Oasis Petroleum Inc.
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

March 31, 2012 For the quarterly period ended March 31, 2012

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: 1-34776

Oasis Petroleum Inc.

(Exact name of registrant as specified in its charter)

Delaware	**80-0554627**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1001 Fannin Street, Suite 1500	
Houston, Texas	**77002**
(Address of principal executive offices)	**(Zip Code)**

(281) 404-9500

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Number of shares of the registrant s common stock outstanding at May 4, 2012: 93,105,257 shares.

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OASIS PETROLEUM INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Oasis Petroleum Inc.

Condensed Consolidated Balance Sheet

(Unaudited)

	March 31, 2012	December 31, 2011
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 287,298	$ 470,872
Short-term investments		19,994
Accounts receivable oil and gas revenues	78,455	52,164
Accounts receivable joint interest partners	67,015	67,268
Inventory	10,422	3,543
Prepaid expenses	1,740	2,140
Advances to joint interest partners	3,280	3,935
Deferred income taxes	6,807	3,233
Other current assets	80	491
Total current assets	455,097	623,640
Property, plant and equipment		
Oil and gas properties (successful efforts method)	1,515,788	1,235,357
Other property and equipment	38,660	20,859
Less: accumulated depreciation, depletion, amortization and impairment	(215,436)	(176,261)
Total property, plant and equipment, net	1,339,012	1,079,955
Derivative instruments	486	4,362
Deferred costs and other assets	18,815	19,425
Total assets	$ 1,813,410	$ 1,727,382
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 516	$ 12,207
Advances from joint interest partners	14,548	9,064
Revenues and production taxes payable	45,276	19,468
Accrued liabilities	139,713	119,692
Accrued interest payable	15,024	15,774
Derivative instruments	16,469	5,907
Other current liabilities	316	472
Total current liabilities	231,862	182,584
Long-term debt	800,000	800,000
Asset retirement obligations	15,664	13,075
Derivative instruments	6,434	3,505

Deferred income taxes	106,348	92,983
Other liabilities	2,013	997
Total liabilities	1,162,321	1,093,144
Commitments and contingencies (Note 11)		
Stockholders equity		
Common stock, $0.01 par value; 300,000,000 shares authorized; 93,136,773 issued and 93,074,949 outstanding at March 31, 2012; 92,483,393 issued and 92,460,914 outstanding at December 31, 2011	922	921
Treasury stock, at cost; 61,824 and 22,479 shares at March 31, 2012 and December 31, 2011, respectively	(1,783)	(602)
Additional paid-in-capital	648,964	647,374
Retained earnings (deficit)	2,986	(13,455)
Total stockholders equity	651,089	634,238
Total liabilities and stockholders equity	$ 1,813,410	$ 1,727,382

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

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Oasis Petroleum Inc.

Condensed Consolidated Statement of Operations

(Unaudited)

	Three Months Ended March 31, 2012	2011
	(In thousands, except per share data)	
Revenues		
Oil and gas revenues	$ 137,906	$ 58,744
Well services revenues	660	
Total revenues	138,566	58,744
Expenses		
Lease operating expenses	9,816	5,630
Well services operating expenses	477	
Marketing, transportation and gathering expenses	2,569	312
Production taxes	13,266	6,083
Depreciation, depletion and amortization	38,886	13,812
Exploration expenses	2,835	32
Impairment of oil and gas properties	368	1,381
General and administrative expenses	12,199	5,950
Total expenses	80,416	33,200
Operating income	58,150	25,544
Other income (expense)		
Net loss on derivative instruments	(18,586)	(31,666)
Interest expense	(13,899)	(5,198)
Other income	598	312
Total other income (expense)	(31,887)	(36,552)
Income (loss) before income taxes	26,263	(11,008)
Income tax (expense) benefit	(9,822)	4,161
Net income (loss)	$ 16,441	$ (6,847)
Earnings (loss) per share:		
Basic and diluted (Note 10)	$ 0.18	$ (0.07)
Weighted average shares outstanding:		
Basic (Note 10)	92,130	92,047
Diluted (Note 10)	92,231	92,047

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

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Oasis Petroleum Inc.

Condensed Consolidated Statement of Changes in Stockholders Equity

(Unaudited)

(In thousands)

	Common Stock		Treasury Stock		Additional	Retained Earnings	Total Stockholders
	Shares	Amount	Shares	Amount	Paid-in-Capital	(Deficit)	Equity
Balance as of December 31, 2011	92,461	$ 921	22	$ (602)	$ 647,374	$ (13,455)	$ 634,238
Stock-based compensation	654				1,591		1,591
Vesting of restricted shares		1			(1)		
Treasury stock tax withholdings	(40)		40	(1,181)			(1,181)
Net income						16,441	16,441
Balance as of March 31, 2012	93,075	$ 922	62	$ (1,783)	$ 648,964	$ 2,986	$ 651,089

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

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Oasis Petroleum Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 16,441	$ (6,847)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	38,886	13,812
Impairment of oil and gas properties	368	1,381
Deferred income taxes	9,822	(4,161)
Derivative instruments	18,586	31,666
Stock-based compensation expenses	1,591	527
Debt discount amortization and other	648	256
Working capital and other changes:		
Change in accounts receivable	(26,038)	(6,667)
Change in inventory	(9,641)	(37)
Change in prepaid expenses	31	479
Change in other current assets	483	(113)
Change in other assets		(3)
Change in accounts payable and accrued liabilities	10,775	(7,448)
Change in other current liabilities	(188)	
Change in other liabilities	1,001	
Net cash provided by operating activities	62,765	22,845
Cash flows from investing activities:		
Capital expenditures	(269,975)	(91,126)
Derivative settlements	(1,291)	(512)
Purchases of short-term investments		(114,974)
Redemptions of short-term investments	19,994	
Advances to joint interest partners	655	885
Advances from joint interest partners	5,484	4,938
Net cash used in investing activities	(245,133)	(200,789)
Cash flows from financing activities:		
Proceeds from issuance of senior notes		400,000
Purchases of treasury stock	(1,181)	(559)
Debt issuance costs	(25)	(10,027)
Net cash (used in) provided by financing activities	(1,206)	389,414
(Decrease) increase in cash and cash equivalents	(183,574)	211,470
Cash and cash equivalents:		
Beginning of period	470,872	143,520
End of period	$ 287,298	$ 354,990
Supplemental non-cash transactions:		

Change in accrued capital expenditures	$	22,336	$	(16,644)
Change in asset retirement obligations		2,867		1,656

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

OASIS PETROLEUM INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Operations of the Company

Organization

Oasis Petroleum Inc. (Oasis or the Company) was formed on February 25, 2010, pursuant to the laws of the State of Delaware, to become a holding company for Oasis Petroleum LLC (OP LLC), the Company s predecessor. OP LLC was formed as a Delaware limited liability company on February 26, 2007 by certain members of the Company s senior management team and certain private equity funds managed by EnCap Investments L.P. In connection with its initial public offering in June 2010 and related corporate reorganization, the Company acquired all of the outstanding membership interests in OP LLC in exchange for shares of the Company s common stock. In May 2007, the Company formed Oasis Petroleum North America LLC (OPNA), a Delaware limited liability company, to conduct its domestic oil and natural gas exploration and production activities. In April 2008, the Company formed Oasis Petroleum International LLC (OPI), a Delaware limited liability company, to conduct business development activities outside of the United States of America. As of March 31, 2012, OPI had no business activities or material assets. In June 2011, the Company formed Oasis Well Services LLC (OWS), a Delaware limited liability company, to provide well services to OPNA. In July 2011, the Company formed Oasis Petroleum Marketing LLC (OPM), a Delaware limited liability company, to provide marketing services to OPNA.

