes the gains related to oil and natural gas derivative instruments for three months ended March 31, 2016 and 2015:

	Recognized in Other Income (Expenses) For the Three Months Ended March 31, 2016 2015 (in thousands)	
Cash received on settlements of derivative instruments	\$ —	\$ 45,983
Change in fair value of derivative instruments	—	(9,859)
Total gain on derivative instruments	\$ —	\$ 36,124

Contractual obligations.

On August 10, 2015 the Bankruptcy Court issued orders allowing the Company to reject its rig and servicing contracts with Nabors effective July 15, 2015 and the total estimated allowable claim has been included in “Liabilities Subject to Compromise” in the Condensed Consolidated Balance Sheet. The rejections impacted and eliminated approximately \$29 million due over the life of the contracts as of the date the contracts were rejected.

On May 11, 2016, the Bankruptcy Court issued an order authorizing the rejection of the Company’s midstream gathering agreements with HPIP Gonzales Holdings, LLC (the “HPIP Gathering Agreement”) effective September 30, 2015. The rejection of the HPIP Gathering Agreement eliminates the Company’s obligation to drill at least one well per year on the relevant acreage and avoids triggering the agreement’s “put” provision, which would require the Company to purchase the gathering and processing facilities at a contractually mandated price if the drilling program terminated prior to May 2, 2017. On May 3, 2016, the Bankruptcy Court also issued an opinion finding that certain covenants contained in the HPIP Gathering Agreement do not “run with the land” as real covenants or as equitable servitudes. Due to the uncertainty of any appeals that may be filed by HPIP and uncertainties surrounding the claims process as well as the pending arbitration between HPIP and the Company (which is currently subject to the automatic stay) and HPIP’s pending claims against the Company in bankruptcy court, the Company is not currently able to estimate an allowable claim in relation to this matter. The Company has not recognized amounts related to the HPIP Gathering Agreement as of March 31, 2016 or December 31, 2015.

On May 11, 2016, the Bankruptcy Court issued an order authorizing the rejection of the Company’s midstream gathering agreements with Nordheim Eagle Ford Gathering, LLC (“Nordheim”) effective December 31, 2015. During 2014, the Company had executed ten-year gas and condensate gathering agreements with Nordheim for the transportation and processing of natural gas and condensate, covering certain properties in South Texas with contractually obligated annual minimum volume commitments to deliver a cumulative 88.5 Bcfe of gas and 5,150 MBbl of condensate by September 22, 2024 (the “Nordheim Gathering Agreements”). Under the terms of the Nordheim Gathering Agreements, the Company is required to make annual deficiency payments for any shortfalls in delivering the minimum annual volumes under these commitments beginning in the third quarter of 2015, which would be partially offset by then-existing credit balances for production in excess of minimum commitments, if any. As of

December 31, 2015, the Company had not delivered the minimum volumes required for the prior contract year, resulting in a deficiency of approximately \$3.0 million which was recognized as “Other operating expenses” in the Consolidated Statement of Operations and as “Liabilities subject to compromise” in the Condensed Consolidated Balance Sheets. No additional shortfalls have been recognized subsequent to the effective date of the rejection of the Nordheim Gathering Agreements. As of March 31, 2016, the Company has not made the deficiency payment. The Company believes that rejection of the Nordheim Gathering Agreements eliminates any future obligation under the agreements to deliver minimum volumes of gas or condensate, or to make deficiency payments in the event minimum volumes are not delivered. On May 3, 2016, the Bankruptcy Court issued an opinion finding that certain covenants contained in the Nordheim Gathering Agreement do not “run with the land” as real covenants or as equitable servitudes. Due to the uncertainty of any appeals that may be filed by Nordheim and the uncertainties surrounding the claims reconciliation process, the Company is not currently able to estimate an allowable claim in relation to this matter. The Company has not recognized any additional amounts related to the rejection of the Nordheim Gathering Agreements as of March 31, 2016.

