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paper *Pittsburgh Gazette*.

Working in partnership with research institutions of renowned expertise has provided important results for the Company and has led to another 50 patents being filed for during 2012, for a total of 573 patents already registered in Brazil and abroad.

As part of its continuous effort to develop innovative, high-quality and competitive products, in 2012, the innovation pipeline at the Polymers and Vinyls business units, whose net present value is US$826 million, registered the launch of 20 new products, which included:

- EVA for the footwear industry: creation of a revolutionary new resin for the global footwear industry. The new product streamlines the shoemaking process

while also making it more sustainable, since it reduces ozone emissions and eliminates the need for curing in the sole gluing process, which also reduces the costs of this step by 26%. The potential consumption of EVA is estimated at 3 kton/y._

- Polyethylene for the blow-molded packaging market: a new PE resin that meets the rigorous standards of the cleaning products market and provides increased chemical resistance to blow-molded packaging. The additional growth potential in the polyethylene market is 30 kton/y.

- Polypropylene for the raffia segment: the new resin, which aims to increase competitiveness in the raffia market, imparts greater stability and productivity to the process using high-speed machines. The potential PP consumption is estimated at 100 kton/y.

- Polypropylene for the disposable cups market: the new resin for the disposable packaging market enables Clients to increase productivity by reducing energy consumption and losses. The potential PP consumption is estimated at 35 kton/y.

- New PVC portfolio for laminated products: Braskem revamped its PVC resin portfolio, with the new resins allowing for improvements in the properties of final products, such as synthetic leathers, laminated PVC flooring and technical parts, by increasing the resistance to abrasion and compression. The potential PVC consumption is estimated at 3 kton/y.

Maintaining its commitment to making investments with returns above the cost of capital, in 2012 Braskem invested R$1,713 million (excluding capitalized interest) in its various projects and in maintaining and improving its assets, in line with the initial estimative of R$1,712 million.

Of the total investment, 40%, or R$670 million, was allocated to projects to expand capacity or improve its assets, with the new PVC plant and butadiene capacity expansion projects receiving R$531 million in the period, both of which were commissioned on schedule. The Company also invested R$341 million in maintenance, in line with the objective to maintain its assets operating at high levels of operating efficiency and reliability.

For 2013, investment is estimated at R$2.2 billion, of which (i) 70% will be allocated to maintaining and improving the productivity and reliability of its assets, including an additional disbursement related to the schedule maintenance shutdown close to R$330 million, investment that did not occur in 2012, and its HSE expenses of R$50 million; (ii) and 25% for the construction of the new petrochemical complex in Mexico. The remainder is related to other projects in progress, such as the studies related to the Comperj project and the construction of a pipeline for the future supply of propylene to the acrylic complex in Bahia.

5. Investments

§ **PVC**

The new plant located in the state of Alagoas has annual production capacity of 200 kton and started operating in 2Q12. In addition to adding value to the EDC stream, which previously was exported, the plant utilizes cutting edge technology (INEOS), which should generate productivity gains, reduce operating costs and improve eco-indicators. In line with the planning, a total of 10 million man hours were worked without the occurrence of any injuries with or without lost time, which is a new record for Braskem. The additional production will be directed mainly to Brazil's growing PVC industry, which still requires imports.

The project, which requires investment of some R$1 billion, was financed by two financing facilities: (i) a R$525-million line from the Brazilian Development Bank (BNDES) with a total term of 9 years and 88% denominated in Brazilian real with a cost of TJLP+1.46%; and (ii) a R$200-million financing line from BNB with repayment in 12 years and interest of 8.5% p.a..

§ **Butadiene**

The 100 kton/year production capacity expansion at the butadiene unit located in the state of Rio Grande do Sul started operating in June 2012, a full one month ahead of schedule. The project increased Braskem's butadiene supply by approximately 30% to 446 kton. Completed on schedule and on budget, more than 3 million man hours were worked in the project without the occurrence of any injuries with or without lost time.

By taking advantage of the existing crude C_4 stream, the project will meet growing world demand for butadiene, a basic raw material used to make tires for the automotive industry.

The investment of approximately R$300 million was financed through: (i) a BNDES credit line of up to R$176 million with total term of 9 years and interest of TJLP + 2.68%; and (ii) pre-sale contracts amounting to R$200 million.

§ **Green Polypropylene Project**

In line with its strategy to the global leader in sustainable chemicals, Braskem concluded the basic engineering studies for the Green Polypropylene production plant, with the project expected to be submitted to the Board of Directors in 2013. The project's startup date will be confirmed once it is approved.

§ **Mexico Project**

The integrated project in Mexico, which is aligned with the strategy of expanding internationally and gaining access to competitive feedstock, in which Braskem and IDESA hold interests of 75% and 25%, respectively, is progressing on schedule. Located in the Mexican state of Veracruz at the southern end of the Gulf of Mexico, the Ethylene XXI Project involves the production of around 750 kton of high-density polyethylene and 300 kton of low-density polyethylene using ethane as feedstock, and is based on an ethane supply agreement with PEMEX-Gás for delivery of 66,000 barrels/day for 20 years based on the Mont Belvieu

reference price.

The project’s fixed investment is estimated at US$3.2 billion. Total investment (including CAPEX, inflation, contingencies, interest and working capital) is estimated at roughly US$4.5 billion, which will be financed using a project-finance model (70% debt and 30% equity). The project finance structure was concluded in December 2012, with the execution of the main agreements in the aggregate amount of US$3.2 billion (70% of the total investment). The financing was structured by seven institutions, including two export agencies (Canada and Italy), two multilateral credit agencies (IFC and IADB) and three development banks (Brazil and Mexico). Ten commercial banks also provided financing with security provided by SACE or through B Loans from the International Finance Corporation (IFC) and the Inter-American Development Bank (IADB).

The Engineering, Procurement and Construction (EPC) phase, which began in January 2012, reached 20.2% progress at the end of the year. Other key accomplishments in 2012 were: (i) achievement of 62.1% progress in the engineering detailing; (ii) acquisition of 65% of the equipment; (iii) mobilization and start of construction; (iv) execution of a US$2.8 billion alliance contract with the consortium formed by Technip, Odebrecht and IcaFluor; (vi) conclusion of earthmoving works; and (vii) start of pre-marketing activities for the sale of products in the domestic market.

The challenges for 2013 include: (i) advancing the EPC, such as concluding the Engineering Detailing and starting electro-mechanical assembly, with the arrival on site of the main pieces of equipment and materials; (ii) expanding the pre-marketing activities; and (iii) hiring and training people to operate the future industrial operation.

§ **Comperj Petrochemical Project**

The conceptual design (FEL2) of the Comperj Petrochemical Complex has been concluded. The project will meet the growing regional demand for thermoplastics resin and take advantage of competitive feedstock from the country's pre-salt region. Note that the technology licenses for the new complex have already been contracted.

The basic engineering work (FEL3) for the industrial units is expected to begin in 2013. In 2014, Braskem is expected to determine the best way to develop and install the project, which must be examined by the Board of Directors before a final investment decision is made.

Braskem also has projects in less advanced phases in Peru, Venezuela and Bolivia.

Braskem class "A" preferred stock (BRKM5) traded on the BM&FBovespa S.A. - Securities, Commodities and Futures Exchange ended the year quoted at R$12.80 per share, in line with the previous year. Braskem stock enjoyed two rallies during the year and reached a high of R16.60/share in September, later suffering profit taking. The first rally occurred at the start of the year, with new foreign investors on the Brazilian stock exchange migrating to stocks with more discounted prices. The second rally was due to various factors, which included the increase in the PE import duty, the announcement of cuts in energy costs, the reduction in payroll taxes and other government incentives, as well as the depreciation in the Brazilian real against the dollar. However, these rallies were followed by profit taking driven by uncertainties related to the sovereign debt crisis in Europe and the fiscal crisis in the United States. The continued high volatility in international petrochemical markets, which pressured industry profitability, and the weak growth in Brazil's domestic market, also adversely affected stock performance.

Average daily trading volume decreased 18% to R$21.6 million, from R$26.4 million in 2011. The benchmark Bovespa Index ended the year at 60,952 points, for a gain of 7.4% from

6. Capital Markets and Investor Relations

year-end 2011.

Braskem’s ADRs (BAK) traded on NYSE Euronext closed 2012 quoted at US$13.35 per ADR, stable in relation to 2011. Average daily trading volume in 2012 was US$6.9 million, or 10% lower than in the previous year. In the same period, the S&P 500 gained 13% to reach 1,426 points, after having remained stable in 2011.

Braskem's class "A" preferred stock traded on the Latibex (XBRK) ended the year at €4.87 per XBRK, for a loss of 18% in the period. The already low average daily trading volume contracted by 27% to €13,600 in 2012, down from €18,600 in 2011. In the same period, the FTSE100 Europe gained 10.8%.

In the composition of the Bovespa Index valid for the period from September to December 2012, Braskem stock ranked 47th in terms of liquidity with a weighting in the index of 0.68%, improving by two positions from the previous index composition.

In 2012, Braskem remained a component of the IBrX-50, an index that measures the total return of a theoretical portfolio composed of 50 stocks selected from the most liquid stocks on the BM&FBovespa, which are weighted in the portfolio by their market capitalization based on the shares available for trade. In the portfolio valid from September to December 2012, Braskem ranked 42nd with a weighting of 0.45% in the index.

Braskem stock also remained a component of the Carbon Efficient Index (ICO_2) of the BM&FBovespa. Created in 2010, this index is formed by component stocks of the IBrX-50 index that adopt transparent practices regarding their greenhouse gas (GHG) emissions. Of the 35 companies in the index composition, Braskem figured 33rd with a weighting of 0.291%.

Since its creation, for the eighth consecutive year, Braskem stock was included as a component of the Corporate Sustainability Index (ISE), placing it in a select group of companies composing the portfolio in the period from January to December 2013. Created by the BM&FBovespa in partnership with capital-market trade associations, the Getúlio Vargas Foundation, Instituto Ethos and the Ministry of the Environment, the ISE reflects the return of a portfolio composed of stocks from companies with a recognized commitment to social responsibility and corporate sustainability and to promoting good practices in Brazil's corporate environment. In 2012, 37 companies qualified to become components of this index in the following year.

In August 2012, Braskem was elected by the Brazilian Association of Publicly Traded Companies (Abrasca) as the best case in the Oil & Gas, Chemicals & Petrochemicals industry in terms of value creation in 2011.

In recognition of its commitment to sustainability, Braskem was once again elected one of the 20 model companies in Brazil featured in the 2012 Sustainability Guide published by *Exame* magazine.

Braskem was also selected by IR Global Ranking Latin America as having one of the ten best Investor Relations websites in Latin America. The Company also figured among the five best companies in the categories best IR performance by a CEO or CFO and best improvement in IR by the IR Magazine Awards Brazil, one of the main international publications in the investor relations industry.

To conclude the awards received in the year, in the LatAm Oil, Gas & Petrochemicals industry, Braskem was recognized by the Institutional Investor as first place in the category Best Investor Relations Professional, second place in the category Best CEO based on the opinion of buy-side analysts, and second place in the categories Best Investor Relations Team, Best CFO and Best IR Professional based on the opinions of sell-side analysts.

The year 2012 was marked by the strengthening of Braskem's sustainability management practices and by its commitment to the three pillars of its business strategy aimed at contributing to Sustainable Development, namely: (i) increasingly sustainable production processes; (ii) increasingly sustainable product portfolio; and (iii) sustainable solutions for use by society.

In the first pillar, **increasingly sustainable production processes**, the Company achieved its best historical [4] performance in terms of workplace safety. Another highlight was the inauguration of water reuse projects that will result in important savings in drinking water at the Capuava complex in São Paulo's ABC region through the Aquapolo Project, a partnership between Odebrecht Ambiental and Sabesp; and at the Camaçari complex through the Água Viva Project, a partnership between Braskem and Cetrel.

Concrete progress was also made in creating an **increasingly sustainable product portfolio**. In October 2012, Braskem launched Braskem Maxio®, a portfolio of resins with unique competitive and environmental advantages that will increase efficiency in the plastics chain and reduce environmental impacts caused by manufacturing processes.

For the third strategic pillar, which seeks to create **solutions for a more sustainable life**, Braskem led the development of the Brazilian Business Network for Lifecycle Analysis (LCA), a forum in which volunteer companies discuss the concept of LCA and disseminate good practices for applying this tool to business environments. The Company has a dedicated LCA team that conducts studies and develops policies and practices. Based on these principles, three priorities were defined for the LCA studies:

(i) Operational: studies focusing on the production process with the aim of implementing improvements, such as the more efficient use of energy and water.

(ii) Strategic: studies that guide the internal decision-making process for the development of new products, applications and technologies; and

(iii) Commercial: studies that asses the environmental impacts of a product in relation to certain alternatives and orient the decision-making process of clients/consumers.

Braskem understands that its role also includes contributing to the debate on the paths to be taken by business and global communities towards increasing sustainability. In addition to strengthening its participation in various associations, in 2012 the Company was present at the debates of the United Nations Climate Change Conference (**COP18)** and the **Rio+20** Earth Summit, which is the largest global meeting on sustainability organized by the United Nations. In partnership with Cetrel, Braskem installed a recycling plant at Rio+20 that transformed plastic waste into furniture made from plastic wood to demonstrate new possibilities for plastic applications and to create a new post-consumption cycle.