Nature of Business

The Company is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas resources in the Williston Basin. The Company s proved and unproved oil and natural gas properties are located in the Montana and North Dakota areas of the Williston Basin and are owned by OPNA. The Company also operates businesses that are complementary to its primary development and production activities, including a marketing business (OPM) and a well services business (OWS).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company include the accounts of Oasis and its wholly owned subsidiaries: OP LLC, OPNA, OPI, OWS and OPM. The accompanying condensed consolidated financial statements of the Company have not been audited by the Company s independent registered public accounting firm, except that the condensed consolidated balance sheet at December 31, 2011 is derived from audited financial statements. All significant intercompany transactions have been eliminated in consolidation. Certain reclassifications of prior year balances have been made to conform such amounts to current year classifications. These reclassifications have no impact on net income (loss). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation have been included. In preparing the accompanying condensed consolidated financial statements, management has made certain estimates and assumptions that affect reported amounts in the condensed consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

These interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (GAAP) for complete consolidated financial statements and should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Annual Report).

Significant Accounting Policies

There have been no material changes to the Company s critical accounting policies and estimates from those disclosed in the 2011 Annual Report.

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3. Inventory

Equipment and materials consist primarily of tubular goods, well equipment to be used in future drilling or repair operations and well fracturing equipment, all of which are stated at the lower of cost or market with cost determined on an average cost method. Crude oil inventories include oil in tank and line fill and are valued at the lower of average cost or market value. Inventory consists of the following:

	March 31, 2012	December 31, 2011
	(In thousands)	
Equipment and materials	$ 7,485	$ 2,709
Crude oil inventory	2,937	834
Total inventory	$ 10,422	$ 3,543

4. Property, Plant and Equipment

The following table sets forth the Company s property, plant and equipment:

	March 31, 2012	December 31, 2011
	(In thousands)	
Proved oil and gas properties (1)	$ 1,434,402	$ 1,152,532
Less: Accumulated depreciation, depletion, amortization and impairment	(212,831)	(174,948)
Proved oil and gas properties, net	1,221,571	977,584
Unproved oil and gas properties	81,386	82,825
Oil and gas properties, net	1,302,957	1,060,409
Other property and equipment	38,660	20,859
Less: Accumulated depreciation	(2,605)	(1,313)
Other property and equipment, net	36,055	19,546
Total property, plant and equipment, net	$ 1,339,012	$ 1,079,955

(1) Included in the Company s proved oil and gas properties are estimates of future asset retirement costs of $14.1 million and $11.4 million at March 31, 2012 and December 31, 2011, respectively. In addition, the Company s proved oil and gas properties include capitalized interest of $3.9 million and $3.1 million at March 31, 2012 and December 31, 2011, respectively.

As a result of expiring unproved property leases, the Company recorded non-cash impairment charges on its unproved oil and gas properties of $0.4 million and $1.4 million for the three months ended March 31, 2012 and 2011, respectively. No impairment charges on proved oil and natural gas properties were recorded for the three months ended March 31, 2012 or 2011.

5. Fair Value Measurements

In accordance with the Financial Accounting Standards Board s (FASB) authoritative guidance on fair value measurements, the Company s financial assets and liabilities are measured at fair value on a recurring basis. The Company recognizes its non-financial assets and liabilities, such as asset retirement obligations and proved oil and natural gas properties upon impairment, at fair value on a non-recurring basis.

As defined in the authoritative guidance, 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). To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted 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 2 Pricing inputs, other than unadjusted quoted prices in active markets included in Level 1, are either directly or indirectly observable as of the reporting 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 and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 Pricing inputs are generally less observable from objective sources, requiring internally developed valuation methodologies that result in management s best estimate of fair value.

Financial Assets and Liabilities

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The following tables set forth by level within the fair value hierarchy the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis:

	At fair value as of March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets (liabilities):				
Money market funds	$ 200,552	$	$	$ 200,552
Commodity derivative instruments (see Note 6)		(22,345)		(22,345)
Total assets (liabilities)	$ 200,552	$ (22,345)	$	$ 178,207

	At fair value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets (liabilities):				
Money market funds	$ 250,419	$	$	$ 250,419
Commodity derivative instruments (see Note 6)			(5,050)	(5,050)
Total assets (liabilities)	$ 250,419	$	$ (5,050)	$ 245,369

The Level 1 instruments presented in the tables above consist of money market funds included in Cash and cash equivalents on the Company s Condensed Consolidated Balance Sheet at March 31, 2012 and December 31, 2011. The Company s money market funds represent cash equivalents backed by the assets of high-quality major banks and financial institutions. The Company identified the money market funds as Level 1 instruments due to the fact that the money market funds have daily liquidity, quoted prices for the underlying investments can be obtained and there are active markets for the underlying investments.

The Level 2 and Level 3 instruments presented in the tables above consist of oil collars and deferred premium puts. The fair values of the Company s oil collars and deferred premium puts are based upon a third-party preparer s calculation using mark-to-market valuation reports provided by the Company s counterparties for monthly settlement purposes to determine the valuation of its derivative instruments. The Company has the third-party preparer evaluate other readily available market prices for its derivative contracts as there is an active market for these contracts. The third-party preparer performs its independent valuation using an options pricing model similar to Black-Scholes. The significant inputs used are crude oil prices, volatility, skew, discount rate and the contract terms of the derivative instruments. However, the Company does not have access to the specific valuation models or inputs used by its counterparties or third-party preparer. The determination of the fair values also incorporates a credit adjustment for non-performance risk, as required by GAAP. The Company calculated the credit adjustment for derivatives in an asset position using current credit default swap values for each counterparty. The credit adjustment for derivatives in a liability position is based on the Company s market credit spread. Based on these calculations, the Company recorded a downward adjustment to the fair value of its net derivative liability in the amount of $0.8 million and $0.3 million at March 31, 2012 and December 31, 2011, respectively.

The Company has adopted the FASB s authoritative guidance amending certain accounting and disclosure requirements related to fair value measurements. The guidance clarifies and modifies some fair value measurement principles under GAAP, including a change in the valuation premise and the application of premiums and discounts. It also contains some new disclosure requirements under GAAP. The guidance had no impact on the Company s financial position, cash flows or results of operations for the three months ended March 31, 2012.

The following table presents a reconciliation of the changes in fair value of the derivative instruments classified as Level 3 in the fair value hierarchy for the periods presented.

	2012	2011
	(In thousands)	
Balance as of January 1	$ (5,050)	$ (10,486)
Total gains or (losses) (realized or unrealized):		
Included in earnings		(31,666)
Included in other comprehensive income		
Settlements		512
Transfers in and out of Level 3 (1)	5,050	
Balance as of March 31	$	$ (41,640)
Change in unrealized losses included in earnings relating to derivatives still held at March 31	$	$ (31,154)

(1) During the first quarter of 2012, the inputs used to value the Company s commodity derivative instruments were directly or indirectly observable and those contracts were transferred to Level 2.

Fair Value of Other Financial Instruments

The Company s financial instruments, including certain cash and cash equivalents, short-term investments, accounts receivable and accounts payable, are carried at amortized cost, which approximates cost and fair value due to the short-term maturity of these instruments. At March 31, 2012, the Company s cash equivalents were all Level 1 assets. The carrying amount of the Company s long-term debt (senior unsecured notes due 2019 and 2021 see Note 7) reported in the Condensed Consolidated Balance Sheet at March 31, 2012 is $800.0 million, with a fair value of $823.0 million. The Company s unsecured notes are publicly traded and therefore categorized as a Level 1 asset.