Table of Contents

The Company has executed additional gas gathering agreements for the transportation and processing of natural gas, covering certain properties in our core operating areas and contractually obligated minimum volume commitments to deliver a cumulative 6.8 Bcfe of gas by August 2018. Under the terms of these agreements, the Company is required to make deficiency payments at the end of the contractual term for any shortfalls in delivering the minimum volumes under these commitments. Based on the current development plan for these oil and gas assets, the Company does not anticipate that future production from the applicable assets and dedicated area will satisfy the future volume commitments, resulting in deficiency payments over the life of the agreements. As of March 31, 2016, the Company has recognized an estimated deficiency of approximately \$1.6 million which was recognized as “Other operating expenses” in the Consolidated Statements of Operations and as Liabilities subject to compromise in the Consolidated Balance Sheets.

As is customary in the oil and natural gas industry, the Company may at times have commitments in place to reserve or earn certain acreage positions or wells. If the Company does not pay such commitments, the acreage positions or wells may be lost.

We have no off balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K.

Critical Accounting Policies, Estimates, Judgments, and Assumptions

During the three months ended March 31, 2016, we did not have any material changes in critical accounting policies, estimates, judgments and assumptions.

Non-GAAP Financial Measure

Adjusted EBITDA is a non-GAAP financial measure. We believe the presentation of Adjusted EBITDA provides useful information to investors to evaluate the operations of our business excluding certain items and for the reasons set forth below. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash flow operating activities or any other measure of financial performance presented in accordance with US GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate Adjusted EBITDA in the same manner.

We use Adjusted EBITDA for the following purposes:

- to assess the financial performance of our assets, without regard to financing methods, capital structure or historical cost basis;
- to assess our operating performance and return on capital as compared to those of other companies in the oil and gas industry, without regard to financing or capital structure;
- to assess the viability of acquisition and capital expenditure projects and the overall rates of return on alternative investment opportunities;
- to assess the ability of our assets to generate cash sufficient to pay interest costs and support indebtedness;
- for various purposes, including strategic planning and forecasting;

Cautionary Statement Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q and the documents referred to in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 (as amended, the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are statements that are not statements of historical fact, including statements about beliefs, opinions and expectations. Forward-looking statements are based on, and include statements about, our plans, prospects, expected future financial condition, results of operations, cash flows, dividends and dividend plans, objectives, beliefs, financing plans, business strategies, budgets, goals, future events, future revenues or performance, financing needs, outcomes of litigation, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, integration, cost savings, synergies, growth opportunities, dispositions, plans and objectives of management for future operations and any other

Table of Contents

information that is not historical information. These statements, which may include statements regarding the period following completion of the reincorporation merger and the related transactions, include, without limitation, words such as “may,” “will,” “could,” “should,” “would,” “expect,” “plan,” “project,” “forecast,” “intend,” “anticipate,” “believe,” “e,” “suggest,” “view,” “potential,” “pursue,” “target,” “continue” and similar expressions and variations as well as the negative of terms. These statements involve risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to differ materially from those expressed in them or indicated by them.

These risks and uncertainties are not exhaustive. Other sections of this Quarterly Report on Form 10-Q describe additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to actual results or revised expectations and we do not intend to do so.

These forward-looking statements appear in a number of places and include statements with respect to, among other things:

- risks and uncertainties associated with the Chapter 11 process, including our inability to develop, confirm and consummate a plan under Chapter 11 of the Bankruptcy Code or an alternative restructuring transaction, including a sale of all or substantially all of our assets, which may be necessary to continue as a going concern;
- inability to maintain our relationship with suppliers, customers, employees and other third parties as a result of our Chapter 11 filing;
- failure to satisfy our short- or long-term liquidity needs, including our inability to generate sufficient cash flow from operations or to obtain adequate financing to fund our capital expenditures and meet working capital needs and our ability to continue as a going concern;
- estimates of our oil and natural gas reserves;
- our future financial condition, results of operations, revenues, cash flows, and expenses;
- our future levels of indebtedness, liquidity, and compliance with debt covenants;
- our ability to access the capital markets and the terms on which capital may be available to us;
- our ability to fund our operations and capital expenditures;
- our future business strategy and other plans and objectives for future operations;
- our ability to integrate the historical Forest and Sabine O&G businesses and achieve synergies related to the Combination;