Another highlight was the progress made on the program to promote the **social inclusion** of garbage collectors of recyclable materials. By supporting the training and tools of cooperatives of recyclable-material garbage collectors, Braskem plans to help increase the

income of these people while also improving the rate of plastics recycling. In 2012, the Company supported 15 cooperatives in the Brazilian states of Alagoas, São Paulo and Rio Grande do Sul, which benefitted more than 400 people directly and over 1,800 people indirectly.

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[4] Pro forma since 2002

With regard to the transparency of its management, the 2011 Annual and Sustainability Report was recognized as one of the 12 best in terms of materiality by Report, a consulting firm specializing in sustainability.

Since the disclosure of a Public Commitment upon its creation on August 16, 2002, Braskem has reaffirmed its commitment to align the interests of all of its shareholders as well as its commitment to ethics, competitiveness and excellence in all actions to assure better returns for shareholders, while adding value to its assets and remunerating its capital.

Guided by this vision, Braskem developed a management model that adopts recognized corporate governance practices to ensure its proper functioning. In addition to the Board of Directors and the Audit Board, which have expanded powers in accordance with the Sarbanes-Oxley Act, the Company also has committees supporting the Board of Directors that have the basic function of assessing matters of interest to the Board in order to improve the quality and speed of the deliberation process.

Braskem’s corporate governance practices feature:

ü Listing on the Level 1 Corporate Governance segment of the BM&FBovespa since February 13, 2003;

ü 100% tag-along rights for all Braskem shareholders in the event of the transfer of control;

ü An Audit Board with the expanded powers envisioned by the Sarbanes-Oxley Act;

ü A Code of Conduct defining the values, principles and procedures that guide the Company's corporate conduct, which is regularly reviewed to ensure it reflects current legal requirements and best practices;

ü Corporate Policies, among which we highlight the Securities Trading, Financial Management, Social Responsibility, Insurance and Guarantees, Compensation, Health, Safety and the Environment, and Investment policies;

ü A long-term incentive plan designed to align the interests of the Company’s management with the goal of maximizing shareholder value. In effect since its approval in 2005, the plan links executive compensation to the long-term performance of the Company’s stock price;

ü An Ethics Committee that works jointly with the Internal Auditor and Risk Management and reports its findings to the Audit Board with expanded powers. Its function is to document, address, recommend and make decisions to resolve the denouncements made through the Company’s ethics hotline, which is a confidential communications channel for receiving reports of any potential situation involving a breach of the Code of Conduct, with the objective of enforcing compliance with the code and continually improving the Company’s internal procedures and controls;

ü An information system for the Board of Directors and the Audit Board accessed through the Braskem Portal, providing the members of these bodies with the information they need to exercise their roles and responsibilities in a secure, transparent, fair and timely manner;

ü Tools to support Corporate Governance initiatives, such as the Manual for Shareholders Meetings and the Compendium of Corporate Governance Procedures and Practices.

§ **External Audit**

The Company's policy for hiring independent auditors to perform services unrelated to the external audit is based on principles that preserve the independence of audit professionals. In accordance with internationally accepted standards, these principles are: (a) auditors may not audit their own work; (b) auditors may not exercise a management function at the audited firm; and (c) auditors may not promote the interests of their clients.

In accordance with the provisions of CVM Instruction 381/03, the value of the services rendered by the audit firm PricewaterhouseCoopers Auditores Independente related to tax review services that were unrelated to the external audit did not exceed 5% of the total value of the fees it received. These services include reviewing the income tax return, the calculation base for PIS and COFINS taxes and the ownership restructuring.

Based on these principles, PricewaterhouseCoopers Auditores Independentes declared that the provision of such services, as described in the above items, does not affect the independence and objectivity required to perform the services rendered to Braskem.

In 2012, Braskem continued to improve its management of **Health, Safety and Environment (HSE)**, and, aligned with its culture of prevention through discipline, reinforced its Integrated Health, Safety and Environment System **(SEMPRE)** by implementing **Braskem's Golden Rules**, which seek to improve the Company's safety performance.

As already mentioned, the **Injury Frequency Rate with and without Lost Time** registered its best performance since 2002. The **Lost-Time Injury Frequency Rate** per million man-hours worked considering both members and partners was 0.32, decreasing 42% from the previous year.

With regard to **Process Safety**, advances were made in the process to accelerate the evolution in process risk management in the industrial and logistics operations.

In terms of **Chemical Safety**, this year, the Company developed a computerized tool for controlling the entire chemical safety documentation of its industrial units. Braskem, in partnership with the Brazilian Chemical Manufacturers' Association (ABIQUIM), is the leader in Latin America in implementing the Global Product Strategy (GPS), which supports companies in safely managing all the chemical products they handle, produce and sell. The GPS is an initiative by the International Council of Chemical Associations (ICCA) that promotes the recognition and dissemination of the risks posed to people and the environment resulting from the use of chemical products. The initiative is aligned with the global strategy of the United Nations Environment Program (UNEP).

Another highlight was the Dutch government's issue of an opinion for Braskem's office in Rotterdam with the results of the audit known as REACH (Registration, Evaluation, Authorization and Restriction of Chemical Substances), which confirmed that all procedures comply with the rules of the European community.

With regard to **Health Management**, drawing on actions to raise awareness on preventing illnesses and improving quality of life, "Health Week" campaigns were conducted at all industrial plants and offices.

With regard to the **Environment**, in 2012, Braskem made progress on various actions that culminated in improvements in a series of **eco-efficiency indicators** in comparison with 2011:

- Generation of liquid effluents (1.18 m^3/ton) improved 11%;
- Generation of solid, liquid and viscous waste (2.28 kg/ton) improved 15%;
- Energy consumption (10.59 GJ/ton) decreased 2%;
- Water consumption (4.23 m^3/ton) decreased 6%.

With regard to **Greenhouse Gas** [5] (GEE) management, Braskem concluded the inventory of all of its industrial plants and corporate centers and not only complied with the GOLD reporting standard according to GHG Protocol Brasil, but also registered a 5% reduction in emissions in 2011 compared to 2010. Direct emissions (scope 1) totaled 9,217,386 tCO_2e, indirect emissions (scope 2) totaled 299,271 tCO_2e and other indirect emissions (scope 3) totaled 9,988,951 tCO_2e. The level of these emissions reached 0.606 tCO_2e/ton, in line with the target established for 2020 of 0.6 tCO_2e/ton of product produced.

Braskem's corporate philosophy is firmly rooted in valuing people through education and work, a willingness to serve, the capacity and desire to evolve and the drive to surpass results. The scope of the 2020 Vision goes beyond the Company's facilities to also consider the communities in which it participates and is guided by the priorities of its activities, which are: (i) Social Inclusion, (ii) Environmental Education and (iii) Cultural Promotion. One way to achieve these objectives is through private social investment in programs aligned with its strategy, principles and values. In 2012, the management of Social Private Investment was strengthened by concentrating efforts in projects with increased social impact. The Company invested R$12.5 million in social, environmental and cultural projects, which included:

(i) Social Inclusion

Recycling Projects – progress in the social inclusion of garbage collectors of recyclable materials in the states of São Paulo, Alagoas, Bahia and Rio Grande do Sul. Using mechanical recycling processes, recyclable-material garbage collectors developed picking and recycling

operations at their cooperatives, which allowed them to generate extra income. Important topics, such as proper disposal practices, were also disseminated in the communities.

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[5] Includes the gases CO_2 (carbon dioxide), CH_4 (methane), N_2O (nitrous oxide) and HFC 134 (hydrofluorocarbon, refrigerant fluid).

Program for the Integrated and Sustainable Development of the Mosaic of Environmental Protection Areas in Southern Bahia (PDIS) - the challenge of this program is to transform a stagnated rural area with extensive environmental assets into a prosperous and dynamic community by keeping young talent in the field. The efforts to achieve this common objective, which will focus on the sustainable development of the Environmental Protection Area of Pratigi, will target, in a single initiative, all eight Millennium Development Goals (MDGs) of the United Nations, to which 192 countries are signatories.

Science without Borders – Braskem was one of the first companies to join the program, which is an initiative by Brazil's federal government to promote the expansion and internationalization of science and technology through exchange programs. The Company offers three internship positions in Pittsburgh in the areas of catalysts, polymers and intellectual property.

Philanthropy – In the United States and Germany, Braskem members conducted social actions such as school tutoring and the renovation of public spaces through the programs **Stars** (Striving to Achieve Reading Success), **The United Way of America** and the German institution **Malteser Hilfsdienst e.V.**. Company members also organize fund-raising actions for these and other organizations, such as the **March of Dimes Foundation**.

(ii) Environmental Education

"Lagoa Viva" Environmental Education Program – the program, which was begun in the district of Pontal da Barra that borders Braskem's Chlor-AlkaliIndustrial Unit in the state of Maceio, expanded its initiatives to 39 cities in the state of Alagoas, organizing workshops focused on environmental education and training to improve the income generation of local populations.

"Fábrica de Florestas" – this project promotes the cultivation and planting of native tree seedlings in the Costa dos Coqueiros Ecological Corridor and the Forest Ring region located on the northern coast of the state of Bahia. The objective is to recover areas of Atlantic Rainforest, with an emphasis on the reforestation of areas surrounding natural springs and riparian buffer zones. Given its huge success, the project was expanded to other regions and, in June, Braskem inaugurated a nursery in Paulínia, Sao Paulo, which is located the city's Botanical Garden, where some 10,000 tree seedlings were produced. In September, to prevent soil erosion and landslides, a nursery was inaugurated in Duque de Caxias, Rio de Janeiro at the Environmental Reserve of Caixa D'Água Municipal Park, where, in partnership with the municipal government, more than 4,000 seedlings of tree species, such as *quaresmeira*, *ipê*, *ingás*, *pau-pombo* and Brazilwood, have been planted.

A New View of Plastic (*Um Novo Olhar sobre o Plástico*) – in partnership with Instituto Akatu and Instituto Faça Parte, the project aims to alert teachers and students at public and private schools to the importance of themes related to conscientious consumption and sustainability, such as combating the inappropriate disposal of waste and the inefficient consumption of water and energy. In 2012, 50,000 students from the fifth to ninth grades from all over the country participated in the initiative, with 115 projects presented. The winning project was "Our Hands Can Save the Planet" from a school in Juara in the interior region of the state of Mato Grosso, which organized the creation of mosaics made from plastic materials disposed of by the students' families.

(iii) Cultural Initiatives

Braskem Theatre Award – created in 1994, this award recognizes the best theatre productions in the state of Bahia in order to value and award professionals in the performing arts, helping to pave the way for new talent. In 2012, the 19th edition of the Braskem Theatre Award paid homage to actor and journalist Gideon Rosa, an icon of the theatre world with a career spanning over 20 years, and to musical performing artist Carlinhos Brown. Another highlight was the Audiovisual Workshop, which trained a select group of 30 children, who had their final works exhibited at the award ceremony.

Braskem on Stage Award – this year marked the 7th edition of this award that selects the best productions in various categories, such as best play, director, actor and actress. The event was held on the closing evening of "Porto Alegre em Cena", which is one of the largest festivals dedicated to the dramatic arts in Latin America. During its 18 years of existence, the festival has brought to the city of Porto Alegre major national and international names in theater, music and dance.

To ensure its continued growth, Braskem prioritizes attracting and developing people, an effort that is aligned with its culture and is one of the pillars of its People & Organization strategy. To support the execution of this priority, in 2012 the Company invested close to R$15 million in different initiatives.

As part of its Leader development strategy, two new programs were implemented to complement the current portfolio. One of these is the **Global Leaders Program**, which was created in partnership with the Dom Cabral Foundation. The program aims to develop and accelerate the development of leaders at Braskem who will work abroad in order to support the international expansion of its operations. Already 26 members have graduated from the program. The **Team Leader Development Program (PDLE)**, which strives to integrate leadership concepts and takes into account the dynamic relationship between individuals, groups and the organization, began, in 2012, to prepare 180 leaders divided into 6 groups. Also on the leader development front, a new group was organized for the **Entrepreneur Development Program (PDE)**, which reinforces the important role that leaders play in disseminating our philosophical tenets (i.e., the Odebrecht Entrepreneurial Technology, or TEO) and in enhancing the organization's overall vision with regard to effective decision making. The PDE has trained 32 Members, 23 of whom are from Brazil and nine from operations in other countries.

We also invested in actions to help Members better understand the Odebrecht Entrepreneurial Technology (TEO). Several teams participated in a variety of actions, such as the workshop **"Praticando a TEO"** organized for 160 leaders, which sought to encourage the preservation, promotion and practice of TEO while reinforcing the role Leaders play as an example to their team members. The program **"Conversas em Torno da Fogueira"** was also implemented for the Company's senior Leaders, in which a group of 40 Braskem leaders had the opportunity to chat with leaders of the Odebrecht Organization about entrepreneurship and educational leadership. The Business Leader and his partners also visited the programs of the Odebrecht Foundation in southern Bahia and had the opportunity to exchange experiences with Norberto Odebrecht about the development of the company and its philosophical tenets. Beyond Brazil's borders, the integration of teams continued through programs such as **Introduction to Braskem's Culture**, which presented the tenets of TEO to Members and the Educational Leadership. These programs reinforce concepts for leaders and promote the use of the Program of Action ("PA") as a performance and educational tool for Team Members. A total of 490 people were trained in the United States, Germany and Mexico.