Nonfinancial Assets and Liabilities

Asset retirement obligations. The carrying amount of the Company s asset retirement obligations (ARO) in the Condensed Consolidated Balance Sheet at March 31, 2012 is $15.9 million (see Note 8 Asset Retirement Obligations). The Company determines the ARO by calculating the present value of estimated cash flows related to the liability. Estimating the future ARO requires management to make estimates and judgments regarding timing and existence of a liability, as well as what constitutes adequate restoration. Inherent in the fair value calculation are numerous assumptions and judgments, including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. These assumptions represent Level 3 inputs. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset.

Impairment. The Company reviews its proved oil and natural gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. The Company estimates the expected undiscounted future cash flows of its oil and natural gas properties and compares such undiscounted future cash flows to the carrying amount of the oil and natural gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the oil and natural gas properties to fair value. The factors used to determine fair value are subject to management s judgment and expertise and include, but are not limited to, recent sales prices of comparable properties, the present value of future cash flows, net of estimated operating and development costs using estimates of proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. These assumptions represent Level 3 inputs. No impairment charges on proved oil and natural gas properties were recorded for the three months ended March 31, 2012 or 2011.

6. Derivative Instruments

The Company utilizes derivative financial instruments to manage risks related to changes in oil prices. As of March 31, 2012, the Company utilized two-way and three-way collar options to reduce the volatility of oil prices on a significant portion of the Company s future expected oil production. All derivative instruments are recorded on the balance sheet as either assets or liabilities measured at fair value (see Note 5 Fair Value Measurements). Derivative assets and liabilities arising from the Company s derivative contracts with the same counterparty are also reported on a net basis, as all counterparty contracts provide for net settlement. The Company has not designated any derivative instruments as hedges for accounting purposes and does not enter into such instruments for speculative trading purposes. If a derivative does not qualify as a hedge or is not designated as a hedge, the changes in fair value, both realized and unrealized, are recognized in the Other Income (Expense) section of the Condensed Consolidated Statement of Operations as a gain or loss on derivative instruments. The Company s cash flow is only impacted when the actual settlements under the derivative contracts result in making or receiving a payment to or from the counterparty. These cash settlements are reflected as investing activities in the Company s Condensed Consolidated Statement of Cash Flows.

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As of March 31, 2012, the Company had the following outstanding commodity derivative instruments, all of which settle monthly based on the average West Texas Intermediate crude oil index price:

Settlement Period	Derivative Instrument	Total Notional Amount of Oil (Barrels)	Average Sub-Floor Price	Average Floor Price	Average Ceiling Price	Fair Value Asset (Liability) (In thousands)
2012	Two-Way Collars	1,237,500		$ 85.56	$ 106.50	$ (5,427)
2012	Three-Way Collars	2,872,000	$ 66.62	$ 90.45	$ 109.14	(7,471)
2013	Two-Way Collars	807,500		$ 89.23	$ 111.69	(1,646)
2013	Three-Way Collars	2,404,500	$ 69.33	$ 91.61	$ 113.25	(7,338)
2014	Two-Way Collars	62,000		$ 90.00	$ 112.78	1
2014	Three-Way Collars	186,000	$ 70.00	$ 91.67	$ 113.58	(464)
						$ (22,345)

The following table summarizes the location and fair value of all outstanding commodity derivative instruments recorded in the balance sheet for the periods presented:

Fair Value of Derivative Instrument Assets (Liabilities)

Instrument Type	Balance Sheet Location	Fair Value March 31, 2012	Fair Value December 31, 2011
		(In thousands)	
Crude oil collar	Other current assets current assets	$ 72	$
Crude oil collar	Derivative instruments non-current assets	486	4,362
Crude oil collar	Derivative instruments current liabilities	(16,469)	(5,907)
Crude oil collar	Derivative instruments non-current liabilities	(6,434)	(3,505)
Total derivative instruments		$ (22,345)	$ (5,050)

The following table summarizes the location and amounts of realized and unrealized gains and losses from the Company s commodity derivative instruments for the periods presented:

	Income Statement Location	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
		(In thousands)	
Change in unrealized loss on derivative instruments	Net loss on derivative instruments	$ (17,295)	$ (31,154)
Realized loss on derivative instruments	Net loss on derivative instruments	(1,291)	(512)
Total net loss on derivative instruments		$ (18,586)	$ (31,666)

7. Long-Term Debt

Senior secured revolving line of credit. OP LLC, as parent, and OPNA, as borrower, entered into a credit agreement dated June 22, 2007 (as amended and restated, the Amended Credit Facility). The Amended Credit Facility is restricted to the borrowing base, which is reserve-based and subject to semi-annual redeterminations on April 1 and October 1 of each year. On October 6, 2011, the Company entered into its fifth amendment to its Amended Credit Facility. This amendment reduced the interest rates payable on the borrowings under the Amended Credit Facility, extended the maturity date of the Amended Credit Facility from February 26, 2015 to October 6, 2016, and increased the senior secured

revolving line of credit from $600 million to $1 billion. In connection with this amendment, the semi-annual redetermination of the borrowing base was also completed on October 6, 2011, which resulted in the borrowing base of the Amended Credit Facility increasing from $137.5 million to $350 million. In addition, on October 25, 2011, the Company s lenders in the Amended Credit Facility waived the mandatory reduction of the Company s borrowing base that otherwise would have occurred as a result of the issuance of the senior unsecured notes subsequently offered (see Senior unsecured notes below). Borrowings under the Amended Credit Facility are collateralized by perfected first priority liens and security interests on substantially all of the Company s assets, including mortgage liens on oil and natural gas properties having at least 80% of the reserve value as determined by reserve reports.

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Borrowings under the Amended Credit Facility are subject to varying rates of interest based on (1) the total outstanding borrowings (including the value of all outstanding letters of credit) in relation to the borrowing base and (2) whether the loan is a London interbank offered rate (LIBOR) loan or a domestic bank prime interest rate loan (defined in the Amended Credit Facility as an Alternate Based Rate or ABR loan). As of March 31, 2012, any outstanding LIBOR and ABR loans would have borne their respective interest rates plus the applicable margin indicated in the following table:

Ratio of Total Outstanding Borrowings to Borrowing Base	Applicable Margin for LIBOR Loans	Applicable Margin for ABR Loans
Less than .25 to 1	1.50%	0.00%
Greater than or equal to .25 to 1 but less than .50 to 1	1.75%	0.25%
Greater than or equal to .50 to 1 but less than .75 to 1	2.00%	0.50%
Greater than or equal to .75 to 1 but less than .90 to 1	2.25%	0.75%
Greater than .90 to 1 but less than or equal 1	2.50%	1.00%

An ABR loan may be repaid at any time before the scheduled maturity of the Amended Credit Facility upon the Company providing advance notification to the lenders under the Amended Credit Facility (the Lenders). Interest is paid quarterly on ABR loans based on the number of days an ABR loan is outstanding as of the last business day in March, June, September and December. The Company has the option to convert an ABR loan to a LIBOR-based loan upon providing advance notification to the Lenders. The minimum available loan term is one month and the maximum loan term is six months for LIBOR-based loans. Interest for LIBOR loans is paid upon maturity of the loan term. Interim interest is paid every three months for LIBOR loans that have loan terms greater than three months in duration. At the end of a LIBOR loan term, the Amended Credit Facility allows the Company to elect to repay the borrowing, continue a LIBOR loan with the same or a differing loan term or convert the borrowing to an ABR loan.

