GULFPORT ENERGY CORP
Form 10-K
February 27, 2015

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

FORM 10-K

(Mark One)

ý ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-19514

Gulfport Energy Corporation
(Exact Name of Registrant As Specified in Its Charter)

Delaware	73-1521290
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
14313 North May Avenue, Suite 100 Oklahoma City, Oklahoma	73134
(Address of Principal Executive Offices)	(Zip Code)

(405) 848-8807
(Registrant Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. ý

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

Large Accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed as of June 30, 2014, based on the closing price of the common stock on the NASDAQ Global Select Market on June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter ($62.80 per share), was $5,369,083,865.

As of February 20, 2015, 85,684,604 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Gulfport Energy Corporation’s Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this Form 10-K may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “anticipates,” “int “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strength, goals, expansion and growth of our business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control.

Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this Form 10-K are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” sections and elsewhere in this Form 10-K. All forward-looking statements speak only as of the date of this Form 10-K. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

PART I

ITEM 1. BUSINESS

General

We are an independent oil and natural gas exploration and production company focused on the exploration, exploitation, acquisition and production of natural gas, natural gas liquids and crude oil in the United States. Our corporate strategy is to internally identify prospects, acquire lands encompassing those prospects and evaluate those prospects using subsurface geology and geophysical data and exploratory drilling. Using this strategy, we have developed an oil and natural gas portfolio of proved reserves, as well as development and exploratory drilling opportunities on high potential conventional and unconventional oil and natural gas prospects. Our principal properties are located in the Utica Shale primarily in Eastern Ohio and along the Louisiana Gulf Coast in the West Cote Blanche Bay, or WCBB, and Hackberry fields. In addition, we have producing properties in the Niobrara Formation of Northwestern Colorado and the Bakken Formation. We also hold a significant acreage position in the Alberta oil sands in Canada through our interest in Grizzly Oil Sands ULC, or Grizzly, and interests in entities that operate in Southeast Asia, including the Phu Horm gas field in Thailand. Until November 2014, we held an equity interest in Diamondback Energy, Inc., or Diamondback, a NASDAQ Global Select Market listed company to which we contributed our Permian Basin oil and natural gas interests in October 2012 immediately prior to Diamondback's initial public offering, or the Diamondback IPO. At December 31, 2014, we did not own any shares of Diamondback. We seek to achieve reserve growth and increase our cash flow through our annual drilling programs.

As of February 13, 2015, we held acquired leasehold interests in approximately 188,000 gross (184,000 net) acres in the Utica Shale primarily in Eastern Ohio, including approximately 8,200 net acres acquired from Rhino Exploration LLC in the first quarter of 2014. We spud our first well, the Wagner 1-28H, on our Utica Shale acreage in February 2012 and, as of December 31, 2014, had spud 151 gross wells, 101 of which were completed and were producing. In 2014, we spud 85 gross (67.2 net) wells, of which 36 were completed as producing wells, two were non-productive and, as of December 31, 2014, 41 were in various stages of completion and six were still being drilled. We commenced sales from 63 gross wells (47.4 net wells) in the Utica Shale during 2014. During 2015 (through February 13, 2015), we had spud five gross (four net) wells. As of February 13, 2015, three of these wells were in various stages of completion and two were still drilling. In addition, 110 gross (13.3 net) wells were drilled by other operators on our Utica Shale acreage during 2014.

We currently intend to drill 46 to 52 gross (28 to 32 net) horizontal wells, and commence sales from 49 to 53 gross (42 to 46 net) horizontal wells on our Utica Shale acreage in 2015 for an estimated aggregate cost of $400.0 million to $430.0 million. We currently anticipate 11 to 16 gross (four to six net) horizontal wells will be drilled, and sales commenced from 50 to 64 gross (seven to nine net) horizontal wells, by other operators on our Utica Shale acreage during 2015 for an estimated cost of $125.0 million to $140.0 million.

Aggregate net production from our Utica Shale acreage during the three months ended December 31, 2014 was approximately 32,513 net million cubic feet of natural gas equivalent, or MMcfe, or 353.4 MMcfe per day, of which 80% was from natural gas and 20% was from oil and natural gas liquids, or NGLs. During January 2015, our average daily net production from the Utica Shale was approximately 345.6 MMcfe, of which 79% was from natural gas and 21% was from oil and NGLs.

In 2014, at our WCBB field, we recompleted 91 wells and spud 29 wells. Of the 29 new wells spud at WCBB in 2014, 21 were completed as producing wells, five were non-productive and, at year end, three were waiting on completion. In the fourth quarter of 2014, production at WCBB was approximately 1,810 MMcfe, or an average of 19.7 MMcfe per day, 100% of which was from oil. During January 2015, our average net daily production at WCBB was approximately 19.0 MMcfe, 100% of which was from oil.

In 2014, at our East Hackberry field, we recompleted 68 wells and spud 15 wells. All of the 15 new wells spud at East Hackberry during 2014 were completed as producing wells. In the fourth quarter of 2014, net production at East Hackberry was approximately 640 MMcfe, or an average of 7.0 MMcfe per day, of which 82% was from oil and 18% was from natural gas. During January 2015, our average net daily production at East Hackberry was approximately

10.1 MMcfe, of which 91% was from oil and 9% was from natural gas.

In 2014, at our West Hackberry field, we recompleted two wells and spud one well which was productive. In the fourth quarter of 2014, net production at West Hackberry was approximately 66.3 MMcfe, or an average of 720.4 Mcfe per day, of which 91% was from oil and 9% was from natural gas. During January 2015, our average net daily production at West Hackberry was approximately 589.2 Mcfe, of which 97% was from oil and 3% was from natural gas.