To help attract young professionals, the portal targeting young professionals called **Jovens**

Braskem (www.jovensbraskem.com.br) was active during the year, serving as a platform for the company's relationship with university students and as a reference source for information on the company's various programs for young professionals.The portal registered 220,000 hits and the database grew by 124,000 new registrations, which represents an increase of approximately 50% from the previous year.

The **Trainee Program**, which lasts 1.5 years and offers young professionals an opportunity to advance their development in a variety of careers, received applications from 19,000 candidates, or 61% more than last year. The **Internship Program**, which serves as an entry point for young talent seeking professional experience, attracted more than 29,000 candidates for 100 openings, reinforcing the company's commitment to the development of young professionals. Meanwhile, the **Technical Internship Program** hired 65 interns from vocational schools, who will put into practice at the Company the concepts they acquired in the classroom.

In the industrial area, the **Industrial Worker Development Program 2020** works to attract and develop new talent for careers as industrial workers. More than 200 new industrial workers have graduated from the program in recent years, with 57 new industrial worker interns beginning their education in 2012. The program lasts 18 months and is divided into three phases that focus on building a theoretical and conceptual base combined with practical learning experiences.

Exhibits:

(R$ million)

Income Statement CONSOLIDATED	2012 (A)	2011 (B)	Change (%) (A)/(B)
Gross Revenue	**42,114**	**38,920**	*8%*
Net Revenue	**35,513**	**32,497**	*9%*
Cost of Good Sold	(32,210)	(28,819)	*12%*
Gross Profit	**3,303**	**3,678**	*-10%*
Selling Expenses	(968)	(800)	*21%*
General and Administrative Expenses	(1,104)	(1,034)	*7%*
Other operating income (expenses)	334	(4)	-
Non Recurring Expenses Related to Fixed Assets	(10)	90	*-112%*
Discontinued operations result	480	89	*440%*
EBITDA	**3,958**	**3,742**	*6%*
EBITDA Margin	11.1%	11.5%	*-0.4 p.p.*
Depreciation and Amortization	1,924	1,723	*12%*
Cost	1,733	1,547	*12%*
Expenses	191	176	*9%*

[a] Other operating income (expenses): Refis, compensation from Sunoco and Braskem America’s railcar sales da Braskem America

[b] Discontinued operations result: divesture of non-core assets and quantiQ deconsolidation

EBITDA Restatement	2012	2011
EBITDA	**3,958**	**3,742**
Depreciation included in COGS and SG&A	(1,924)	(1,723)
Pro Forma EBITDA Impact Elimination / non recurring	(168)	(93)
Investment in subsidiaries and associated companies	(26)	(2)
Financial Result	(3,372)	(2,787)
Income Tax and Social Contribution	793	374
Net Income (Loss)	**(738)**	**(488)**

2012 MANAGEMENT REPORT

ASSETS	12/31/2012 (A)	12/31/2011 (B)	Change (%) (A)/(B)
Current	**12,692**	**10,180**	***25***
Cash and Cash Equivalents	3,288	2,987	*10*
Marketable Securities/Held for Trading	172	170	*1*
Accounts Receivable	2,326	1,844	*26*
Inventories	4,102	3,624	*13*
Recoverable Taxes	1,476	1,036	*42*
Other Receivables	1,050	520	*102*
Non Current Assets Held for Sale	278	0	-
Non Current	**28,471**	**27,217**	***5***
Marketable Securities/ Held-to-Maturity	34	35	*(1)*
Compulsory Deposits and Escrow Accounts	180	174	*3*
Accounts Receivable	38	51	*(26)*
Deferred Income Tax and Social Contribution	2,056	1,237	*66*
Taxes Recoverable	1,527	1,506	*1*
Related Parties	128	58	*119*
Insurance claims	47	253	*(81)*
Others Accounts Receivable	218	183	*20*
Investments	126	41	*209*
Property, Plant and Equipament	21,177	20,663	*2*
Intangible Assets	2,941	3,017	*(3)*
Total Assets	**41,164**	**37,397**	***10***

LIABILITIES AND SHAREHOLDERS' EQUITY	12/31/2012 (A)	12/31/2011 (B)	Change (%) (A)/(B)
Current	**12,657**	**9,062**	***40***
Suppliers	8,898	6,847	*30*
Financing/Debentures	1,836	1,392	*32*
Hedge Accounting Opperations	293	83	*252*
Salary and Payroll Charges	349	242	*44*
Dividends and Interest on Equity	5	5	*11*
Taxes Payable	343	330	*4*
Advances from Customers	238	19	*1,142*
Sundry Provisions	52	24	*121*
Other Payable	533	119	*346*

Non Current Liabilities Held for Sale	110	0	-
Non Current	**19,843**	**18,356**	***8***
Financing/Debentures	15,676	13,772	*14*
Deferred Income Tax and Social Contribution	2,139	1,953	*9*
Taxes Payable	1,165	1,613	*(28)*
Sundry Provisions	363	298	*22*
Advances from Customers	205	219	*(6)*
Other Payable	267	281	*(5)*
Others	29	220	*(87)*
Shareholders' Equity	**8,664**	**9,980**	***(13)***
Capital	8,043	8,043	-
Capital Reserve	798	846	*(6)*
Profit Reserves	0	591	*(100)*
Treasury Shares	(49)	(60)	*(19)*
Other Comprehensive Income	349	316	*11*
Retained Earnings (losses)	(566)	29	-
Non Controlling Interest	88	215	*(59)*
Total Liabilities and Shareholders' Equity	**41,164**	**37,397**	***10***

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SIGNATURES

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

Date: February 7, 2013

BRASKEM S.A.

By: /s/ Marcela Aparecida Drehmer Andrade

Name: Marcela Aparecida Drehmer Andrade
Title: Chief Financial Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates offuture economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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id #000000;">
)

71,987

(114,215
)
Loss before income taxes
(99,930
)

(114,486
)

71,987

(142,429
)
Income tax benefit
9,999

42,499

—

52,498

Net loss
$
(89,931
)

$
(71,987
)

$
71,987

$
(89,931
)

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Condensed Consolidating Statement of Operations

	Three Months Ended June 30, 2015			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Revenues				
Oil and gas revenues	$—	$ 214,110	$ —	$ 214,110
Well services and midstream revenues	—	15,936	—	15,936
Total revenues	—	230,046	—	230,046
Operating expenses				
Lease operating expenses	—	37,761	—	37,761
Well services and midstream operating expenses	—	7,395	—	7,395
Marketing, transportation and gathering expenses	—	7,570	—	7,570
Production taxes	—	20,618	—	20,618
Depreciation, depletion and amortization	—	119,218	—	119,218
Exploration expenses	—	1,082	—	1,082
Rig termination	—	2,815	—	2,815
Impairment	—	19,516	—	19,516
General and administrative expenses	6,325	15,183	—	21,508
Total operating expenses	6,325	231,158	—	237,483
Operating loss	(6,325)	(1,112)	—	(7,437)
Other income (expense)				
Equity in loss of subsidiaries	(34,249)	—	34,249	—
Net loss on derivative instruments	—	(39,424)	—	(39,424)
Interest expense, net of capitalized interest	(34,194)	(3,211)	—	(37,405)
Other income	5	186	—	191
Total other income (expense)	(68,438)	(42,449)	34,249	(76,638)
Loss before income taxes	(74,763)	(43,561)	34,249	(84,075)
Income tax benefit	21,533	9,312	—	30,845
Net loss	$(53,230)	$ (34,249)	$ 34,249	$ (53,230)

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Condensed Consolidating Statement of Operations

	Six Months Ended June 30, 2016			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Revenues				
Oil and gas revenues	$—	$ 276,652	$ —	$ 276,652
Well services and midstream revenues	—	32,711	—	32,711
Total revenues	—	309,363	—	309,363
Operating expenses				
Lease operating expenses	—	62,587	—	62,587
Well services and midstream operating expenses	—	13,264	—	13,264
Marketing, transportation and gathering expenses	—	15,043	—	15,043
Production taxes	—	25,120	—	25,120
Depreciation, depletion and amortization	—	244,937	—	244,937
Exploration expenses	—	703	—	703
Rig termination	—	—	—	—
Impairment	—	3,585	—	3,585
General and administrative expenses	13,846	32,396	—	46,242
Total operating expenses	13,846	397,635	—	411,481
Loss on sale of properties	—	(1,311)	—	(1,311)
Operating loss	(13,846)	(89,583)	—	(103,429)
Other income (expense)				
Equity in loss of subsidiaries	(109,314)	—	109,314	—
Net loss on derivative instruments	—	(76,471)	—	(76,471)
Interest expense, net of capitalized interest	(68,022)	(5,696)	—	(73,718)
Gain on extinguishment of debt	18,658	—	—	18,658
Other income	43	404	—	447
Total other income (expense)	(158,635)	(81,763)	109,314	(131,084)
Loss before income taxes	(172,481)	(171,346)	109,314	(234,513)
Income tax benefit	18,095	62,032	—	80,127
Net loss	$(154,386)	$(109,314)	$ 109,314	$(154,386)

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Condensed Consolidating Statement of Operations

	Six Months Ended June 30, 2015			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Revenues				
Oil and gas revenues	$—	$ 387,969	$ —	$ 387,969
Well services and midstream revenues	—	22,464	—	22,464
Total revenues	—	410,433	—	410,433
Operating expenses				
Lease operating expenses	—	76,886	—	76,886
Well services and midstream operating expenses	—	9,347	—	9,347
Marketing, transportation and gathering expenses	—	14,848	—	14,848
Production taxes	—	37,239	—	37,239
Depreciation, depletion and amortization	—	237,696	—	237,696
Exploration expenses	—	1,925	—	1,925
Rig termination	—	3,895	—	3,895
Impairment	—	24,837	—	24,837
General and administrative expenses	14,944	29,888	—	44,832
Total operating expenses	14,944	436,561	—	451,505
Operating loss	(14,944)	(26,128)	—	(41,072)
Other income (expense)				
Equity in loss of subsidiaries	(21,630)	—	21,630	—
Net gain on derivative instruments	—	7,648	—	7,648
Interest expense, net of capitalized interest	(69,415)	(6,774)	—	(76,189)
Other income	4	117	—	121
Total other income (expense)	(91,041)	991	21,630	(68,420)
Loss before income taxes	(105,985)	(25,137)	21,630	(109,492)
Income tax benefit	34,714	3,507	—	38,221
Net loss	$(71,271)	$ (21,630)	$ 21,630	$ (71,271)

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Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2016			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities:				
Net loss	$(154,386)	$(109,314)	$ 109,314	$(154,386)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:				
Equity in loss of subsidiaries	109,314	—	(109,314)	—
Depreciation, depletion and amortization	—	244,937	—	244,937
Gain on extinguishment of debt	(18,658)	—	—	(18,658)
Loss on sale of properties	—	1,311	—	1,311
Impairment	—	3,585	—	3,585
Deferred income taxes	(18,095)	(62,032)	—	(80,127)
Derivative instruments	—	76,471	—	76,471
Stock-based compensation expenses	12,624	355	—	12,979
Deferred financing costs amortization and other	3,360	3,192	—	6,552
Working capital and other changes:				
Change in accounts receivable	(85)	53,068	(48,686)	4,297
Change in inventory	—	2,054	—	2,054
Change in prepaid expenses	278	1,145	—	1,423
Change in other current assets	—	(114)	—	(114)
Change in other assets	100	—	—	100
Change in accounts payable, interest payable and accrued liabilities	(50,462)	(16,258)	48,686	(18,034)
Change in other current liabilities	—	9,001	—	9,001
Change in other liabilities	—	10	—	10
Net cash provided by (used in) operating activities	(116,010)	207,411	—	91,401
Cash flows from investing activities:				
Capital expenditures	—	(231,341)	—	(231,341)
Proceeds from sale of properties	—	11,679	—	11,679
Costs related to sale of properties	—	(310)	—	(310)
Derivative settlements	—	103,790	—	103,790
Advances from joint interest partners	—	769	—	769
Net cash used in investing activities	—	(115,413)	—	(115,413)
Cash flows from financing activities:				
Repurchase of senior unsecured notes	(56,925)	—	—	(56,925)
Proceeds from revolving credit facility	—	359,000	—	359,000
Principal payments on revolving credit facility	—	(462,000)	—	(462,000)
Deferred financing costs	—	(751)	—	(751)
Proceeds from sale of common stock	182,953	—	—	182,953
Purchases of treasury stock	(1,520)	—	—	(1,520)
Investment in / capital contributions from subsidiaries	(9,190)	9,190	—	—
Net cash provided by (used in) financing activities	115,318	(94,561)	—	20,757
Decrease in cash and cash equivalents	(692)	(2,563)	—	(3,255)
Cash and cash equivalents at beginning of period	777	8,953	—	9,730
Cash and cash equivalents at end of period	$85	$6,390	$ —	$6,475