On a quarterly basis, the Company also pays a 0.375% annualized commitment fee on the average amount of borrowing base capacity not utilized during the quarter and fees calculated on the average amount of letter of credit balances outstanding during the quarter.

The Amended Credit Facility contains covenants that include, among others:

- a prohibition against incurring debt, subject to permitted exceptions;
- a prohibition against making dividends, distributions and redemptions, subject to permitted exceptions;
- a prohibition against making investments, loans and advances, subject to permitted exceptions;
- restrictions on creating liens and leases on the assets of the Company and its subsidiaries, subject to permitted exceptions;
- restrictions on merging and selling assets outside the ordinary course of business;
- restrictions on use of proceeds, investments, transactions with affiliates or change of principal business;
- a provision limiting oil and natural gas derivative financial instruments;
- a requirement that the Company not allow a ratio of Total Net Debt (as defined in the Amended Credit Facility) to consolidated EBITDAX (as defined in the Amended Credit Facility) to be greater than 4.0 to 1.0 for the four quarters ended on the last day of each

quarter; and

a requirement that the Company maintain a Current Ratio (as defined in the Amended Credit Facility) of consolidated current assets (with exclusions as described in the Amended Credit Facility) to consolidated current liabilities (with exclusions as described in the Amended Credit Facility) of not less than 1.0 to 1.0 as of the last day of any fiscal quarter.

The Amended Credit Facility contains customary events of default. If an event of default occurs and is continuing, the Lenders may declare all amounts outstanding under the Amended Credit Facility to be immediately due and payable.

As of March 31, 2012, the Company had no borrowings and no outstanding letters of credit issued under the Amended Credit Facility, resulting in an unused borrowing base capacity of $350 million. The Company was in compliance with the financial covenants of the Amended Credit Facility as of March 31, 2012.

Senior unsecured notes. During 2011, the Company issued $400.0 million of 7.25% senior unsecured notes due February 1, 2019 (the 2019 Notes) and $400.0 million of 6.5% senior unsecured notes due November 1, 2021 (the 2021 Notes), collectively the Notes . Interest on the Notes is payable semi-annually in arrears. The Notes are guaranteed on a senior unsecured basis by the Company s material subsidiaries (the Guarantors). These guarantees are full and unconditional and joint and several among the Guarantors. The issuance of these Notes resulted in net proceeds to the Company of approximately $783.4 million.

The Notes were issued under indentures, which are substantially the same, as amended and supplemented by supplemental indentures (collectively the Indentures), among the Company, the Guarantors and U.S. Bank National Association, as trustee (the Trustee). The Company has certain options to redeem up to 35% of the Notes at a certain redemption price based on a percentage of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of certain equity offerings so long as the redemption occurs within 180 days of completing such equity offering and at least 65% of the aggregate principal amount of the Notes remains outstanding after such redemption. Prior to certain dates, the Company has the options to redeem some or all of the Notes for cash at certain redemption prices equal to a certain percentage of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. The Company estimates that the fair value of these options are immaterial at March 31, 2012.

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The Indentures restrict the Company s ability and the ability of certain of its subsidiaries to: (i) incur additional debt or enter into sale and leaseback transactions; (ii) pay distributions on, redeem or repurchase equity interests; (iii) make certain investments; (iv) incur liens; (v) enter into transactions with affiliates; (vi) merge or consolidate with another company; and (vii) transfer and sell assets. These covenants are subject to certain exceptions and qualifications. If at any time when the Notes are rated investment grade by both Moody s Investors Service, Inc. and Standard & Poor s Ratings Services and no Default (as defined in the Indentures) has occurred and is continuing, many of such covenants will terminate and the Company and its subsidiaries will cease to be subject to such covenants.

The Indentures contains customary events of default, including:

default in any payment of interest on any Note when due, continued for 30 days;

default in the payment of principal or premium, if any, on any Note when due;

failure by the Company to comply with its other obligations under the Indentures, in certain cases subject to notice and grace periods;

payment defaults and accelerations with respect to other indebtedness of the Company and its Restricted Subsidiaries (as defined in the Indentures) in the aggregate principal amount of $10.0 million or more;

certain events of bankruptcy, insolvency or reorganization of the Company or a Significant Subsidiary (as defined in the Indentures) or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary;

failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary to pay certain final judgments aggregating in excess of $10.0 million within 60 days; and

any guarantee of the Notes by a Guarantor ceases to be in full force and effect, is declared null and void in a judicial proceeding or is denied or disaffirmed by its maker.

Deferred financing costs. As of March 31, 2012, the Company had $17.8 million of deferred financing costs related to the Amended Credit Facility and the Notes. The deferred financing costs are included in Deferred costs and other assets on the Company s Condensed Consolidated Balance Sheet at March 31, 2012 and are being amortized over the respective terms of the Amended Credit Facility, the 2019 Notes and the 2021 Notes. The amortization of these deferred financing costs is included in Interest expense on the Company s Condensed Consolidated Statement of Operations.

8. Asset Retirement Obligations

The following table reflects the changes in the Company s ARO during the three months ended March 31, 2012:

	(In thousands)
Balance at December 31, 2011	$ 13,075
Liabilities incurred during period	1,698
Liabilities settled during period	
Accretion expense during period (1)	185
Revisions to estimates	984

Balance at March 31, 2012	$	15,942

(1) Included in Depreciation, depletion and amortization on the Company s Condensed Consolidated Statement of Operations.

At March 31, 2012, the current portion of the total ARO balance was approximately $0.3 million and is included in Accrued liabilities on the Company s Condensed Consolidated Balance Sheet.

9. Income Taxes

The Company s effective tax rate for the three months ended March 31, 2012 and 2011 was 37.4% and 37.8%, respectively, which was consistent with the statutory tax rate applicable to the U.S. and the blended state rate for the states in which the Company conducts business. As of March 31, 2012, the Company did not have any uncertain tax positions requiring adjustments to its tax liability.

The Company had deferred tax assets for its federal and state tax loss carryforwards at March 31, 2012 recorded in noncurrent deferred taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of March 31, 2012, management determined that a valuation allowance was not required for the tax loss carryforwards as they are expected to be fully utilized before expiration.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the periods presented. The calculation of diluted earnings (loss) per share includes the impact of potentially dilutive non-vested restricted shares outstanding during the periods presented, unless their effect is anti-dilutive. There are no adjustments made to income available to common stockholders in the calculation of diluted earnings (loss) per share.

The following is a calculation of the basic and diluted weighted-average shares outstanding for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Basic weighted average common shares outstanding	92,130	92,047
Dilution effect of stock awards at end of period(1)	101	
Diluted weighted average common shares outstanding	92,231	92,047
Anti-dilutive stock-based compensation awards	376	260

(1) Because the Company reported a net loss for the three months ended March 31, 2011, no unvested stock awards were included in computing diluted loss per share because the effect would have been anti-dilutive.

11. Commitments and Contingencies

Lease obligations. The Company s total rental commitments under non-cancelable leases for office space and other property and equipment at March 31, 2012 were $12.3 million.

Drilling contracts. As of March 31, 2012, the Company had certain drilling rig contracts with initial terms greater than one year. In the event of early contract termination under these contracts, the Company would be obligated to pay approximately $62.3 million as of March 31, 2012 for the days remaining through the end of the primary terms of the contracts.