- our business' competitive position;
- our outlook on oil and natural gas prices;
- the amount, nature, and timing of our future capital expenditures, including future development costs;

43

Table of Contents

- our potential future asset dispositions and other transactions, the timing of closing of such transactions and the use of proceeds, if any, from such transactions;
- the risks associated with potential acquisitions or alliances by us;
- the recruitment and retention of our officers and employees;
- our expected levels of compensation;
- the likelihood of success of and impact of litigation on us;
- our assessment of our counterparty risk and the ability of our counterparties to perform their future obligations; and
- the impact of federal, state, and local political, regulatory, and environmental developments in the United States where we conduct business operations.

We expressly qualify in its entirety each forward-looking statement attributable to us or any person acting on our behalf by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As of the end of the period covered by this report based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of March 31, 2016.

Changes in Internal Control over Financial Reporting

As disclosed in Note 16 of our Annual Report on Form 10-K for the year ended December 31, 2015, during the fourth quarter of 2015 management evaluated and concluded that there was a material weakness in internal control over financial reporting as of December 31, 2014 that had not been remediated as of December 31, 2015. The material weakness related to the design and operating effectiveness of controls concerning the review of material agreements and changes to material agreements associated with significant, unusual or nonrecurring transactions as well as controls concerning the application of Rule 3-10 of Regulation S-X in relation to the 2019 Notes and 2020 Notes, that resulted in the omission of required condensed consolidating financial information reported separately for the parent company issuer, the subsidiary guarantors on a combined basis, the consolidating adjustments and the consolidated totals, which should have been reported as a footnote to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014 and the Quarterly Reports of Form 10-Q for the periods ending March 31, 2015, June 30, 2015 and September 30, 2015.

Subsequent to identifying the material weakness during the fourth quarter of 2015, management designed, implemented and operated internal controls and procedures specific to the review of any new and existing debt instruments in relation to the performance of the required assessment for financial statements required by Rule 3-10 of Regulation S-X, and footnote or financial statement preparations. In addition, management strengthened and enhanced existing controls and procedures related management's identification and assessment of material agreements and changes to material agreements associated with significant, unusual or nonrecurring transactions, for impact to the Company's financial statements, footnotes and disclosures. During the fourth quarter of 2015 and first quarter of 2016, controls concerning the identification and assessment of material agreements and changes to material agreements associated with significant, unusual or nonrecurring transactions, for impact to the Company's financial statements, footnotes and

Table of Contents

disclosures and controls concerning the application of Rule 3-10 of Regulation S-X, operated, were tested and deemed effective, thus remediating the aforementioned material weakness as of March 31, 2016.

Except as noted in the preceding paragraphs, there has been no change in our internal control over financial reporting that occurred during the most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are party to lawsuits arising in the ordinary course of our business. We cannot predict the outcome of any such lawsuits with certainty, but our management team does not expect the outcome of pending or threatened legal matters to have a material adverse impact on our financial condition.

Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

On February 29, 2012, two members of a three-member arbitration panel reached a decision adverse to the Company in the proceeding styled Forest Oil Corp. et al. v. El Rucio Land & Cattle Co. et al. The third member of the arbitration panel dissented. The proceeding was initiated in January 2005 and involves claims asserted by the landowner-claimant based on the diminution in value of its land and related damages allegedly resulting from operational and reclamation practices employed by Forest Oil in the 1970s, 1980s, and early 1990s. The arbitration decision awarded the claimant \$23 million in damages and attorneys' fees and additional injunctive relief regarding future surface-use issues. On October 9, 2012, after vacating a portion of the decision imposing a future bonding requirement on the Company, the trial court for the 55th Judicial District of Harris County, Texas, reduced the arbitration decision to a judgment. The judgment was affirmed by the Court of Appeals for the First District of Texas on July 24, 2014, and a motion for rehearing was denied on August 8, 2014. The Company filed a petition for review with the Texas Supreme Court on January 5, 2015. On May 1, 2015, the Texas Supreme Court requested full briefing on the merits. On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. On September 15, 2015, the bankruptcy court granted an unopposed motion to lift the automatic stay thereby allowing the appeal currently pending in the Texas Supreme Court to move forward. All briefing in the matter is now completed.

Stourbridge Investments, LLC v. Forest Oil Corporation, et al., Raul v. Carroll, et al., Rothenberg v. Forest Oil Corporation, et al., Gawlikowski v. Forest Oil Corporation, et al., Edwards v. Carroll, et al., Jabri v. Forest Oil Corporation, et al., Olinatz v. Forest Oil Corporation, et al.

Following the May 6, 2014 announcement of the proposed Combination, six putative class action lawsuits were filed by Forest Oil shareholder in the Supreme Court of the State of New York, County of New York, alleging breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by Sabine entities in connection with the proposed Combination. By order dated July 8, 2014, the six New York cases were consolidated for all purposes under the caption In re Forest Oil Corporation Shareholder Litigation, Index No. 651418/2014. On July 17, 2014, plaintiffs in the consolidated New York action filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). The Consolidated Complaint seeks to certify a plaintiff class consisting of all holders of Forest Oil common stock other than the defendants and their affiliates. The defendants named in these actions include the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), as well as Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC). The Consolidated Complaint also purports to identify FR XI Onshore AIV, L.L.C. as a defendant, but no causes of action are alleged against that entity.

The Consolidated Complaint alleges that the proposed Combination arises out of a series of unlawful actions by the board of directors of Forest Oil seeking to ensure that Sabine and affiliates of First Reserve Corporation ("First Reserve") acquire the assets of, and take control over, Forest Oil through an alleged "three-step merger transaction" that allegedly does not represent a value-maximizing transaction for the shareholders of Forest Oil. The Consolidated Complaint also complains that the proposed Combination has been improperly restructured to require only a majority

vote of current Forest Oil shareholders to approve the Combination with Sabine, rather than a two-thirds majority as would have been required under the original transaction structure. The Consolidated Complaint additionally alleges that members of Forest Oil's board, as well as Forest Oil's financial adviser for the proposed Combination, are subject to conflicts of interest that compromise their loyalty to Forest Oil's shareholders, that the defendants have improperly sought to "lock up" the proposed Combination with certain inappropriate "deal protection devices" that impede Forest Oil from pursuing superior potential transactions with other bidders.

Table of Contents

The Consolidated Complaint asserts causes of action against the directors of Forest Oil for breaches of fiduciary duty and violations of the New York Business Corporation Law, as well as a cause of action against the Sabine defendants for aiding and abetting the directors' breaches of duty and violations of law, and it seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission and/or rescissory and other damages in the event that the proposed Combination is consummated before the lawsuit is resolved.

In addition to these New York proceedings, one putative class action lawsuit has been filed by Forest Oil shareholders in the United States District Court for the District of Colorado. That action, captioned *Olinatz v. Forest Oil Corp.*, No. 1:14-cv-01409-MSK-CBS, was commenced on May 19, 2014, and plaintiffs filed an Amended Complaint (the "Olinatz Complaint") on June 13, 2014. The Olinatz Complaint also alleges breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by the Sabine defendants in connection with the proposed Combination, as well as related claims alleging violations of Section 14 (a) and 20 (a) of the Securities Exchange Act of 1934, and Securities and Exchange Commission Rule 14a-9 promulgated thereunder, in connection with alleged misstatements in a Form S-4 Registration Statement filed by Forest Oil on May 29, 2014, which recommends that Forest Oil shareholders approve the proposed Combination. The Olinatz Complaint names as defendants Forest Oil and certain of its affiliates (specifically, Forest Oil Corporation, New Forest Oil Inc., and Forest Oil Merger Sub Inc.), the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), and Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC), and seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission in the event the proposed Combination is consummated before the lawsuit is resolved, as well as imposition of a constructive trust on any alleged benefits improperly received by defendants.