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Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2015			
	Parent/ Issuer	Combined Guarantor Subsidiaries	Intercompany Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities:				
Net loss	$(71,271)	$ (21,630)	$ 21,630	$ (71,271)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:				
Equity in loss of subsidiaries	21,630	—	(21,630)	—
Depreciation, depletion and amortization	—	237,696	—	237,696
Impairment	—	24,837	—	24,837
Deferred income taxes	(34,714)	(3,507)	—	(38,221)
Derivative instruments	—	(7,648)	—	(7,648)
Stock-based compensation expenses	13,515	148	—	13,663
Deferred financing costs amortization and other	2,255	2,804	—	5,059
Working capital and other changes:				
Change in accounts receivable	(256)	9,890	66,165	75,799
Change in inventory	—	3,685	—	3,685
Change in prepaid expenses	297	3,097	—	3,394
Change in other current assets	—	5,538	—	5,538
Change in accounts payable, interest payable and accrued liabilities	65,933	(22,392)	(66,165)	(22,624)
Change in other liabilities	—	(21)	—	(21)
Net cash provided by (used in) operating activities	(2,611)	232,497	—	229,886
Cash flows from investing activities:				
Capital expenditures	—	(587,430)	—	(587,430)
Derivative settlements	—	213,336	—	213,336
Advances from joint interest partners	—	(406)	—	(406)
Net cash used in investing activities	—	(374,500)	—	(374,500)
Cash flows from financing activities:				
Proceeds from revolving credit facility	—	320,000	—	320,000
Principal payments on revolving credit facility	—	(665,000)	—	(665,000)
Deferred financing costs	—	(3,591)	—	(3,591)
Proceeds from sale of common stock	463,010	—	—	463,010
Purchases of treasury stock	(1,932)	—	—	(1,932)
Investment in / capital contributions from subsidiaries	(458,465)	458,465	—	—
Net cash provided by financing activities	2,613	109,874	—	112,487
Increase (decrease) in cash and cash equivalents	2	(32,129)	—	(32,127)
Cash and cash equivalents at beginning of period	776	45,035	—	45,811
Cash and cash equivalents at end of period	$778	$ 12,906	$ —	$ 13,684

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17. 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.
Derivative instruments. In July 2016, the Company entered into a three-way costless collar agreement with a floor price of $45.00 per barrel for total notional amounts of 334,000 barrels and 31,000 barrels, which settle in 2017 and 2018, respectively, based on WTI. These derivative instruments do not qualify for and were not designated as hedging instruments for accounting purposes.
Credit facility amendment. On August 8, 2016, the Company entered into its sixth amendment to its Credit Facility (the “Sixth Amendment”), which provides the Company with more flexibility in raising new capital and refinancing its existing Notes. The Sixth Amendment did not change the Company’s current borrowing base and aggregate elected commitment of $1,150.0 million. The next regular semi-annual redetermination of the borrowing base is scheduled for October 1, 2016.

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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, 2015 ("2015 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 Exchange Act of 1934, as amended (the "Exchange Act"). 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," "project" and similar expressions are intended to identify 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 2015 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;
- timing and amount of future production of oil and natural gas;
- drilling and completion of wells;
- estimated inventory of wells remaining to be drilled and completed;
- costs of exploiting and developing our properties and conducting other operations;
- availability of drilling, completion and production equipment and materials;
- availability of qualified personnel;
- owning and operating a well services company;
- owning, operating and developing a midstream company;
- infrastructure for salt water disposal;
- gathering, transportation and marketing of oil and natural gas, both in the Williston Basin and other regions in the United States;
- property acquisitions;
- integration and benefits of property acquisitions or the effects of such acquisitions on our cash position and levels of indebtedness;
- the amount, nature and timing of capital expenditures;
- availability and terms of capital;
- our financial strategy, budget, projections, execution of business plan and operating results;
- cash flows and liquidity;
- oil and natural gas realized prices;
- general economic conditions;
- operating environment, including inclement weather conditions;
- effectiveness of risk management activities;
- competition in the oil and natural gas industry;
- counterparty credit risk;
- environmental liabilities;
- governmental regulation and the taxation of the oil and natural gas industry;
- developments in oil-producing and natural gas-producing countries;
- technology;

- 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, weather and environmental conditions, 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 ("E&P") company focused on the acquisition and development of unconventional oil and natural gas resources primarily in the North Dakota and Montana 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. Oasis Petroleum North America LLC ("OPNA") conducts our domestic oil and natural gas E&P activities. We also operate a well services business through Oasis Well Services LLC ("OWS") and a midstream services business through Oasis Midstream Services LLC ("OMS"), both of which are separate reportable business segments that are complementary to our primary development and production activities. The revenues and expenses related to work performed by OWS and OMS for OPNA'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. We built our Williston Basin assets through acquisitions and development activities, which were financed with a combination of capital from private investors, borrowings under our revolving credit facility, cash flows provided by operating activities, proceeds from our senior unsecured notes, proceeds from our public equity offerings, the sale of certain non-core oil and gas properties and cash settlements of derivative contracts. 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 an entry into 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. 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, and may fluctuate widely in the future. The current global oversupply of crude oil has caused a sharp decline in oil prices since mid-2014. As a result of sustained low oil prices, we have decreased our planned 2016 capital

expenditures as compared to 2015, and we are continuing to concentrate our drilling activities in certain areas that are the most economic in the Williston Basin. Extended 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.

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. 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. 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, we sell a

significant amount of our crude oil production through gathering systems connected to multiple pipeline and rail facilities. These gathering systems, which originate at the wellhead, reduce the need to transport barrels by truck from the wellhead. As of June 30, 2016, we were flowing 83% of our gross operated oil production through these gathering systems.

Our market optionality on the crude oil gathering systems allows us to shift volumes between pipeline and rail markets in order to optimize price realizations. Crude oil produced and sold in the Williston Basin has historically sold at a discount to the NYMEX West Texas Intermediate crude oil index prices ("WTI") due to transportation costs and takeaway capacity. In the past, there have been periods when this discount has substantially increased due to oil production in the area increasing to a point that it temporarily surpassed the available pipeline transportation, rail transportation and refining capacity in the area. Expansions of both rail and pipeline facilities have reduced the prior constraint on oil transportation out of the Williston Basin and improved our price differentials received at the lease. In 2015, our price differentials relative to WTI strengthened as new pipelines opened to eastern Canada and U.S. markets and transportation on rail gradually declined. Since the third quarter of 2015, our price differentials have remained less than $5.00 per barrel discount to WTI on a quarterly basis. Even as WTI improved in the first half of 2016, our price differentials averaged $4.85 per barrel of oil.

Forward commodity prices and estimates of future production play a significant role in determining impairment of proved oil and natural gas properties. As a result of lower commodity prices and their impact on our estimated future cash flows, we have continued to monitor our proved oil and natural gas properties for impairment. For the six months ended June 30, 2016, we recorded an impairment charge of $3.6 million to further write down our properties held for sale to their fair value, as determined by the sales price on April 1, 2016, less costs to sell. No other proved impairment charges were recorded during the six months ended June 30, 2016. In addition, the excess of our expected undiscounted future cash flows over the carrying value of our proved oil and natural gas properties in the Bakken and Three Forks formations has increased to $1,978.3 million as of June 30, 2016, an increase of approximately 56% as compared to an excess of $1,264.8 million at December 31, 2015. The underlying commodity prices embedded in our expected undiscounted cash flows were determined using NYMEX forward strip prices for five years, escalating 3% per year thereafter. Our expected undiscounted estimated cash flows also included a 3% inflation factor applied to the future operating and development costs after five years. If expected future oil prices decline by approximately 20% as compared to June 30, 2016, holding all other factors constant, the expected undiscounted cash flows may not exceed the carrying value of our proved oil and natural gas properties in the Bakken and Three Forks formations. As a result, we may recognize additional proved impairment charges in the future, and such impairment charges could exceed $2.3 billion assuming a discount rate of 10%.

Changes in commodity prices may significantly impact our estimates of oil and natural gas reserves, which are estimated and reported as of December 31 of each calendar year. Our estimated net proved reserves at December 31, 2015 were prepared using SEC pricing, calculated as the unweighted arithmetic average first-day-of-the-month prices for the prior twelve months of $50.16 per barrel for oil and $2.63 per MMBtu for natural gas. The current forward commodity price curve is lower than the year-end 2015 SEC pricing; therefore, the following sensitivity table is provided to illustrate the estimated impact of this price decrease on our estimated proved reserves, PV-10 and Standardized Measure. In addition to the different price assumptions, the sensitivity case below includes assumed capital and expense reductions we expect to realize at lower commodity prices. The reduction in proved developed reserves is attributable to reaching the economic limit sooner. The reduction in proved undeveloped reserves is a result of well locations no longer meeting our investment criteria as well as reaching the economic limit sooner. This sensitivity case is only to demonstrate the impact that a lower price and cost environment would have had on estimated proved reserves, PV-10 and Standardized Measure as of December 31, 2015, holding all other factors constant. There is no assurance that these prices or assumed cost savings will actually be achieved. Our estimated net proved reserves, PV-10 and Standardized Measure were determined using prices for oil and natural gas, without giving effect to derivative transactions, which were held constant throughout the life of the properties. The prices were adjusted by lease for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead.

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	Actual at December 31, 2015[1]		Sensitivity Case[2]	
Oil price (per Bbl)	$	50.16	$	44.19
Natural gas price (per MMBtu)	2.63		2.52	
Capital expenditure reduction	n/a		15%	
Operating expense reduction	n/a		16%	
Estimated proved developed reserves (MMBoe)	147.6		149.6	
Estimated proved undeveloped reserves (MMBoe)	70.7		71.4	
Total estimated proved reserves (MMBoe)	$	218.2	$	221.0
PV-10 (in millions)[3]	$	2,022.7	$	1,866.4
Present value of future income taxes discounted at 10% (in millions)	108.4		60.1	
Standardized Measure of discounted future net cash flows (in millions)[4]	$	1,914.3	$	1,806.3

(1) The actual reserve estimates at December 31, 2015 were prepared using SEC pricing, calculated as the unweighted arithmetic average first-day-of-the-month prices for the prior twelve months, which was $50.16 per barrel for oil and $2.63 per MMBtu for natural gas for the year ended December 31, 2015.

(2) The sensitivity case prices represent potential SEC pricing based on actual prices for each of the six months ended June 30, 2016 and forward commodity prices as of June 30, 2016 for the remaining months of 2016.

(3) PV-10 is a non-GAAP financial measure and generally differs from Standardized Measure, the most directly comparable financial measure under accounting principles generally accepted in the United States of America (“GAAP”), because it does not include the effect of income taxes on discounted future net cash flows. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and natural gas reserves. The oil and gas industry uses PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

(4) Standardized Measure represents the present value of estimated future net cash flows from proved oil and natural gas reserves, less estimated future development, production, plugging and abandonment costs and income tax expenses, discounted at 10% per annum to reflect timing of future cash flows.

Second Quarter 2016 Highlights:

- Average daily production was 49,507 Boe per day during the three months ended June 30, 2016;
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- We completed and placed on production 13 gross (8.7 net) operated wells in the Williston Basin during the three months ended June 30, 2016;
- For the three months ended June 30, 2016, total capital expenditures were $131.3 million;
- At June 30, 2016, we had $6.5 million of cash and cash equivalents and had total liquidity of $1,107.3 million, including the availability under our revolving credit facility;
- Net cash provided by operating activities was $91.4 million for the three months ended June 30, 2016. Adjusted EBITDA, a non-GAAP financial measure, was $132.2 million for the three months ended June 30, 2016. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net loss and net cash provided by operating activities, see "Non-GAAP Financial Measures" below.

Results of Operations

Revenues

Our oil and gas revenues are derived from the sale of oil and natural gas production. These revenues do not include the effects of derivative instruments and may vary significantly from period to period as a result of changes in volumes of production sold or changes in commodity prices. Our well services and midstream revenues are primarily derived from well services, product sales, equipment rentals, salt water pipeline transport, salt water disposal and fresh water sales for third-party working interest owners in OPNA's operated wells. Intercompany revenues for work performed by OWS and OMS for OPNA's working interests are eliminated in consolidation.

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The following table summarizes our revenues and production data for the periods presented:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Operating results (in thousands):						
Revenues						
Oil	$152,900	$208,564	$(55,664)	$264,106	$372,377	$(108,271)
Natural gas	6,437	5,546	891	12,546	15,592	(3,046)
Well services	12,833	9,219	3,614	18,818	11,927	6,891
Midstream	6,910	6,717	193	13,893	10,537	3,356
Total revenues	$179,080	$230,046	$(50,966)	$309,363	$410,433	$(101,070)
Production data:						
Oil (MBbls)	3,747	4,008	(261)	7,617	8,030	(413)
Natural gas (MMcf)	4,549	3,395	1,154	8,802	6,502	2,300
Oil equivalents (MBoe)	4,505	4,574	(69)	9,084	9,114	(30)
Average daily production (Boe per day)	49,507	50,261	(754)	49,911	50,353	(442)
Average sales prices:						
Oil, without derivative settlements (per Bbl)	$40.81	$52.04	$(11.23)	$34.67	$46.37	$(11.70)
Oil, with derivative settlements (per Bbl)[1]	48.94	78.01	(29.07)	48.30	72.94	(24.64)
Natural gas (per Mcf)[2]	1.42	1.63	(0.21)	1.43	2.40	(0.97)

(1) Realized prices include gains or losses on cash settlements for commodity derivatives, which do not qualify for and were not designated as hedging instruments for accounting purposes. Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

(2) Natural gas prices include the value for natural gas and natural gas liquids.

Three months ended June 30, 2016 as compared to three months ended June 30, 2015

Total revenues. Our total revenues decreased $51.0 million, or 22%, to $179.1 million during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, primarily due to lower realized oil sales prices. Our average realized prices for oil decreased by 22% during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.