Volume commitment agreements. As of March 31, 2012, the Company had certain agreements with an aggregate requirement to deliver a minimum quantity of approximately 13.1 MMBbl and 17.6 Bcf from its Williston Basin project areas within a specified timeframe. Future obligations under these agreements were approximately $65.5 million as of March 31, 2012.

Fracturing services. As of March 31, 2012, the Company had certain agreements with third party fracturing service companies for an initial term greater than one year. In the event of early contract termination under these agreements, the Company would be obligated to pay approximately $66.6 million as of March 31, 2012 for the months remaining through the end of the primary term of the agreements.

Litigation. The Company is party to various legal and/or regulatory proceedings from time to time arising in the ordinary course of business. The Company believes all such matters are without merit and involve amounts which, if resolved unfavorably, either individually or in the aggregate, will not have a material adverse effect on its financial condition, results of operations or cash flows.

12. Condensed Consolidating Financial Information

The 2019 Notes and the 2021 Notes (see Note 7) are guaranteed on a senior unsecured basis by the Guarantors, which are 100% owned by the Company. These guarantees are full and unconditional and joint and several among the Guarantors. Certain of the Company s immaterial wholly owned subsidiaries do not guarantee the Notes (Non-Guarantor Subsidiaries).

The following financial information reflects consolidating financial information of the Company (Issuer) and its Guarantors on a combined basis, prepared on the equity basis of accounting. The Non-Guarantor Subsidiaries are immaterial and, therefore, not presented separately. The information is presented in accordance with the requirements of Rule 3-10 under the SEC s Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the Guarantors operated as independent entities. The Company has not presented separate financial and narrative information for each of the Guarantors because it believes such financial and narrative information would not provide any additional information that would be material in evaluating the sufficiency of the Guarantors. The consolidating statement of cash flows for the three months ended March 31, 2011 includes a revision in presentation in the Issuer column, which increased cash flows from operating activities by $3.2 million and reduced cash flows from financing activities by the same amount. These revisions are eliminated in consolidation and have no effect on the Guarantors or consolidated financial statements.

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Condensed Consolidating Balance Sheet

(In thousands, except share data)

	March 31, 2012			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	$ 293,434	$ (6,136)	$	$ 287,298
Accounts receivable oil and gas revenues		78,455		78,455
Accounts receivable joint interest partners	88	70,285	(3,358)	67,015
Inventory		10,422		10,422
Prepaid expenses	154	1,586		1,740
Advances to joint interest partners		3,280		3,280
Deferred income taxes		6,807		6,807
Other current assets	8	72		80
Total current assets	293,684	164,771	(3,358)	455,097
Property, plant and equipment				
Oil and gas properties (successful efforts method)		1,515,788		1,515,788
Other property and equipment		38,660		38,660
Less: accumulated depreciation, depletion, amortization and impairment		(215,436)		(215,436)
Total property, plant and equipment, net		1,339,012		1,339,012
Investments in and advances to subsidiaries	1,141,459		(1,141,459)	
Derivative instruments		486		486
Deferred costs and other assets	15,262	3,553		18,815
Total assets	$ 1,450,405	$ 1,507,822	$ (1,144,817)	$ 1,813,410
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	$ 3,270	$ 604	$ (3,358)	$ 516
Advances from joint interest partners		14,548		14,548
Revenues and production taxes payable		45,276		45,276
Accrued liabilities	50	139,663		139,713
Accrued interest payable	15,017	7		15,024
Derivative instruments		16,469		16,469
Other current liabilities		316		316
Total current liabilities	18,337	216,883	(3,358)	231,862
Long-term debt	800,000			800,000
Asset retirement obligations		15,664		15,664
Derivative instruments		6,434		6,434
Deferred income taxes	(19,021)	125,369		106,348
Other liabilities		2,013		2,013
Total liabilities	799,316	366,363	(3,358)	1,162,321

Stockholders equity				
Capital contributions from affiliates		1,097,890	(1,097,890)	
Common stock, $0.01 par value; 300,000,000 shares authorized; 93,136,773 issued and 93,074,949 outstanding	922			922
Treasury stock, at cost; 61,824 shares	(1,783)			(1,783)
Additional paid-in-capital	648,964	8,743	(8,743)	648,964
Retained earnings	2,986	34,826	(34,826)	2,986
Total stockholders equity	651,089	1,141,459	(1,141,459)	651,089
Total liabilities and stockholders equity	$ 1,450,405	$ 1,507,822	$ (1,144,817)	$ 1,813,410

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Condensed Consolidating Balance Sheet

(In thousands, except share data)

	December 31, 2011			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	$ 443,482	$ 27,390	$	$ 470,872
Short-term investments	19,994			19,994
Accounts receivable oil and gas revenues		52,164		52,164
Accounts receivable joint interest partners	88	68,808	(1,628)	67,268
Inventory		3,543		3,543
Prepaid expenses	309	1,831		2,140
Advances to joint interest partners		3,935		3,935
Deferred income taxes		3,233		3,233
Other current assets	18	473		491
Total current assets	463,891	161,377	(1,628)	623,640
Property, plant and equipment				
Oil and gas properties (successful efforts method)		1,235,357		1,235,357
Other property and equipment		20,859		20,859
Less: accumulated depreciation, depletion, amortization and impairment		(176,261)		(176,261)
Total property, plant and equipment, net		1,079,955		1,079,955
Investments in and advances to subsidiaries	958,880		(958,880)	
Derivative instruments		4,362		4,362
Deferred costs and other assets	15,742	3,683		19,425
Total assets	$ 1,438,513	$ 1,249,377	$ (960,508)	$ 1,727,382
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	$ 1,563	$ 12,272	$ (1,628)	$ 12,207
Advances from joint interest partners		9,064		9,064
Revenues and production taxes payable		19,468		19,468
Accrued liabilities	103	119,589		119,692
Accrued interest payable	15,767	7		15,774
Derivative instruments		5,907		5,907
Other current liabilities		472		472
Total current liabilities	17,433	166,779	(1,628)	182,584
Long-term debt	800,000			800,000
Asset retirement obligations		13,075		13,075
Derivative instruments		3,505		3,505
Deferred income taxes	(13,158)	106,141		92,983
Other liabilities		997		997
Total liabilities	804,275	290,497	(1,628)	1,093,144

Stockholders equity				
Capital contributions from affiliates		941,575	(941,575)	
Common stock, $0.01 par value; 300,000,000 shares authorized; 92,483,393 issued and 92,460,914 outstanding	921			921
Treasury stock, at cost; 22,479 shares	(602)			(602)
Additional paid-in-capital	647,374	8,743	(8,743)	647,374
Retained earnings (deficit)	(13,455)	8,562	(8,562)	(13,455)
Total stockholders equity	634,238	958,880	(958,880)	634,238
Total liabilities and stockholders equity	$ 1,438,513	$ 1,249,377	$ (960,508)	$ 1,727,382

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Condensed Consolidating Statement of Operations

(In thousands)

	Three Months Ended March 31, 2012			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Revenues				
Oil and gas revenues	$	$ 137,906	$	$ 137,906
Well services revenues		660		660
Total revenues		138,566		138,566
Expenses				
Lease operating expenses		9,816		9,816
Well services operating expenses		477		477
Marketing, transportation and gathering expenses		2,569		2,569
Production taxes		13,266		13,266
Depreciation, depletion and amortization		38,886		38,886
Exploration expenses		2,835		2,835
Impairment of oil and gas properties		368		368
General and administrative expenses	2,449	9,750		12,199
Total expenses	2,449	77,967		80,416
Operating income (loss)	(2,449)	60,599		58,150
Other income (expense)				
Equity in earnings in subsidiaries	26,264		(26,264)	
Net loss on derivative instruments		(18,586)		(18,586)
Interest expense	(13,414)	(485)		(13,899)
Other income	177	421		598
Total other income (expense)	13,027	(18,650)	(26,264)	(31,887)
Income before income taxes	10,578	41,949	(26,264)	26,263
Income tax benefit (expense)	5,863	(15,685)		(9,822)
Net income	$ 16,441	$ 26,264	$ (26,264)	$ 16,441