On October 14, 2014, on motion by the Colorado plaintiffs, the Court in the Colorado action entered an order directing the Clerk of the Court to administratively close the action, subject to reopening on good cause shown.

On November 11, 2014, the defendants reached an agreement in principle with plaintiffs in the New York action regarding a settlement of that action, and that agreement is reflected in a memorandum of understanding executed by the parties on that date. The settlement, if consummated, will also resolve the Colorado action. In connection with the settlement contemplated by the memorandum of understanding, Forest Oil agreed to make certain additional disclosures related to the proposed transaction with Sabine, which are contained in Forest Oil's November 12, 2014 Form 8-K, and Sabine agreed that, within 120 days after the closing of the proposed combination transaction, Sabine Investor Holdings LLC will designate for a period of no less than three (3) years at least one additional independent director, as defined in Section 303A.02 of the New York Stock Exchange Listed Company Manual, as a Sabine Nominee (as defined in Section 1.4 of the Amended and Restated Agreement and Plan of Merger). The total number of Sabine Nominees will remain unchanged, but at least one of the remaining two Sabine Nominees that had not yet been determined was required to be independent. In connection with the closing of the Combination, Thomas Chewing, an independent director as defined in Section 303A.02 of the New York Exchange Listed Company Manual, was appointed as a Sabine Nominee. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement.

On March 13, 2015, plaintiffs informed Sabine that they believed Sabine had materially violated the terms of the memorandum of understanding by (i) failing to replace or create a mechanism to replace an independent director who resigned from the board of directors in January of 2015, and (ii) making changes to the terms of the merger agreement that were not necessary or required to facilitate the consummation of the proposed transaction without first disclosing and permitting shareholders to vote on the changes. Sabine disagrees with plaintiffs' position and believes it has fully complied with the memorandum of understanding. In an attempt to facilitate a resolution, however, Sabine offered to:

(i) appoint an independent director if an additional director was added to the Board of Directors (bringing the total number of directors eight in the next twelve months, and (ii) remove or waive the “Reincorporation Penalty” provision. Plaintiffs accepted the offer on April 22, 2015, contingent upon the Parties’ reaching agreement on a stipulation of settlement, which they are presently negotiating.

The stipulation of settlement will be subject to customary conditions, including court approval. In the event the parties enter into a stipulation of settlement, a hearing will be scheduled at which the New York Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the Court, it will resolve and release all claims or actions that were or could have been brought challenging any aspect of the proposed

Table of Contents

combination transaction, the Amended and Restated Agreement and Plan of Merger, the merger agreement originally entered into by Sabine Investor Holdings LLC, Forest Oil, New Forest Oil Inc. and certain of their affiliated entities on May 5, 2014, any disclosure made in connection therewith, including the Definitive Proxy Statement, and all other matters that were the subject of the complaint in the New York action, pursuant to terms that will be disclosed to shareholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that the parties will negotiate in good faith regarding the amount of attorney's fees and expenses that shall be paid to plaintiffs' counsel in connection with the Actions. There can be no assurances that the parties will ultimately enter into a stipulation of settlement or that the New York Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. The parties are presently negotiating the stipulation of settlement. At this time, the Company is unable to estimate the potential outcome of this litigation or the ultimate exposure.

On July 15, 2015, Sabine filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, this matter is currently stayed.