Oil and gas revenues. 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 decreased by 754 Boe per day to 49,507 Boe per day during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The decrease in average daily production sold was primarily a result of the natural decline in production in wells that were producing as of June 30, 2015 coupled with the divestiture completed on April 1, 2016 (see Note 7 to our condensed consolidated financial statements), offset by our 48.4 total net well completions in the Williston Basin during the twelve months ended June 30, 2016. The divestiture resulted in a decrease in average daily production of approximately 671 Boe per day during the three months ended June 30, 2016. Average oil sales prices, without derivative settlements, decreased by $11.23 per barrel to an average of $40.81 per barrel, and average natural gas sales prices, which include the value for natural gas and natural gas liquids, decreased by $0.21 per Mcf to an average of $1.42 per Mcf for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The lower oil and natural gas sales prices decreased revenues by $45.8 million, coupled with lower total production amounts sold, which decreased revenues by $9.0 million during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Extended low commodity prices could result in a significant decrease in our oil and gas volumes and revenues in the future.

Well services and midstream revenues. In response to the low commodity price environment, we decreased the pace of our well completions and reduced OWS to one fracturing fleet during the first quarter of 2016. While our well completion activity decreased, our well services revenues increased by $3.6 million to $12.8 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 primarily due to a $3.5 million

increase in well completion revenues as a result of OWS completing OPNA wells with a higher average third-party working interest during the three months ended June 30, 2016. Midstream revenues remained relatively consistent at $6.9 million and $6.7 million for the three months ended June 30, 2016 and 2015, respectively.

Six months ended June 30, 2016 as compared to six months ended June 30, 2015

Our total revenues decreased $101.1 million, or 25%, to $309.4 million during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to lower realized oil and natural gas sales prices. Our average realized prices for oil and natural gas decreased by 25% and 40%, respectively, during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

Oil and gas revenues. 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 decreased by 442 Boe per day, or 1%, to 49,911 Boe per day during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The decrease in average daily production sold was primarily a result of the decline in production in wells that were producing as of June 30, 2015 coupled with the divestiture completed on April 1, 2016 (see Note 7 to our condensed consolidated financial statements), offset by our 48.4 total net well completions in the Williston Basin during the twelve months ended June 30, 2016. The divestiture resulted in a decrease in average daily production of approximately 438 Boe per day during the six months ended June 30, 2016. Average oil sales prices, without derivatives settlements, decreased by $11.70 per barrel to an average of $34.67 per barrel, and average natural gas sales prices, which include the value for natural gas and natural gas liquids, decreased by $0.97 per Mcf to an average of $1.43 per Mcf for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The lower oil and natural gas sales prices decreased revenues by $100.3 million, coupled with lower total production amounts sold, which decreased revenues by $11.1 million during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

Well services and midstream revenues. In response to the low commodity price environment, we decreased the pace of our well completions and reduced OWS to one fracturing fleet during the first quarter of 2016. While our well completion activity decreased, our well services revenues increased $6.9 million to $18.8 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 primarily due to an increase of $9.0 million in well completion revenue as a result of OWS completing OPNA wells with a higher average third-party working interest, offset by a $1.5 million decrease in well completion product sales to third parties as a result of OWS completing all of OPNA’s operated wells during the six months ended June 30, 2016. Midstream revenues were $13.9 million for the six months ended June 30, 2016, which was a $3.4 million increase period over period, primarily due to increased water volumes flowing through our salt water disposal systems, offset by decreased fresh water sales.

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Expenses and other income

The following table summarizes our operating expenses and other income and expenses for the periods presented:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(In thousands, except per Boe of production)					
Operating expenses:						
Lease operating expenses	$31,523	$37,761	$(6,238)	$62,587	$76,886	$(14,299)
Well services and midstream operating expenses	8,875	7,395	1,480	13,264	9,347	3,917
Marketing, transportation and gathering expenses	6,491	7,570	(1,079)	15,043	14,848	195
Production taxes	14,367	20,618	(6,251)	25,120	37,239	(12,119)
Depreciation, depletion and amortization	122,488	119,218	3,270	244,937	237,696	7,241
Exploration expenses	340	1,082	(742)	703	1,925	(1,222)
Rig termination	—	2,815	(2,815)	—	3,895	(3,895)
Impairment	23	19,516	(19,493)	3,585	24,837	(21,252)
General and administrative expenses	21,876	21,508	368	46,242	44,832	1,410
Total operating expenses	205,983	237,483	(31,500)	411,481	451,505	(40,024)
Loss on sale of properties	(1,311)	—	(1,311)	(1,311)	—	(1,311)
Operating loss	(28,214)	(7,437)	(20,777)	(103,429)	(41,072)	(62,357)
Other income (expense):						
Net gain (loss) on derivative instruments	(90,846)	(39,424)	(51,422)	(76,471)	7,648	(84,119)
Interest expense, net of capitalized interest	(34,979)	(37,405)	2,426	(73,718)	(76,189)	2,471
Gain on extinguishment of debt	11,642	—	11,642	18,658	—	18,658
Other income (expense)	(32)	191	(223)	447	121	326
Total other income (expense)	(114,215)	(76,638)	(37,577)	(131,084)	(68,420)	(62,664)
Loss before income taxes	(142,429)	(84,075)	(58,354)	(234,513)	(109,492)	(125,021)
Income tax benefit	52,498	30,845	21,653	80,127	38,221	41,906
Net loss	$(89,931)	$(53,230)	$(36,701)	$(154,386)	$(71,271)	$(83,115)
Costs and expenses (per Boe of production):						
Lease operating expenses	$7.00	$8.26	$(1.26)	$6.89	$8.44	$(1.55)
Marketing, transportation and gathering expenses	1.44	1.66	(0.22)	1.66	1.63	0.03
Production taxes	3.19	4.51	(1.32)	2.77	4.09	(1.32)
Depreciation, depletion and amortization	27.19	26.07	1.12	26.96	26.08	0.88
General and administrative expenses	4.86	4.70	0.16	5.09	4.92	0.17

Three months ended June 30, 2016 as compared to three months ended June 30, 2015

Lease operating expenses. Lease operating expenses decreased $6.2 million to $31.5 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. This decrease was primarily due to an increase in salt water disposal volumes being transported on OMS pipelines and injected in OMS salt water disposal wells coupled with a decrease in our net well count as a result of the divestiture completed on April 1, 2016 (see Note 7 to our condensed consolidated financial statements). Lease operating expenses decreased from $8.26 per Boe for the three months ended June 30, 2015 to $7.00 per Boe for the three months ended June 30, 2016.

Well services and midstream operating expenses. Well services and midstream operating expenses represent third-party working interest owners' share of service costs, cost of goods sold and operating expenses incurred by OWS and OMS. The $1.5 million increase for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 was primarily attributable to a $1.8 million increase in well completion costs as a result of OWS completing OPNA wells with a higher average third-party working interest. This increase was offset by a decrease in midstream operating expenses of $0.3

million during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 due to decreased fresh water purchases.

Marketing, transportation and gathering expenses. The $1.1 million decrease in marketing, transportation and gathering expenses for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 was primarily attributable to a $0.5 million decrease in oil transportation costs and a $0.4 million decrease in our pipeline imbalance.

Production taxes. Our production taxes as a percentage of oil and natural gas sales were 9.0% and 9.6%, respectively, for the three months ended June 30, 2016 and 2015. The production tax rate decreased period over period primarily due to the reduction in the North Dakota oil extraction tax rate, partially offset by an increased weighting of production in North Dakota, which has a higher average production tax rate as compared to Montana. For the three months ended June 30, 2016 and 2015, the percentage of our total production located in North Dakota was 92% and 87%, respectively. In 2015, North Dakota had a crude oil tax structure based on a 5% production tax and a 6.5% oil extraction tax, resulting in a combined tax rate of 11.5% of crude oil revenues. In 2016, the North Dakota oil extraction tax was reduced to 5%, resulting in a combined tax rate of 10% of crude oil revenues.

Depreciation, depletion and amortization (“DD&A”). DD&A expense increased $3.3 million to $122.5 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. This increase in DD&A expense for the three months ended June 30, 2016 was a result of an increase in the DD&A rate, offset by a decrease in total production during the six months ended June 30, 2016. The DD&A rate for the three months ended June 30, 2016 was $27.19 per Boe compared to $26.07 per Boe for the three months ended June 30, 2015. The increase in the DD&A rate was primarily due to lower proved reserves as a result of lower oil and natural gas prices.

Impairment. For the three months ended June 30, 2016 and 2015, we recorded non-cash impairment charges of $23,000 and $0.4 million, respectively, for unproved properties due to leases that expired in the period. As a result of periodic assessments of unproved properties not held-by-production, we recorded non-cash impairment charges on our unproved oil and natural gas properties of $19.1 million for the three months ended June 30, 2015 related to acreage expiring in future periods because there were no current plans to drill or extend the leases prior to their expiration. During the year ended December 31, 2015, we recorded similar non-cash impairment charges of $4.7 million related to leases that expired during the three months ended June 30, 2016 as a result of periodic assessments of unproved properties. Consequently, lower impairment charges for unproved properties were recorded during the three months ended June 30, 2016 as most leases that expired during the period had been previously impaired. No impairment charges of proved oil and gas properties were recorded for the three months ended June 30, 2016 and 2015.

General and administrative expenses (“G&A”). Our G&A increased $0.4 million to $21.9 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. G&A for our OWS segment increased by $2.6 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase in OWS G&A was due to OWS completing OPNA wells with a higher average third-party working interest during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Excluding our intercompany elimination, gross OWS G&A decreased $2.8 million. E&P G&A was $17.7 million and $19.8 million for the three months ended June 30, 2016 and 2015, respectively. These decreases in gross OWS and E&P G&A were primarily due to lower compensation expenses due to a decrease in employee headcount. Our total company full-time employee headcount decreased to 453 at June 30, 2016 from 567 at June 30, 2015.

Derivative instruments. As a result of entering into derivative contracts and the effect of the forward strip oil price changes, we incurred a $90.8 million net loss on derivative instruments, including net cash settlement receipts of $30.5 million, for the three months ended June 30, 2016, and a $39.4 million net loss on derivative instruments, including net cash settlement receipts of $104.1 million, for the three months ended June 30, 2015. Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

Interest expense. Interest expense decreased $2.4 million from $37.4 million for the three months ended June 30, 2015 to $35.0 million for the three months ended June 30, 2016 due to a decrease in interest expense incurred on our senior unsecured notes and revolving credit facility during the three months ended June 30, 2016. In 2016, we repurchased an aggregate principal amount of $76.6 million of outstanding senior unsecured notes, which resulted in a decrease of

$1.5 million in interest expense for the three months ended June 30, 2016. For the three months ended June 30, 2016 and 2015, the weighted average debt outstanding under our revolving credit facility was $82.7 million and $184.7 million, respectively. The weighted average interest rate incurred on the outstanding borrowings under our revolving credit facility was 2.0% and 1.7% for the three months ended June 30, 2016 and June 30, 2015, respectively. Interest capitalized during the three months ended June 30, 2016 and 2015 was $4.8 million and $4.9 million, respectively.

Gain on extinguishment of debt. In April 2016, we repurchased an aggregate principal amount of $46.8 million of our outstanding senior unsecured notes for an aggregate cost of $34.6 million, including accrued interest and fees. For the three months ended June 30, 2016, we recognized a pre-tax gain related to the repurchase of $11.6 million, which included unamortized deferred financing costs write-offs of $0.5 million. For the three months ended June 30, 2015, we did not repurchase any portion of our outstanding senior unsecured notes.

Income taxes. The income tax benefit for the three months ended June 30, 2016 and 2015 was recorded at 36.9% and 36.7% of pre-tax net income, respectively. Our effective tax rates for the three months ended June 30, 2016 and 2015 approximate the combined federal statutory tax rate and the statutory rates for the states in which we conduct business.

Six months ended June 30, 2016 as compared to six months ended June 30, 2015

Lease operating expense. Lease operating expenses decreased $14.3 million to $62.6 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The decrease was primarily due to an increase in salt water disposal volumes being transported on OMS pipelines and injected in OMS salt water disposal wells. Lease operating expenses decreased from $8.44 per Boe for the six months ended June 30, 2015 to $6.89 per Boe for the six months ended June 30, 2016.

Well services and midstream operating expenses. Well services and midstream operating expenses represent third-party working interest owners' share of service costs, cost of goods sold and operating expenses incurred by OWS and OMS. The $3.9 million increase for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 was attributable to a $3.4 million increase due to OWS completing OPNA wells with a higher average third-party working interest in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. This increase was coupled with a $0.5 million increase in midstream operating expenses related to an increase in salt water disposal wells and pipelines in service.

Marketing, transportation and gathering expenses. The $0.2 million increase in marketing, transportation and gathering expenses for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 was primarily attributable to a $0.8 million increase in the pipeline imbalance, offset by a $0.9 million decrease in oil transportation costs.

Production taxes. Our production taxes as a percentage of oil and natural gas sales were 9.1% and 9.6%, respectively, for the six months ended June 30, 2016 and 2015. The production tax rate decreased period over period primarily due to the reduction in the North Dakota oil extraction tax rate, partially offset by an increased weighting of production in North Dakota, which has a higher average production tax rate as compared to Montana. For the six months ended June 30, 2016 and 2015, the percentage of our total production located in North Dakota was 91% and 87%, respectively. In 2015, North Dakota had a crude oil tax structure based on a 5% production tax and a 6.5% oil extraction tax, resulting in a combined tax rate of 11.5% of crude oil revenues. In 2016, the North Dakota oil extraction tax was reduced to 5%, resulting in a combined tax rate of 10% of crude oil revenues.