Condensed Consolidating Statement of Operations

(In thousands)

	Three Months Ended March 31, 2011			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Oil and gas revenues	$	$ 58,744	$	$ 58,744
Expenses				

Lease operating expenses		5,630		5,630
Marketing, transportation and gathering expenses		312		312
Production taxes		6,083		6,083
Depreciation, depletion and amortization		13,812		13,812
Exploration expenses		32		32
Impairment of oil and gas properties		1,381		1,381
General and administrative expenses	1,263	4,687		5,950
Total expenses	1,263	31,937		33,200
Operating income (loss)	(1,263)	26,807		25,544
Other income (expense)				
Equity in earnings in subsidiaries	(3,170)		3,170	
Net loss on derivative instruments		(31,666)		(31,666)
Interest expense	(4,941)	(257)		(5,198)
Other income	293	19		312
Total other income (expense)	(7,818)	(31,904)	3,170	(36,552)
Loss before income taxes	(9,081)	(5,097)	3,170	(11,008)
Income tax benefit	2,234	1,927		4,161
Net loss	$ (6,847)	$ (3,170)	$ 3,170	$ (6,847)

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Condensed Consolidating Statement of Cash Flows

(In thousands)

	Three Months Ended March 31, 2012			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$ 16,441	$ 26,264	$ (26,264)	$ 16,441
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Equity in earnings of subsidiaries	(26,264)		26,264	
Depreciation, depletion and amortization		38,886		38,886
Impairment of oil and gas properties		368		368
Deferred income taxes	(5,863)	15,685		9,822
Derivative instruments		18,586		18,586
Stock-based compensation expenses	1,591			1,591
Debt discount amortization and other	480	168		648
Working capital and other changes:				
Change in accounts receivable		(27,768)	1,730	(26,038)
Change in inventory		(9,641)		(9,641)
Change in prepaid expenses	155	(124)		31
Change in other current assets	10	473		483
Change in accounts payable and accrued liabilities	904	11,601	(1,730)	10,775
Change in other current liabilities		(188)		(188)
Change in other liabilities		1,001		1,001
Net cash provided by (used in) operating activities	(12,546)	75,311		62,765
Cash flows from investing activities:				
Capital expenditures		(269,975)		(269,975)
Derivative settlements		(1,291)		(1,291)
Redemptions of short-term investments	19,994			19,994
Advances to joint interest partners		655		655
Advances from joint interest partners		5,484		5,484
Net cash provided by (used in) investing activities	19,994	(265,127)		(245,133)
Cash flows from financing activities:				
Purchases of treasury stock	(1,181)			(1,181)
Debt issuance costs		(25)		(25)
Investment in / capital contributions from affiliates	(156,315)	156,315		
Net cash provided by (used in) financing activities	(157,496)	156,290		(1,206)
Decrease in cash and cash equivalents	(150,048)	(33,526)		(183,574)
Cash and cash equivalents at beginning of period	443,482	27,390		470,872
Cash and cash equivalents at end of period	$ 293,434	$ (6,136)	$	$ 287,298

Condensed Consolidating Statement of Cash Flows

(In thousands)

	Three Months Ended March 31, 2011			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
Cash flows from operating activities:				
Net loss	$ (6,847)	$ (3,170)	$ 3,170	$ (6,847)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Equity in earnings of subsidiaries	3,170		(3,170)	
Depreciation, depletion and amortization		13,812		13,812
Impairment of oil and gas properties		1,381		1,381
Deferred income taxes	(2,234)	(1,927)		(4,161)
Derivative instruments		31,666		31,666
Stock-based compensation expenses	527			527
Debt discount amortization and other	188	68		256
Working capital and other changes:				
Change in accounts receivable		(7,550)	883	(6,667)
Change in inventory		(37)		(37)
Change in prepaid expenses	118	361		479
Change in other current assets	(113)			(113)
Change in other assets		(3)		(3)
Change in accounts payable and accrued liabilities	5,681	(12,246)	(883)	(7,448)
Net cash provided by operating activities	490	22,355		22,845
Cash flows from investing activities:				
Capital expenditures		(91,126)		(91,126)
Derivative settlements		(512)		(512)
Purchases of short-term investments	(114,974)			(114,974)
Advances to joint interest partners		885		885
Advances from joint interest partners		4,938		4,938
Net cash used in investing activities	(114,974)	(85,815)		(200,789)
Cash flows from financing activities:				
Proceeds from issuance of senior notes	400,000			400,000
Purchases of treasury stock	(559)			(559)
Debt issuance costs	(9,650)	(377)		(10,027)
Investment in / capital contributions from subsidiaries	(49,999)	49,999		
Net cash provided by financing activities	339,792	49,622		389,414
Increase (decrease) in cash and cash equivalents	225,308	(13,838)		211,470
Cash and cash equivalents at beginning of period	119,940	23,580		143,520
Cash and cash equivalents at end of period	$ 345,248	$ 9,742	$	$ 354,990

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13. Subsequent Events

The Company has evaluated the period after the balance sheet date, noting no subsequent events or transactions that required recognition or disclosure in the financial statements, other than as noted below.

Senior secured revolving line of credit. On April 3, 2012, the Company entered into a sixth amendment to its Amended Credit Facility (the Sixth Amendment) among OPNA, as borrower, OP LLC, OPM, OWS and the Company, as guarantors, the lenders party thereto and BNP Paribas, as administrative agent. In connection with the Sixth Amendment, the semi-annual redetermination of the Company s borrowing base was completed on April 3, 2012, which resulted in the borrowing base of the Amended Credit Facility increasing from $350 million to $500 million. The Sixth Amendment also added two new lenders to the bank group. All other terms and conditions of the Amended Credit Facility remained the same (see Note 7 Long-Term Debt). Effective April 20, 2012, the Company executed an agreement consenting to the resignation of BNP Paribas as the administrative agent and a lender under the Amended Credit Facility. Wells Fargo was appointed successor administrative agent and assumed the credit commitment of BNP Paribas. BNP Paribas remains as a counterparty for the Company s commodity derivative instruments.

Fracturing services. In April 2012, the Company entered into an agreement with one of its third party fracturing service companies to terminate the original contract that had an initial term greater than one year. The Company did not pay any early contract termination fees related to this termination agreement.

Derivative instruments. In May 2012, the Company entered into new two-way and three-way costless collar options, all of which settle monthly based on the West Texas Intermediate crude oil index price, for a total notional amount of 306,000 barrels in 2012, 730,000 barrels in 2013, 730,000 barrels in 2014, and 62,000 barrels in 2015. These derivative instruments do not qualify for and were not designated as hedging instruments for accounting purposes.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Annual Report), as well as the unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words could, believe, anticipate, intend, estimate, expect, may, continue, predict, potential, project and similar expressions are int forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed below and detailed under Item 1A. Risk Factors in our 2011 Annual Report, could affect our actual results and cause our actual results to differ materially from expectations, estimates, or assumptions expressed in, forecasted in, or implied in such forward-looking statements.