HPIP-Gonzales Holdings, LLC v. Forest Oil Corporation

On November 11, 2014, HPIP-Gonzales Holdings, LLC ("HPIP") initiated arbitration against the Company alleging that the Company breached various provisions, along with its duty of good faith and fair dealing, of the Gathering, Treating and Processing Agreement with HPIP entered into in May 2013 (the "HPIP Gathering Agreement") and the Acid Gas Handling Agreement with HPIP entered into in May 2014 (together with the HPIP Gathering Agreement, the "HPIP Agreements"). HPIP also sought to exercise a contractual provision requiring Sabine to purchase the facilities governed by the HPIP Agreements in the event the related drilling program terminates. On December 19, 2014, the Company filed its Answering Statement and Notice of Counterclaim, denying HPIP's claims and asserting generally that HPIP breached various provisions of the agreements, resulting in damages to the Company. The Company further alleged that its drilling program had not terminated. On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, the arbitration is currently stayed. On May 11, 2016 the Bankruptcy Court issued an order authorizing rejection of the Company's midstream gathering agreements with HPIP Gonzales Holdings, LLC (the "HPIP Gathering Agreement") effective September 30, 2015.

Wilmington Savings Fund Society, FSB v. Forest Oil Corporation

On February 26, 2015, the Company was served with a complaint concerning the indenture governing its 2019 Notes. The complaint is pending in the Supreme Court of the State of New York and generally alleges that certain events of default occurred with respect to the 2019 Notes due to the business combination between Forest Oil Corporation and Sabine Oil & Gas LLC. The Company also received a notice of default and acceleration from the trustee with respect to the 2019 Notes containing similar allegations. If the Company is not successful in their defense of this complaint, the Company may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes. The Company filed its Answer to the complaint on April 17, 2015. The Company believes the allegations against it are without merit and intend to vigorously defend against such claims and pursue any and all defenses available. However, the Company is unable to predict the outcome of such matter, and the proceedings may have a negative impact on the Company's liquidity, financial condition and results of operations.

While the Company intends to vigorously defend the claims against it and believe they are without merit, an adverse ruling could cause the Company's indebtedness to become immediately due and payable.

Additional claims, lawsuits, or proceedings may be filed or commenced arising out of the indentures to which we are a party and with respect to the business combination.

On July 15, 2015, the Company filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. As a result of the pending bankruptcy, this matter is currently stayed.

Sabine Oil & Gas Corporation v. Wilmington Trust, N.A.

On July 15, 2015, the Company filed an adversary proceeding asserting, on its behalf, a constructive fraudulent transfer claim against the Term Loan Facility administrative agent Wilmington Trust, N.A. Specifically, the complaint

Table of Contents

(the “Complaint”) states that at the time of the Business Combination between Sabine Oil & Gas LLC and Forest Oil Corporation, Forest Oil Corporation was insolvent from a balance-sheet standpoint. The Complaint also alleges that Forest Oil Corporation did not receive reasonably equivalent value in exchange for pledging hundreds of millions of dollars of oil and gas assets to secure the Term Loan Facility debt that Sabine Oil & Gas LLC had previously incurred. Accordingly, pursuant to Bankruptcy Code Section 551, Sabine is seeking to avoid and preserve, for the benefit of the Company’s unsecured creditors, the liens imposed on legacy Forest Oil Corporation assets that secured the \$650 million in preexisting Sabine Oil & Gas LLC debt under the Term Loan Facility. In August 2015, the defendant filed a motion to dismiss, which is now fully briefed, and the Court heard oral argument on October 15, 2015, but did not rule.

On December 30, 2015, the official committee for unsecured creditors (the “Creditors Committee”) and counsel for the Forest Notes Trustees filed motions to intervene in the adversary proceeding. On January 5, 2016, the Creditors Committee also filed an objection to Wilmington Trust, N.A.’s motion to dismiss the complaint. The Court held a second hearing on the motion to dismiss on January 12, 2016, but has yet to rule.

ITEM 1A.RISK FACTORS

The following risk factor updates the Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2015. Except as set forth below, there have been no material changes to the risks described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015.