Depreciation, depletion, and amortization. DD&A expense increased $7.2 million to $244.9 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase in DD&A expense for the six months ended June 30, 2016 was a result of an increase in the DD&A rate during the six months ended June 30, 2016. The DD&A rate for the six months ended June 30, 2016 was $26.96 per Boe compared to $26.08 per Boe for the six months ended June 30, 2015. The increase in the DD&A rate was primarily due to lower recoverable reserves related to lower oil and natural gas prices.

Impairment. During the six months ended June 30, 2016, we recorded an impairment charge of $3.6 million to further adjust the carrying value of our properties held for sale during the first quarter of 2016 to their estimated fair value, determined based on the expected sales price, less costs to sell. No impairment charges of proved oil and gas properties were recorded for the six months ended June 30, 2015. For the six months ended June 30, 2016 and 2015, we recorded non-cash impairment charges of $25,000 and $4.5 million, respectively, for unproved properties due to leases that expired during the period. As a result of periodic assessments of unproved properties not held-by-production, we recorded additional impairment charges of $20.3 million for the six months ended June 30, 2015 related to acreage expiring in future periods because there were no current plans to drill or extend the leases prior to their expiration. During the year ended December 31, 2015, we recorded similar non-cash impairment charges of $9.8 million related to leases that expired during the six months ended June 30, 2016 as a result of periodic

assessments of unproved properties. Consequently, lower impairment charges for unproved properties were recorded during the six months ended June 30, 2016 as most leases that expired during the period had been previously impaired.

General and administrative expenses. Our G&A expenses increased $1.4 million for the six months ended June 30, 2016 from $44.8 million for the six months ended June 30, 2015. OWS G&A increased by $4.6 million primarily due to OWS completing OPNA wells with a higher average third-party working interest in the six months ended June 30, 2016 as compared

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to the six months ended June 30, 2015. Excluding our intercompany elimination, gross OWS G&A decreased $5.4 million. E&P G&A was $38.8 million and $42.1 million for the six months ended June 30, 2016 and 2015, respectively. These decreases in gross OWS and E&P G&A were primarily due to lower compensation expenses due to a decrease in employee headcount. Our total company full-time employee headcount decreased to 453 at June 30, 2016 from 567 at June 30, 2015.
Derivative instruments. As a result of entering into derivative contracts and the effect of the forward strip oil price changes, we incurred a $76.5 million net loss on derivative instruments, including net cash settlement receipts of $103.8 million, for the six months ended June 30, 2016, and a $7.6 million net gain on derivative instruments, including net cash settlement receipts of $213.3 million for the six months ended June 30, 2015. Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include recovery of costs that were paid to acquire or modify the derivative instruments that were settled.
Interest expense. Interest expense decreased $2.5 million to $73.7 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The decrease was primarily the result of a decrease in the interest expense incurred on borrowings under our revolving credit facility and senior unsecured notes, offset by an increase of $1.3 million due to the unamortized deferred financing costs write-off related to the decrease in the borrowing base under our revolving credit facility during the six months ended June 30, 2016. In 2016, we repurchased an aggregate principal amount of $76.6 million of outstanding senior unsecured notes, which resulted in a decrease of $1.8 million in interest expense for the six months ended June 30, 2016. For the six months ended June 30, 2016 and 2015, the weighted average debt outstanding under our revolving credit facility was $94.8 million and $318.8 million, respectively, and the weighted average interest rate incurred on the outstanding borrowings was 1.9% and 1.8%, respectively. Interest capitalized during the six months ended June 30, 2016 and 2015 was $9.3 million and $8.8 million, respectively. The increase in interest capitalized period over period was due to increased work in progress assets, including the natural gas processing plant and other midstream infrastructure we are constructing in Wild Basin.
Gain on extinguishment of debt. During the six months ended June 30, 2016, we repurchased an aggregate principal amount of $76.6 million of our outstanding senior unsecured notes for an aggregate cost of $56.9 million, including accrued interest and fees. For the six months ended June 30, 2016, we recognized a pre-tax gain related to the repurchase of $18.7 million, which included unamortized deferred financing costs write-offs of $1.0 million. During the six months ended June 30, 2015, we did not repurchase any portion of our outstanding senior unsecured notes.
Income taxes. Income tax expense for the six months ended June 30, 2016 and 2015 was recorded at 34.2% and 34.9% of pre-tax net income, respectively. The effective tax rates for both periods were lower than the combined federal statutory rate and the statutory rates for the states in which we conduct business due to the impact of permanent differences on our pre-tax loss. The permanent differences were primarily for compensation amounts expensed for book purposes versus the amounts deductible for income tax purposes related to stock-based compensation vesting during the six months ended June 30, 2016 and 2015 at stock prices lower than the grant date values. In addition, during the six months ended June 30, 2016, we recorded a valuation allowance of $0.9 million and $0.6 million for Montana net operating losses and federal charitable contribution carryovers, respectively, based on management's assessment that it is more likely than not that these net deferred tax assets will not be realized prior to their expiration due to their short carryover periods, current economic conditions and expectations for the future.
Liquidity and Capital Resources
Our primary sources of liquidity as of the date of this report have been proceeds from our senior unsecured notes, borrowings under our revolving credit facility, proceeds from public equity offerings, cash flows from operations, the sale of certain non-core oil and gas properties and cash settlements of derivative contracts. Our primary uses of capital have been for the acquisition and development of oil and natural gas properties. We continually monitor potential capital sources, including equity and debt financings and potential asset monetizations, in order to enhance liquidity and decrease leverage. Our future success in growing proved reserves and production will be highly dependent on our ability to access outside sources of capital.
Our cash flows for the six months ended June 30, 2016 and 2015 are presented below:

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Net cash provided by operating activities	$91,401	$229,886
Net cash used in investing activities	(115,413)	(374,500)
Net cash provided by financing activities	20,757	112,487
Decrease in cash and cash equivalents	$(3,255)	$(32,127)

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Our cash flows depend on many factors, including the price of oil and natural gas and the success of our development and exploration activities as well as future acquisitions. We actively manage our exposure to commodity price fluctuations by executing derivative transactions to mitigate the change in oil prices on a portion of our production, thereby mitigating our exposure to oil price declines, but these transactions may also limit our cash flow in periods of rising oil prices. Prices for oil have declined significantly since mid-2014, which has substantially decreased our cash flows provided by operating activities. The decline in operating cash flows caused by lower oil prices is partially offset by cash flows from our derivative contracts. On February 2, 2016, we completed a public equity offering resulting in net proceeds of $183.0 million, after deducting underwriting discounts and commissions and offering expenses, which we used for general corporate purposes. Our existing revolving credit facility provides additional liquidity, with a current borrowing base and elected commitment amount of $1,150.0 million. The next redetermination of the borrowing base is scheduled for October 1, 2016. We believe we have adequate liquidity to fund planned 2016 capital expenditures and to meet our near-term future obligations. For additional information on the impact of changing prices on our financial position, see Item 3. “Quantitative and Qualitative Disclosures about Market Risk” below.

Cash flows provided by operating activities

Net cash provided by operating activities was $91.4 million and $229.9 million for the six months ended June 30, 2016 and 2015, respectively. The change in cash flows from operating activities for the period ended June 30, 2016 as compared to 2015 was primarily the result of lower realized oil and natural gas sales prices.

Working capital. Our working capital fluctuates primarily as a result of changes in commodity pricing and production volumes, capital spending to fund our exploratory and development initiatives and acquisitions, and the impact of our outstanding derivative instruments. We had a working capital deficit of $139.8 million at June 30, 2016 due to decreases in our current assets, primarily due to the impact of increases in the forward commodity price curve on our short-term derivative instruments. As of June 30, 2016, we had $1,107.3 million of liquidity available, including $6.5 million in cash and cash equivalents and $1,100.8 million of unused borrowing base committed capacity available under our revolving credit facility. At June 30, 2015, we had a working capital deficit of $167.6 million.

Cash flows used in investing activities

Net cash used in investing activities was $115.4 million and $374.5 million during the six months ended June 30, 2016 and 2015, respectively. Net cash used in investing activities during the six months ended June 30, 2016 was primarily attributable to $231.3 million in capital expenditures primarily for drilling and development costs, partially offset by $103.8 million of derivative settlements received as a result of lower commodity prices. Net cash used in investing activities during the six months ended June 30, 2015 was primarily attributable to $586.7 million in capital expenditures primarily for drilling and development costs, partially offset by $213.3 million of derivative settlements received as a result of lower crude oil pricing.

Our capital expenditures are summarized in the following table:

	Six Months Ended June 30, 2016 (In thousands)
Capital expenditures:	
E&P	$ 120,859
OMS	87,882
OWS	650
Other capital expenditures[1]	9,852
Total capital expenditures[2]	$ 219,243

(1) Other capital expenditures include such items as administrative capital and capitalized interest.

(2) Capital expenditures reflected in the table above differ from the amounts shown in the statement of cash flows in our condensed consolidated financial statements because amounts reflected in the table above include changes in

accrued liabilities from the previous reporting period for capital expenditures, while the amounts presented in the statement of cash flows are presented on a cash basis.

Our total 2016 capital expenditure budget is $400 million, which includes $340 million for E&P capital expenditures and $60 million for non-E&P capital expenditures, including OWS, administrative capital and capitalized interest. Our planned E&P capital expenditures include $200 million of drilling and completion capital expenditures for operated and non-operated wells (including expected savings from services provided by OWS and OMS) and $140 million of OMS capital expenditures (including Wild Basin infrastructure).

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While we have budgeted $400 million for these purposes, the ultimate amount of capital we will expend may fluctuate materially based on market conditions and the success of our drilling and operations results as the year progresses. Additionally, if we acquire additional acreage, our capital expenditures may be higher than budgeted. We believe that cash on hand, cash flows from operating activities, proceeds from cash settlements under our derivative contracts and availability under our revolving credit facility should be sufficient to fund our 2016 capital expenditure budget. However, because the operated wells funded by our 2016 drilling plan represent only a small percentage of our potential drilling locations, we will be required to generate or raise multiples of this amount of capital to develop our entire inventory of potential drilling locations should we elect to do so.

Our capital budget may be adjusted as business conditions warrant. The amount, timing and allocation of capital expenditures is largely discretionary and within our control. If oil prices remain low for an extended period of time or continue to decline, we could defer a significant portion of our budgeted capital expenditures until later periods to prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flows. 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 flows and other factors both within and outside our control. We actively review acquisition opportunities on an ongoing basis. Our ability to make significant acquisitions for cash would require us to obtain additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all.

Cash flows provided by financing activities

Net cash provided by financing activities was $20.8 million and $112.5 million for the six months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016, cash provided by financing activities was primarily due to proceeds from borrowings under our revolving credit facility and net proceeds from the issuance of our common stock, partially offset by principal payments on our revolving credit facility and the repurchase of a portion of our outstanding senior unsecured notes. Net cash provided by financing activities during the six months ended June 30, 2015 was primarily due to net proceeds from the issuance of our common stock and proceeds from borrowings under our revolving credit facility, partially offset by principal payments on our revolving credit facility. For both the six months ended June 30, 2016 and 2015, cash was used in financing activities for the purchases of treasury stock for shares that employees surrendered back to us to pay tax withholdings upon the vesting of restricted stock awards.

Sale of common stock. On February 2, 2016, we completed a public offering of 39,100,000 shares of our common stock at an offering price of $4.685 per share. We used the net proceeds from the offering of $183.0 million, after deducting underwriting discounts and commissions and offering expenses, for general corporate purposes.

Senior secured revolving line of credit. We have a revolving credit facility (the “Credit Facility”) with an overall senior secured line of credit of $2,500.0 million as of June 30, 2016. The 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. The maturity date of the Credit Facility is April 13, 2020, provided that our 7.25% senior unsecured notes due February 1, 2019 (the “2019 Notes”) are retired or refinanced 90 days prior to their maturity date. On February 23, 2016, the lenders under the Credit Facility (the “Lenders”) completed their regular semi-annual redetermination of the borrowing base scheduled for April 1, 2016, resulting in a decrease in the borrowing base and aggregate elected commitment from $1,525.0 million to $1,150.0 million. The next redetermination of the borrowing base is scheduled for October 1, 2016.

At June 30, 2016, we had $35.0 million of borrowings at a weighted average interest rate of 2.0% and $14.2 million of outstanding letters of credit issued under the Credit Facility. At June 30, 2016, we had an unused borrowing base committed capacity of $1,100.8 million.

The 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 our assets and our 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;

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- a requirement that we maintain a ratio of consolidated EBITDAX (as defined in the Credit Facility) to consolidated Interest Expense (as defined in the Credit Facility) of no less than 2.5 to 1.0 for the four quarters ended on the last day of each quarter; and
- a requirement that we maintain a Current Ratio (as defined in the Credit Facility) of consolidated current assets (including unused borrowing base committed capacity and with exclusions as described in the Credit Facility) to consolidated current liabilities (with exclusions as described in the Credit Facility) of no less than 1.0 to 1.0 as of the last day of any fiscal quarter.