Forward-looking statements may include statements about:

- our business strategy;
- estimated future net reserves and present value thereof;
- technology;
- cash flows and liquidity;
- our financial strategy, budget, projections, execution of business plan and operating results;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- availability of drilling, completion and production equipment and materials;
- availability of qualified personnel;
- owning and operating a services company;

the amount, nature and timing of capital expenditures;

availability and terms of capital;

property acquisitions;

costs of exploiting and developing our properties and conducting other operations;

drilling and completion of wells;

infrastructure for salt water disposal;

gathering, transportation and marketing of oil and natural gas, both in the Williston Basin and domestically;

general economic conditions;

operating environment, including inclement weather conditions;

competition in the oil and natural gas industry;

effectiveness of risk management activities;

environmental liabilities;

counterparty credit risk;

governmental regulation and the taxation of the oil and natural gas industry;

developments in oil-producing and natural gas-producing countries;

uncertainty regarding future operating results; and

plans, objectives, expectations and intentions contained in this report that are not historical.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We disclaim any obligation to update or revise these statements unless required by Securities law, and you should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report on Form 10-Q are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Some of the key factors which could cause actual results to vary from our 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, the proximity to and capacity of transportation facilities, 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 Quarterly Report on Form 10-Q, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Overview

We are an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas resources primarily in the Montana and North Dakota regions of the Williston Basin. Since our inception, we have acquired properties that provide current production and significant upside potential through further development. Our drilling activity is primarily directed toward projects that we believe can provide us with repeatable successes in the Bakken and Three Forks formations. We also operate businesses that are complementary to our primary development and production activities, including a marketing business, Oasis Petroleum Marketing LLC (OPM), and a well services business, Oasis Well Services LLC (OWS). The revenues and expenses related to work performed by OPM and OWS for Oasis Petroleum North America LLC s working interests are eliminated in consolidation and, therefore, do not directly contribute to our consolidated results of operations.

Our use of capital for acquisitions and development allows us to direct our capital resources to what we believe to be the most attractive opportunities as market conditions evolve. We have historically acquired properties that we believe will meet or exceed our rate of return criteria. For acquisitions of properties with additional development, exploitation and exploration potential, we have focused on acquiring properties that we expect to operate so that we can control the timing and implementation of capital spending. In some instances, we have acquired non-operated property interests at what we believe to be attractive rates of return either because they provided a foothold in a new area of interest or complemented our existing operations. We intend to continue to acquire both operated and non-operated properties to the extent we believe they meet our return objectives. In addition, the acquisition of non-operated properties in new areas provides us with geophysical and geologic data that may lead to further acquisitions in the same area, whether on an operated or non-operated basis.

Due to the geographic concentration of our oil and natural gas properties in the Williston Basin, we believe the primary sources of opportunities, challenges and risks related to our business for both the short and long-term are:

Commodity prices for oil and natural gas;

Transportation capacity;

Availability and cost of services; and

Availability of qualified personnel.

Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as economic, political and regulatory developments as well as competition from other sources of energy. Oil and natural gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil or natural gas could materially and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

Prices for oil and natural gas can fluctuate widely in response to relatively minor changes in the global and regional supply of and demand for oil and natural gas, as well as market uncertainty, economic conditions and a variety of additional factors. Since the inception of our oil and natural gas activities, commodity prices have experienced significant fluctuations. We enter into crude oil sales contracts with purchasers who have access to crude oil transportation capacity, utilize derivative financial instruments to manage our commodity price risk, and enter into physical delivery contracts to manage our price differentials. In an effort to improve price realizations from the sale of our oil and natural gas, we manage our commodities marketing activities in-house, which enables us to market and sell our oil and natural gas to a broader array of potential purchasers. Due to the availability of other markets and pipeline connections, we do not believe that the loss of any single oil or natural gas customer would have a material adverse effect on our results of operations or cash flows. Additionally, during the first quarter of 2012, we began to actively increase the number of operated wells that we have connected to a third-party oil gathering system in our West Williston project area. At the end of March 2012, the Company had 91 operated wells connected, up from only three operated wells that were connected at the beginning of 2012. We currently flow approximately 60% of our gross operated oil production on the third-party oil gathering system.

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Changes in commodity prices may also significantly affect the economic viability of drilling projects as well as the economic valuation and economic recovery of oil and gas reserves. Oil prices have increased significantly since 2009. As a result of higher commodity prices and continued successes in the application of completion technologies in the Bakken formation, there were more than 220 active drilling rigs in the Williston Basin at March 31, 2012. Although additional Williston Basin transportation takeaway capacity was added in recent months, production also increased due to the elevated drilling activity. The increased production coupled with the refinery and transportation constraints caused price differentials in the first quarter of 2012 to be at and above the high end of the historical average range of approximately 10% to 15% of the price quoted for NYMEX West Texas Intermediate (WTI) crude oil.

Our large concentrated acreage position potentially provides us with a multi-year inventory of drilling projects and requires some forward planning visibility for obtaining services. Our ability to develop and hold our existing undeveloped leasehold acreage is primarily dependent upon having access to drilling rigs and completion services. The utilization of existing drilling rigs and of existing completion service equipment in the Williston Basin is at an all-time high. This has resulted in drilling rigs, completion equipment and crews being imported from Canada and other parts of the United States. To ensure access to drilling rigs, we have entered into fixed-term drilling rig contracts for periods of up to three years and currently have twelve drilling rigs under contract. In order to ensure the availability of completion services and the timely fracture stimulation of newly drilled wells, we formed OWS in June 2011 to provide well services on our operated wells, in addition to entering into fracturing service contracts with third party companies.

First Quarter 2012 Highlights:

- We completed and placed on production 26 gross (19.9 net) operated wells in the Williston Basin during the three months ended March 31, 2012;
- We had 26 gross (20.6 net) operated wells awaiting completion and 7 gross (5.0 net) operated wells in the process of being drilled in the Bakken and Three Forks formations at March 31, 2012;
- Average daily production was 17,633 Boe per day during the three months ended March 31, 2012;
- Net gas production increased to 8.6 MMcfpd during the three months ended March 31, 2012 due to rapidly connecting additional wells in the Williston Basin to third-party infrastructure;
- As of March 31, 2012, we had nine operated rigs running with three additional rigs under contract to be delivered later in 2012;
- OWS completed its first fracturing job in late March 2012, and we anticipate that OWS will begin full time operations during the second quarter of 2012;
- Exploration and production (E&P) capital expenditures were $267.0 million, consisting primarily of $246.9 million in drilling expenditures during the three months ended March 31, 2012; and
- At March 31, 2011, we had $287.3 million of cash and cash equivalents and had no outstanding debt or outstanding letters of credit under our revolving credit facility.

Results of Operations

Revenues

Our revenues are derived from the sale of oil and natural gas production and do not include the effects of derivative instruments. Our revenues may vary significantly from period to period as a result of changes in volumes of production sold or changes in commodity prices.

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The following table summarizes our revenues and production data for the periods indicated.