Full cost accounting rules have required us to record a non-cash asset write-down for the three months ended March 31, 2016, and we may be required to record similar non-cash asset write-downs in the future.

We utilize the full cost method of accounting for natural gas and oil exploration and development activities. Under full cost accounting, we are required to perform a ceiling test each quarter. The ceiling test is an impairment test and generally establishes a maximum, or “ceiling,” of the book value of natural gas and oil properties that is equal to the expected after tax present value (discounted at 10%) of the future net cash flows from proved reserves, including the effect of cash flow hedges when hedge accounting is applied, calculated using the unweighted average of the first day of the month natural gas and oil prices for the prior 12 months. If the net book value of natural gas and oil properties (reduced by any related net deferred income tax liability and asset retirement obligation) exceeds the ceiling limitation, accounting rules require us to impair or “write down” the book value of our natural gas and oil properties. Once incurred, a write-down of natural gas and oil properties is not reversible at a later date.

Costs associated with unevaluated properties are not initially subject to the ceiling test limitation. Rather, we assess all items classified as unevaluated property on a quarterly basis for possible impairment or reduction in value based upon our intentions with respect to drilling on such properties, the remaining lease term, geological and geophysical evaluations, drilling results, the assignment of proved reserves, and the economic viability of development if proved reserves are assigned. These factors are significantly influenced by our expectations regarding future commodity prices, development costs, and access to capital at acceptable cost. During any period in which these factors indicate an impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to amortization and the ceiling test limitation. Accordingly, a significant change in these factors, some of which are beyond our control, may shift a significant amount of cost from unevaluated properties into the full cost pool that is subject to amortization and the ceiling test limitation.

As of March 31, 2016, the unweighted average of the first day of the month natural gas and oil prices for the prior 12 months was \$46.26 per Bbl of oil and \$2.39 per MMBtu for natural gas, which resulted in a non-cash impairment charge for oil and gas properties of \$86.0 million for the three months ended March 31, 2016.

There is risk that we will be required to write down the carrying value of our natural gas and oil properties increases when natural gas and oil prices are low or volatile. Natural gas prices declined significantly in late 2014 and throughout 2015 to the lowest level in recent years and continue to trade near historic lows. If, the average of the unweighted first day of the month natural gas or oil prices for the prior twelve month periods remains at current levels or decline, we could have a further reduction in our asset carrying value for oil and gas properties.

Table of Contents

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

Unregistered Sales of Equity Securities

We did not make any sales of unregistered equity securities during the three months ended March 31, 2016.

Issuer Purchases of Equity Securities

We did not purchase any of our equity securities during the three months ended March 31, 2016.

ITEM 3.Defaults Upon Senior Securities.

See Note 2 to the Notes to Condensed Consolidated Financial Statements, “Chapter 11 Proceedings, Liquidity and Ability to Continue as a Going Concern,” within Part I, Item I of this Quarterly Report on Form 10-Q.

ITEM 4.Mine Safety Disclosures.

Not applicable.

ITEM 5.Other Information.

None.

ITEM 6. Exhibits.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Sabine Oil & Gas Corporation, restated as of December 19, 2014, incorporated herein by reference to Exhibit 3.1 to Form 10-K for Sabine Oil & Gas Corporation filed March 31, 2015 (File No. 001-13515).
3.2	Amended and Restated Bylaws, as amended December 16, 2014, incorporated herein by reference to Exhibit 3.4 to Form 8-K for Sabine Oil & Gas Corporation filed December 22, 2014 (File No. 001-13515).
31.1*	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certificate by the Company’s Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certificate by the Company’s Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**Furnished herewith.

50

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, Sabine Oil & Gas Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABINE OIL & GAS CORPORATION

Date: May 16, 2016 By: /s/ David J. Sambrooks

Name: David J. Sambrooks

Title: President, Chief Executive Officer and Chairman

By: /s/ Michael D. Magilton, Jr.

Name: Michael D. Magilton, Jr.

Title: Senior Vice President and Chief Financial Officer