The 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 Credit Facility to be immediately due and payable. We were in compliance with the financial covenants of the Credit Facility at June 30, 2016. At June 30, 2016, our consolidated EBITDAX was $631.0 million and our consolidated Interest Expense was $157.1 million, resulting in a ratio of 4.0 as compared to a minimum required ratio of 2.5. In addition, as of June 30, 2016, our consolidated current assets and consolidated current liabilities (as described above) were $1,316.7 million and $345.2 million, respectively, resulting in a Current Ratio of 3.8 as compared to a minimum required ratio of 1.0. Given the extended decline in commodity prices, we continue to closely monitor our financial covenants and do not anticipate a covenant violation in the next twelve months.

Senior unsecured notes. As of June 30, 2016, our long-term debt includes outstanding senior unsecured note obligations of $2,123.4 million, including $399.0 million of the 2019 Notes, $397.7 million of 6.5% senior unsecured notes due November 1, 2021 (the “2021 Notes”), $940.5 million of 6.875% senior unsecured notes due March 15, 2022 (the “2022 Notes”) and $386.2 million of 6.875% senior unsecured notes due January 15, 2023 (the “2023 Notes,” and together with the 2019 Notes, the 2021 Notes and the 2022 Notes, the “Notes”). Interest on the Notes is payable semi-annually in arrears.

Prior to certain dates, we have 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, we have the option 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. We may from time to time seek to retire or purchase our outstanding Notes through cash purchases and/or exchanges for other debt or equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Notes are guaranteed on a senior unsecured basis by our material subsidiaries. The indentures governing the Notes restrict our ability and the ability of certain of our 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 a number of important exceptions and qualifications. If at any time when our 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 we will cease to be subject to such covenants.

In March and April 2016, we repurchased an aggregate principal amount of $76.6 million of our outstanding Notes, consisting of $1.0 million principal amount of our 2019 Notes, $2.3 million principal amount of our 2021 Notes, $59.5 million principal amount of our 2022 Notes and $13.8 million principal amount of our 2023 Notes, for an aggregate cost of $56.9 million, including accrued interest and fees. As a result of these repurchases, we recognized pre-tax gains of $11.6 million and $18.7 million, which were net of unamortized deferred financing costs write-offs of $0.5 million and $1.0 million, respectively, and are reflected in gain on extinguishment of debt in the Company’s Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2016, respectively.

Obligations and commitments

We have the following contractual obligations and commitments as of June 30, 2016:

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Contractual obligations	Payments due by period Total	Within 1 year	1-3 years	3-5 years	More than 5 years
	(In thousands)				
Senior unsecured notes[1]	$2,123,397	$—	$399,000	$—	$1,724,397
Interest payments on senior unsecured notes[1]	802,774	145,988	291,977	234,122	130,687
Borrowings under revolving credit facility[1]	35,000	—	—	35,000	—
Interest payments on borrowings under revolving credit facility[1]	44	44	—	—	—
Asset retirement obligations[2]	37,128	738	1,493	635	34,262
Operating leases[3]	22,598	6,499	9,863	6,236	—
Volume commitment agreements[3]	441,999	19,563	99,433	108,632	214,371
Purchase agreements[3]	38,821	4,847	16,874	16,700	400
Total contractual cash obligations	$3,501,761	$177,679	$818,640	$401,325	$2,104,117

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(1) See Note 8 to our unaudited condensed consolidated financial statements for a description of our senior unsecured notes, revolving credit facility and related interest payments. As of June 30, 2016, we had $35.0 million of borrowings and $14.2 million of outstanding letters of credit issued under our revolving credit facility.

(2) Amounts represent our estimate of future asset retirement obligations. Because these costs typically extend many years into the future, estimating these future costs requires management to make estimates and judgments that are subject to future revisions based upon numerous factors, including the rate of inflation, changing technology and the political and regulatory environment. See Note 9 to our unaudited condensed consolidated financial statements.

(3) See Note 15 to our unaudited condensed consolidated financial statements for a description of our operating leases, volume commitment agreements and purchase agreements.

Non-GAAP Financial Measures

Cash Interest, Adjusted EBITDA, Free Cash Flow, Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share are supplemental non-GAAP financial measures that are used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. These non-GAAP measures should not be considered in isolation or as a substitute for interest expense, net income (loss), operating income (loss), net cash provided by (used in) operating activities, earnings (loss) per share or any other measures prepared under GAAP. Because Cash Interest, Adjusted EBITDA, Free Cash Flow, Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share exclude some but not all items that affect net income (loss) and may vary among companies, the amounts presented may not be comparable to similar metrics of other companies.

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Cash Interest

We define Cash Interest as interest expense plus capitalized interest less amortization and write-offs of deferred financing costs included in interest expense. Cash Interest is not a measure of interest expense as determined by United States generally accepted accounting principles, or GAAP. Management believes that the presentation of Cash Interest provides useful additional information to investors and analysts for assessing the interest charges incurred on our debt, excluding non-cash amortization, and our ability to maintain compliance with our debt covenants.

The following table presents a reconciliation of the GAAP financial measure of interest expense to the non-GAAP financial measure of Cash Interest for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Interest expense	$34,979	$37,405	$73,718	$76,189
Capitalized interest	4,835	4,851	9,303	8,776
Amortization of deferred financing costs[1]	(2,030)	(2,368)	(5,947)	(3,956)
Cash Interest	$37,784	$39,888	$77,074	$81,009

(1) Amortization of deferred financing costs included write-offs of unamortized deferred financing costs of $1.8 million for the six months ended June 30, 2016 and $0.5 million for the three and six months ended June 30, 2015. In each period, the unamortized deferred financing costs were written off in proportion to the decreases in our Credit Facility borrowing base.

Adjusted EBITDA and Free Cash Flow

We define Adjusted EBITDA as earnings (loss) before interest expense, income taxes, DD&A, exploration expenses and other similar non-cash or non-recurring charges. Adjusted EBITDA is not a measure of net income (loss) or cash flows as determined by GAAP. Management believes that the presentation of Adjusted EBITDA provides useful additional information to investors and analysts for assessing our results of operations, financial performance and our ability to generate cash from our business operations.

We define Free Cash Flow as Adjusted EBITDA less Cash Interest and capital expenditures, excluding capitalized interest. Free Cash Flow is not a measure of net income (loss) or cash flows as determined by GAAP. Management believes that the presentation of Free Cash Flow provides useful additional information to investors and analysts for assessing our financial performance and our ability to generate cash from our business operations after interest and capital spending.

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The following table presents reconciliations of the GAAP financial measures of net income (loss) and net cash provided by (used in) operating activities to the non-GAAP financial measures of Adjusted EBITDA and Free Cash Flow for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net loss	$(89,931)	$(53,230)	$(154,386)	$(71,271)
Loss on sale of properties	1,311	—	1,311	—
Gain on extinguishment of debt	(11,642)	—	(18,658)	—
Net (gain) loss on derivative instruments	90,846	39,424	76,471	(7,648)
Derivative settlements[(1)]	30,477	104,077	103,790	213,336
Interest expense, net of capitalized interest	34,979	37,405	73,718	76,189
Depreciation, depletion and amortization	122,488	119,218	244,937	237,696
Impairment	23	19,516	3,585	24,837
Rig termination	—	2,815	—	3,895
Exploration expenses	340	1,082	703	1,925
Stock-based compensation expenses	6,249	6,057	12,979	13,663
Income tax benefit	(52,498)	(30,845)	(80,127)	(38,221)
Other non-cash adjustments	(484)	(97)	723	(101)
Adjusted EBITDA	132,158	245,422	265,046	454,300
Cash Interest	(37,784)	(39,888)	(77,074)	(81,009)
Capital expenditures[(2)]	(131,288)	(170,408)	(219,243)	(441,513)
Capitalized interest	4,835	4,851	9,303	8,776
Free Cash Flow	$(32,079)	$39,977	$(21,968)	$(59,446)
Net cash provided by operating activities	$137,452	$141,525	$91,401	$229,886
Derivative settlements[(1)]	30,477	104,077	103,790	213,336
Interest expense, net of capitalized interest	34,979	37,405	73,718	76,189
Rig termination	—	2,815	—	3,895
Exploration expenses	340	1,082	703	1,925
Deferred financing costs amortization and other	(1,486)	(3,404)	(6,552)	(5,059)
Changes in working capital	(69,120)	(37,981)	1,263	(65,771)
Other non-cash adjustments	(484)	(97)	723	(101)
Adjusted EBITDA	132,158	245,422	265,046	454,300
Cash Interest	(37,784)	(39,888)	(77,074)	(81,009)
Capital expenditures[(2)]	(131,288)	(170,408)	(219,243)	(441,513)
Capitalized interest	4,835	4,851	9,303	8,776
Free Cash Flow	$(32,079)	$39,977	$(21,968)	$(59,446)

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(1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

(2) Capital expenditures reflected in the table above differ from the amounts shown in the statement of cash flows in our condensed consolidated financial statements because amounts reflected in the table above include changes in accrued liabilities from the previous reporting period for capital expenditures, while the amounts presented in the statement of cash flows are presented on a cash basis.

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The following tables present reconciliations of the GAAP financial measure of income (loss) before income taxes to the non-GAAP financial measure of Adjusted EBITDA for our three reportable business segments on a gross basis for the periods presented:

Exploration and Production

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Loss before income taxes	$(158,978)	$(99,164)	$(264,744)	$(133,172)
Loss on sale of properties	1,669	—	1,669	—
Gain on extinguishment of debt	(11,642)	—	(18,658)	—
Net (gain) loss on derivative instruments	90,846	39,424	76,471	(7,648)
Derivative settlements[(1)]	30,477	104,077	103,790	213,336
Interest expense, net of capitalized interest	34,979	37,405	73,718	76,189
Depreciation, depletion and amortization	120,039	118,049	240,881	235,589
Impairment	23	19,516	1,154	24,837
Rig termination	—	2,815	—	3,895
Exploration expenses	340	1,082	703	1,925
Stock-based compensation expenses	6,077	5,973	12,625	13,515
Other non-cash adjustments	(484)	(97)	723	(101)
Adjusted EBITDA	$113,346	$229,080	$228,332	$428,365

(1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

Well Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Income (loss) before income taxes	$(2,142)	$9,030	$1,885	$18,638
Depreciation, depletion and amortization	3,895	5,008	8,127	9,526
Stock-based compensation expenses	235	443	899	986
Adjusted EBITDA	$1,988	$14,481	$10,911	$29,150

Midstream Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Income before income taxes	$18,040	$15,922	$33,198	$25,211
Gain on sale of properties	(358)	—	(358)	—
Depreciation, depletion and amortization	1,732	1,375	3,415	2,561
Impairment	—	—	2,431	—
Stock-based compensation expenses	224	119	443	323
Adjusted EBITDA	$19,638	$17,416	$39,129	$28,095

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Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share

We define Adjusted Net Income (Loss) as net income (loss) after adjusting first for (1) the impact of certain non-cash and non-recurring items, including non-cash changes in the fair value of derivative instruments, impairment and other similar non-cash and non-recurring charges, and then (2) the non-cash and non-recurring items' impact on taxes based on our effective tax rate applicable to those adjusting items in the same period. Adjusted Net Income (Loss) is not a measure of net income (loss) as determined by GAAP. We define Adjusted Diluted Earnings (Loss) Per Share as Adjusted Net Income (Loss) divided by diluted weighted average shares outstanding. Management believes that the presentation of Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share provides useful additional information to investors and analysts for evaluating our operational trends and performance.

The following table presents reconciliations of the GAAP financial measure of net income (loss) to the non-GAAP financial measure of Adjusted Net Income (Loss) and the GAAP financial measure of diluted earnings (loss) per share to the non-GAAP financial measure of Adjusted Diluted Earnings (Loss) Per Share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net loss	$(89,931)	$(53,230)	$(154,386)	$(71,271)
Loss on sale of properties	1,311	—	1,311	—
Gain on extinguishment of debt	(11,642)	—	(18,658)	—
Net (gain) loss on derivative instruments	90,846	39,424	76,471	(7,648)
Derivative settlements[1]	30,477	104,077	103,790	213,336
Impairment	23	19,516	3,585	24,837
Rig termination	—	2,815	—	3,895
Amortization of deferred financing costs[2]	2,030	2,368	5,947	3,956
Other non-cash adjustments	(484)	(97)	723	(101)
Tax impact[3]	(42,075)	(62,871)	(64,731)	(89,115)
Adjusted Net Income (Loss)	$(19,445)	$52,002	$(45,948)	$77,889
Diluted loss per share	$(0.51)	$(0.39)	$(0.91)	$(0.58)
Loss on sale of properties	0.01	—	0.01	—
Gain on extinguishment of debt	(0.07)	—	(0.11)	—
Net (gain) loss on derivative instruments	0.51	0.29	0.45	(0.06)
Derivative settlements[1]	0.17	0.76	0.61	1.73
Impairment	—	0.14	0.02	0.20
Rig termination	—	0.02	—	0.03
Amortization of deferred financing costs[2]	0.01	0.02	0.03	0.03
Other non-cash adjustments	—	—	—	—
Tax impact[3]	(0.23)	(0.46)	(0.37)	(0.72)
Adjusted Diluted Earnings (Loss) Per Share	$(0.11)	$0.38	$(0.27)	$0.63
Diluted weighted average shares outstanding	176,984	136,859	169,953	123,157
Effective tax rate applicable to adjustment items	37.4 %	37.4 %	37.4 %	37.4 %

(1) Cash settlements represent the cumulative gains and losses on our derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

(2) As of June 30, 2016, Adjusted Net Income (Loss) includes the non-cash adjustment for amortization of deferred financing costs. Comparative periods have been conformed. The amortization of deferred financing costs is

included in interest expense on our Condensed Consolidated Statement of Operations. Amortization of deferred financing costs included write-offs of unamortized deferred financing costs of $1.8 million for the six months ended June 30, 2016 and $0.5 million for the three and six months ended June 30, 2015. In each period, the unamortized deferred financing costs were written off in proportion to the decreases in our Credit Facility borrowing base.