	Three Months Ended March 31,		
	2012	2011	Change
Operating results (in thousands):			
Revenues			
Oil	$ 131,376	$ 57,172	$ 74,204
Natural gas	6,530	1,572	4,958
Well services	660		660
Total revenues	138,566	58,744	79,822
Production data:			
Oil (MBbls)	1,474	694	780
Natural gas (MMcf)	785	202	583
Oil equivalents (MBoe)	1,605	728	877
Average daily production (Boe/d)	17,633	8,090	9,543
Average sales prices:			
Oil, without realized derivatives (per Bbl) (1)	$ 88.10	$ 82.33	$ 5.77
Oil, with realized derivatives (per Bbl) (1) (2)	87.23	81.59	5.64
Natural gas (per Mcf) (3)	8.32	7.78	0.54

(1) For the three months ended March 31, 2012, average sales prices for oil are calculated using total oil revenues, excluding bulk purchase sales of $1.5 million, divided by oil production.
(2) Realized prices include realized gains or losses on cash settlements for commodity derivatives, which do not qualify for and were not designated as hedging instruments for accounting purposes.
(3) Natural gas prices include the value for natural gas and natural gas liquids.

Three months ended March 31, 2012 as compared to three months ended March 31, 2011

Total revenues. Our total revenues increased $79.8 million, or 136%, to $138.6 million during the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. Our primary revenues are a function of oil and natural gas production volumes sold and average sales prices received for those volumes. Average daily production sold increased by 9,543 Boe per day, or 118%, to 17,633 Boe per day during the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The increase in average daily production sold was primarily a result of our well completions during the last three quarters of 2011 and the first quarter of 2012. Well completions in our West Williston, East Nesson and Sanish project areas increased average daily production by approximately 7,782 Boe per day, 1,431 Boe per day and 444 Boe per day, respectively, during the first quarter of 2012 as compared to the first quarter of 2011. Average oil sales prices, without realized derivatives, increased by $5.77/Bbl, or 7%, to an average of $88.10/Bbl for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The higher production amounts sold increased revenues by $73.5 million, while higher oil and natural gas sales prices increased revenues by $4.1 million during the three months ended March 31, 2012. The remaining $2.2 million increase in total revenues was attributable to $1.5 million of oil bulk purchase revenues and $0.7 million of well services revenues during the three months ended March 31, 2012.

Expenses

The following table summarizes our operating expenses for the periods indicated.

	Three Months Ended March 31,		
	2012	2011	$ Change
	(In thousands, except per Boe of production)		
Expenses:			

Lease operating expenses	$ 9,816	$ 5,630	$ 4,186
Wells services operating expenses	477		477
Marketing, transportation and gathering expenses	2,569	312	2,257
Production taxes	13,266	6,083	7,183
Depreciation, depletion and amortization	38,886	13,812	25,074
Exploration expenses	2,835	32	2,803
Impairment of oil and gas properties	368	1,381	(1,013)
General and administrative expenses	12,199	5,950	6,249
Total expenses	80,416	33,200	47,216
Operating income	58,150	25,544	32,606
Other income (expense):			
Net loss on derivative instruments	(18,586)	(31,666)	13,080
Interest expense	(13,899)	(5,198)	(8,701)
Other income	598	312	286
Total other income (expense)	(31,887)	(36,552)	4,665
Income (loss) before income taxes	26,263	(11,008)	37,271
Income tax (expense) benefit	(9,822)	4,161	(13,983)
Net income (loss)	$ 16,441	$ (6,847)	$ 23,288
Costs and expenses (per Boe of production):			
Lease operating expenses (1)	$ 6.12	$ 7.73	$ (1.61)
Marketing, transportation and gathering expenses	1.60	0.43	1.17
Production taxes	8.27	8.35	(0.08)
Depreciation, depletion and amortization	24.23	18.97	5.26
General and administrative expenses	7.60	8.17	(0.57)

(1) For the three months ended March 31, 2011, lease operating expenses excludes marketing, transportation and gathering expenses to conform such amount to current year classifications.

Three months ended March 31, 2012 compared to three months ended March 31, 2011

Lease operating expenses. Lease operating expenses increased $4.2 million to $9.8 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. This increase was due to an increased number of producing wells, increased water production and increased costs associated with salt water trucking and disposal period over period. The unit operating costs decreased from $7.73 per Boe for the three months ended March 31, 2011 to $6.12 per Boe for the three months ended March 31, 2012, as a result of the 118% increase in production.

We have $57 million of capital in our 2012 budget primarily allocated to building salt water disposal (SWD) infrastructure, which is currently being deployed in our key operating areas. This infrastructure is expected to reduce our dependence on trucks for water hauling and simplify operational logistics. At the end of March 2012, we had approximately 25% of operated water production flowing through our operated pipeline system. We expect to have approximately 80% of operated water production flowing through the pipeline system by year-end 2012. Additionally, we currently dispose of approximately 60% of our operated water production at our operated disposal wells. This continued expansion of our SWD systems is expected to reduce lease operating expenses throughout the remainder of 2012.

Well services operating expenses. The $0.5 million in well services operating expenses represents non-affiliated fracturing service costs incurred by OWS for fracturing jobs completed in the first quarter of 2012. There were no well services operating expenses during the first quarter of 2011 because OWS was not formed until June 2011.

Marketing, transportation and gathering expenses. This line item includes all of our marketing, transportation, gathering and bulk oil purchase costs. The $2.3 million increase quarter over quarter is mainly attributable to the $1.4 million cost for bulk oil purchases made by OPM in the first quarter of 2012. The remaining increase was due to increased transportation costs related to incremental wells getting connected to gathering lines in the first quarter of 2012. Excluding the bulk oil purchases, Marketing, transportation and gathering on a per Boe basis would have been $0.74 in the first quarter of 2012.

Production taxes. Our production taxes for the three months ended March 31, 2012 and 2011 were 9.6% and 10.4%, respectively, as a percentage of oil and natural gas sales. The first quarter 2012 production tax rate was lower than the first quarter 2011 production tax rate primarily due to certain new wells in Montana that are subject to lower incentivized production tax rates.

Depreciation, depletion and amortization (DD&A). DD&A expense increased $25.1 million to $38.9 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. This increase in DD&A expense for the three months ended March 31, 2012 was primarily a result of our production increases from our well completions during the last three quarters of 2011 and the first quarter 2012. The DD&A rate for the three months ended March 31, 2012 was $24.23 per Boe compared to $18.97 per Boe for the three months ended March 31, 2011. The higher DD&A rate was due to a greater increase in well costs over an increase in reserves.

Exploration expenses. The $2.8 million increase in exploration expenses quarter over quarter is primarily due to geological and geophysical costs for the purchase of 3D seismic data.

Impairment of oil and gas properties. During the three months ended March 31, 2012 and 2011, we recorded non-cash impairment charges of $0.4 million and $1.4 million, respectively, for unproved property leases that expired during the period. No impairment charges of proved oil and gas properties were recorded for the three months ended March 31, 2012 or 2011.

General and administrative expenses. Our general and administrative (G&A) expenses increased $6.2 million for the three months ended March 31, 2012 from $6.0 million for the three months ended March 31, 2011. Of this increase, approximately $4.0 million related to employee compensation expenses due to our organizational growth, including the addition of OWS, and $1.1 million was due to additional amortization of our restricted stock awards during the three months ended March 31, 2012. As of March 31, 2012, we had 176 full-time employees compared to 70 full-time employees as of March 31, 2011. Excluding G&A expenses related to OWS of $1.6 million, E&P only G&A on a per Boe basis would have been $6.59 in the first quarter of 2012.

Derivative instruments. As a result of our derivative activities, we incurred cash settlement net losses of $1.3 million and $0.5 million for the three months ended March 31, 2012 and 2011, respectively. In addition, as a result of forward oil price changes, we recognized a $17.3 million and a $31.2 million non-cash unrealized mark-to-market net derivative loss during the three months ended March 31, 2012 and 2011,

respectively.

Interest expense. Interest expense increased $8.7 million to $13.9 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was primarily the result of interest