(3) The tax impact is computed utilizing our effective tax rate applicable to the adjustments for certain non-cash and non-recurring items.

Fair Value of Financial Instruments
See Note 4 to our unaudited condensed consolidated financial statements for a discussion of our money market funds and derivative instruments and their related fair value measurements. See also Item 3. “Quantitative and Qualitative Disclosures About Market Risk” below.
Critical Accounting Policies and Estimates
There have been no material changes in our critical accounting policies and estimates from those disclosed in our 2015 Annual Report.
Recent accounting pronouncements
Revenue recognition. In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The objective of ASU 2014-09 is greater consistency and comparability across industries by using a five-step model to recognize revenue from customer contracts. ASU 2014-09 also contains some new disclosure requirements under GAAP. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Deferral of the Effective Date (“ASU 2015-14”). ASU 2015-14 defers the effective date of the new revenue standard by one year, making it effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In 2016, the FASB issued additional accounting standards updates to clarify the implementation guidance of ASU 2014-09. We are currently evaluating the effect that adopting this guidance will have on our financial position, cash flows and results of operations.
Going concern. In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 codifies in GAAP management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual reporting period ending after December 15, 2016 and for annual periods and interim periods thereafter. The adoption of this guidance will not impact our financial position, cash flows or results of operations but could result in additional disclosures.
Inventory. In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 changes the inventory measurement principle from lower of cost or market to lower of cost and net realizable value for entities using the first-in, first-out (FIFO) or average cost methods. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. We are currently evaluating the effect that adopting this guidance will have on our financial position, cash flows and results of operations.
Financial instruments. In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires that most equity instruments be measured at fair value with subsequent changes in fair value recognized in net income. ASU 2016-01 also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 does not apply to equity method investments or investments in consolidated subsidiaries. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. We are currently evaluating the effect that adopting this guidance will have on our financial position, cash flows and results of operations.
Leases. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (“ASU 2016-02”), which requires a lessee to recognize lease payment obligations and a corresponding right-of-use asset to be measured at fair value on the balance sheet. ASU 2016-02 also requires certain qualitative and quantitative disclosures about 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. We are currently evaluating the effect that adopting this guidance will have on our financial position, cash flows and results of operations.
Embedded derivatives. In March 2016, the FASB issued Accounting Standards Update No. 2016-06, Contingent Put and Call Options in Debt Instruments (“ASU 2016-06”), which clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic

characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. We do not expect the adoption of this guidance to have a material impact on our financial position, cash flows or results of operations.

Stock-based compensation. In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which updates several aspects of the accounting for share-based payment transactions, including recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash

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flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. We are currently evaluating the effect that adopting this guidance will have on our financial position, cash flows and results of operations.

Off-Balance Sheet Arrangements

Currently, we do not have any off-balance sheet arrangements as defined by the SEC. In the ordinary course of business, we enter into various commitment agreements and other contractual obligations, some of which are not recognized in our consolidated financial statements in accordance with GAAP. See Note 15 to our unaudited condensed consolidated financial statements for a description of our commitments and contingencies.

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Item 3. — Quantitative and Qualitative Disclosures About Market Risk

The following market risk disclosures should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in our 2015 Annual Report, as well as with the unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

We are exposed to a variety of market risks, including commodity price risk, interest rate risk and counterparty and customer risk. We address these risks through a program of risk management, including the use of derivative instruments.

Commodity price exposure risk. We are exposed to market risk as the prices of oil and natural gas fluctuate as a result of changes in supply and demand and other factors. To partially reduce price risk caused by these market fluctuations, we have entered into derivative instruments in the past and expect to enter into derivative instruments in the future to cover a significant portion of our future production.

We utilize derivative financial instruments to manage risks related to changes in oil prices. As of June 30, 2016, we utilized two-way and three-way costless collar options and swaps to reduce the volatility of oil prices on a significant portion of our future expected oil production. A two-way collar is a combination of options: a sold call and a purchased put. The purchased put establishes a minimum price (floor) and the sold call establishes a maximum price (ceiling) we will receive for the volumes under contract. A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be WTI crude oil index price plus the difference between the purchased put and the sold put strike price. The sold call establishes a maximum price (ceiling) we will receive for the volumes under contract. A swap is a sold call and a purchased put established at the same price (both ceiling and floor).

We recognize all derivative instruments at fair value. The credit standing of our counterparties is analyzed and factored into the fair value amounts recognized on the balance sheet. Derivative assets and liabilities arising from our derivative contracts with the same counterparty are also reported on a net basis, as all counterparty contracts provide for net settlement.

The following is a summary of our derivative contracts as of June 30, 2016:

Settlement Period	Derivative Instrument	Total Notional Amount of Oil	Weighted Average Prices				Fair Value Asset (Liability)
			Swap	Sub-Floor	Floor	Ceiling	
		(Barrels)	($/Barrel)				(In thousands)
2016	Swaps	5,886,000	$49.64				$ 1,157
2017	Swaps	4,694,000	$47.79				(18,429)
2017	Two-way collars	668,000			$40.00	$47.58	(4,427)
2017	Three-way collars	1,336,000		$ 30.00	$45.00	$59.39	(923)
2018	Swaps	310,000	$47.68				(1,519)
2018	Two-way collars	62,000			$40.00	$47.58	(453)
2018	Three-way collars	124,000		$ 30.00	$45.00	$59.39	(194)
							$ (24,788)

A 10% increase in crude oil prices would decrease the fair value of our derivative position by approximately $58.9 million, while a 10% decrease in crude oil prices would increase the fair value by approximately $58.0 million.

Interest rate risk. We had (i) $399.0 million of senior unsecured notes at a fixed cash interest rate of 7.25% per annum, (ii) $397.7 million of senior unsecured notes at a fixed cash interest rate of 6.5% per annum and (iii) $1,326.7 million of senior unsecured notes at a fixed cash interest rate of 6.875% per annum outstanding at June 30, 2016. At June 30, 2016, we had $35.0 million of borrowings and $14.2 million letters of credit outstanding under our Credit Facility, which were 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 LIBOR loan or a domestic bank prime interest rate loan (defined in the Credit Facility as an Alternate Based Rate or "ABR" loan). At June 30, 2016, the outstanding borrowings under our Credit Facility bore interest at LIBOR plus a 1.5% margin. We do not

currently, but may in the future, utilize interest rate derivatives to alter interest rate exposure in an attempt to reduce interest rate expense related to debt issued under our Credit Facility. Interest rate derivatives would be used solely to modify interest rate exposure and not to modify the overall leverage of the debt portfolio.

Counterparty and customer credit risk. Joint interest receivables arise from billing entities which own partial interest in the wells we operate. These entities participate in our wells primarily based on their ownership in leases on which we choose to drill. We have limited ability to control participation in our wells. We are also subject to credit risk due to concentration of our

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oil and natural gas receivables with several significant customers. The inability or failure of our significant customers to meet their obligations to us or their insolvency or liquidation may adversely affect our financial results.

In addition, our oil and natural gas derivative arrangements expose us to credit risk in the event of nonperformance by counterparties. However, in order to mitigate the risk of nonperformance, we only enter into derivative contracts with counterparties that are high credit-quality financial institutions, most of which are Lenders under our Credit Facility. This risk is also managed by spreading our derivative exposure across several institutions and limiting the volumes placed under individual contracts. We are likely to enter into future derivative instruments with these or other Lenders under our Credit Facility, which also carry investment grade ratings. Furthermore, the agreements with each of the counterparties on our derivative instruments contain netting provisions. As a result of these netting provisions, our maximum amount of loss due to credit risk is limited to the net amounts due to and from the counterparties under the derivative contracts. We had a net derivative liability position of $24.8 million at June 30, 2016.

While we do not require all of our customers to post collateral and we do not have a formal process in place to evaluate and assess the credit standing of our significant customers for oil and natural gas receivables and the counterparties on our derivative instruments, we do evaluate the credit standing of such counterparties as we deem appropriate under the circumstances. This evaluation may include reviewing a counterparty’s credit rating, latest financial information and, in the case of a customer with which we have receivables, their historical payment record, the financial ability of the customer’s parent company to make payment if the customer cannot and undertaking the due diligence necessary to determine credit terms and credit limits. Several of our significant customers for oil and natural gas receivables have a credit rating below investment grade or do not have rated debt securities. In these circumstances, we have considered the lack of investment grade credit rating in addition to the other factors described above.

We may, from time to time, purchase commercial paper instruments from high credit quality counterparties. These counterparties may include issuers in a variety of industries including the domestic and foreign financial sector. Our investment policy requires that our counterparties have minimum credit ratings thresholds and provides maximum counterparty exposure values. Although we do not anticipate any of our commercial paper issuers being unable to pay us upon maturity, we take a risk in purchasing the commercial paper instruments available in the marketplace. If a commercial paper issuer is unable to return investment proceeds to us at the maturity date, it could take a significant amount of time to recover all or a portion of the assets originally invested. Our commercial paper balance was $36,000 at June 30, 2016.

Item 4. — Controls and Procedures

Evaluation of disclosure controls and procedures. As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”), our principal executive officer, and our Chief Financial Officer (“CFO”), our principal financial officer, 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) as of June 30, 2016. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective at June 30, 2016.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION
Item 1. — Legal Proceedings
See Part I, Item 1, Note 15 to our unaudited condensed consolidated financial statements entitled "Commitments and Contingencies," which is incorporated in this item by reference.
Item 1A. — Risk Factors
Our business faces many risks. Any of the risks discussed elsewhere in this Form 10-Q and our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.
For a discussion of our potential risks and uncertainties, see the information in Item 1A. "Risk Factors" in our 2015 Annual Report. There have been no material changes in our risk factors from those described in our 2015 Annual Report.
Item 2. — Unregistered Sales of Equity Securities and Use of Proceeds
Unregistered sales of securities. There were no sales of unregistered equity securities during the period covered by this report.
Issuer purchases of equity securities. The following table contains information about our acquisition of equity securities during the three months ended June 30, 2016:

Period	Total Number of Shares Exchanged[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Be Purchased Under the Plans or Programs
April 1 - April 30, 2016	23,293	$ 7.08	—	—
May 1 - May 31, 2016	32,354	9.69	—	—
June 1 - June 30, 2016	30,728	9.36	—	—
Total	86,375	8.87	—	—

(1) Represent shares that employees surrendered back to us to pay tax withholdings upon the vesting of restricted stock awards. These repurchases were not part of a publicly announced program to repurchase shares of our common stock, nor do we have a publicly announced program to repurchase shares of our common stock.

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Item 6. — Exhibits

Exhibit No.	Description of Exhibit
3.1(a)*	Conformed version of Amended and Restated Certificate of Incorporation of Oasis Petroleum Inc., as amended by amendment filed on June 30, 2016.
10.1	Second Amendment to the Amended and Restated 2010 Long Term Incentive Plan of Oasis Petroleum Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on May 10, 2016 and incorporated herein by reference).
10.2(a)	Sixth Amendment to Second Amended and Restated Credit Agreement dated as of August 8, 2016 among Oasis Petroleum Inc., as Parent, Oasis Petroleum North America LLC, as Borrower, the Other Credit Parties party thereto, Wells Fargo Bank, N.A., as Administrative Agent and the Lenders party thereto.
31.1(a)	Sarbanes-Oxley Section 302 certification of Principal Executive Officer.
31.2(a)	Sarbanes-Oxley Section 302 certification of Principal Financial Officer.
32.1(b)	Sarbanes-Oxley Section 906 certification of Principal Executive Officer.
32.2(b)	Sarbanes-Oxley Section 906 certification of Principal Financial Officer.
101.INS (a)	XBRL Instance Document.
101.SCH (a)	XBRL Schema Document.
101.CAL (a)	XBRL Calculation Linkbase Document.
101.DEF (a)	XBRL Definition Linkbase Document.
101.LAB (a)	XBRL Labels Linkbase Document.
101.PRE (a)	XBRL Presentation Linkbase Document.

(a) Filed herewith.
(b) Furnished herewith.

* This exhibit is being filed pursuant to Item 601(b)(3)(i) of Regulation S-K which requires a conformed version of our charter reflecting all amendments in one document. The exhibit reflects our Amended and Restated Certificate of Incorporation as filed with the Delaware Secretary of State on June 22, 2010, revised for the amendment filed on June 30, 2016, which changed the first sentence of Article Four by increasing the total number of authorized shares from 350,000,000 to 500,000,000 and the total authorized common shares from 300,000,000 to 450,000,000, as approved by shareholders on May 4, 2016.

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SIGNATURES

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

OASIS PETROLEUM INC.

Date: August 9, 2016 By: /s/ Thomas B. Nusz

Thomas B. Nusz
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Michael H. Lou
Michael H. Lou
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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