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We currently estimate our 2015 activities in our Southern Louisiana fields to be approximately $20.0 million to $25.0 million in aggregate for maintenance capital activities.
Effective as of April 1, 2010, we acquired our initial leasehold interests in the Niobrara Formation in Northwestern Colorado and, as of December 31, 2014, we held leases for approximately 5,900 net acres. During the year ended December 31, 2014, there were no wells spud on our Niobrara Formation acreage. In the fourth quarter of 2014, net production from our Niobrara Formation acreage was approximately 27.4 MMcfe, or an average of 297.3 Mcfe per day, 100% of which was from oil. During January 2015, our average net daily production from our Niobrara Formation acreage was approximately 326.3 Mcfe, 100% of which was from oil. During 2015, we currently do not anticipate drilling any wells in the Niobrara Formation.
As of December 31, 2014, we held approximately 864 net acres in the Bakken Formation of Western North Dakota and Eastern Montana with interests in 18 wells and overriding royalty interests in certain existing and future wells. In the fourth quarter of 2014, our net production from this acreage was approximately 74.4 MMcfe, or an average of 808.8 Mcfe per day, of which 93% was from oil and natural gas liquids and 7% was from natural gas. During January 2015, our average daily net production from our Bakken Formation acreage was approximately 609.0 Mcfe, of which 87% was from oil and 13% was from natural gas.
As of December 31, 2014, we had sold all of our shares of common stock of Diamondback, a NASDAQ Global Select Market listed company to which we contributed our Permian Basin oil and gas interests in October 2012 immediately prior to the Diamondback IPO. See Notes 4 and 5 to our consolidated financial statements included elsewhere in this report for additional information regarding our prior investment in Diamondback.
We, through our wholly-owned subsidiary Grizzly Holdings Inc., own a 24.9% interest in Grizzly. As of December 31, 2014, Grizzly had approximately 830,000 net acres under lease in the Athabasca, Peace River and Cold Lake oil sands regions of Alberta, Canada. Grizzly has three oil sands projects in various stages of development. Grizzly commenced commercial production from its Algar Lake Phase 1 steam-assisted gravity drainage, or SAGD, oil sand project during the second quarter of 2014 and has received regulatory approval for up to 11,300 barrels per day of bitumen production. Grizzly produced approximately 1,400 barrels of bitumen per day at its Algar Lake SAGD project during the fourth quarter of 2014. Grizzly has announced that it expects bitumen production to reach its 6,000 barrels per day peak production rate by the fourth quarter of 2015. In the first quarter of 2012, Grizzly acquired the May River property comprising approximately 47,000 acres. An initial 12,000 barrel per day development application was filed with the regulatory authorities in the fourth quarter of 2013, covering the eastern portion of the May River lease. The development application continues to move through the regulatory process and is expected to be approved by mid-2015. In the first quarter of 2014, a 2-D seismic program covering approximately 83 kilometers was completed to more fully define the resource over the remaining lease beyond the development application area. At the Thickwood thermal project, a development application for a 12,000 barrel per day oil sands project was filed in the fourth quarter of 2012. Since then, the Alberta Energy Regulator, or AER, announced it is implementing a policy for future regulatory requirements for reservoir containment in shallow SAGD areas, which impacts the Thickwood application. Additional work to advance the Thickwood application will be required and is expected to be addressed once the May River development approval is received. Grizzly has also developed delineation drilling, seismic and regulatory work plans at its Cadotte, Peace River property. Grizzly is pursuing a rail marketing strategy to ensure consistent and flexible access to premium markets for its production, including its Windell truck to rail terminal located near Conklin, Alberta, which commenced transloading blended bitumen production from Algar Lake on to rail cars for delivery to the US Gulf Coast markets in the second quarter of 2014.

We own a 23.5% ownership interest in Tatex Thailand II, LLC, or Tatex II. Tatex II, a privately held entity, holds an 8.5% interest in APICO, LLC, or APICO, an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering approximately 243,000 acres which includes the Phu Horm Field.
We also own a 17.9% ownership interest in Tatex Thailand III, LLC, or Tatex III. Tatex III owns a concession covering approximately 245,000 acres in Southeast Asia. In 2009, Tatex III completed a 3-D seismic survey on this

concession. Between 2010 and 2013, three wells were drilled on Tatex III's concession. Each of the wells lacked sufficient permeability to produce in commercial quantities. Tatex III plans to allow the concession to expire in 2015. In an effort to facilitate the development of our Utica Shale and other domestic acreage, we have invested in entities that can provide services that are required to support our operations. In 2013, we participated in the formation of Stingray Energy Services LLC, or Stingray Energy, with an initial ownership interest of 50%. Stingray Energy provides rental tools for land-based oil and natural gas drilling, completion and workover activities as well as the transfer of fresh water to wellsites. In 2012, we participated in the formation of Stingray Pressure Pumping LLC, or Stingray Pressure, Stingray Cementing LLC, or

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Stingray Cementing, and Stingray Logistics LLC, or Stingray Logistics, with an initial ownership interest in each entity of 50%. These entities provide well completion and other well services. In 2012, we also participated in the formation of Blackhawk Midstream LLC, or Blackhawk, and Timber Wolf Terminals, LLC, or Timber Wolf, with an initial ownership interest of 50% in each entity. Blackhawk coordinates gathering, compression, processing and marketing activities in connection with the development of our Utica Shale acreage and Timber Wolf will operate a crude/condensate terminal and a sand transloading facility in Ohio. Also in 2012, we acquired a 22.5% equity interest in Windsor Midstream LLC, or Midstream, which owns a 28.4% equity interest in a gas processing plant in West Texas. In 2011 and 2012, we acquired an aggregate 40% equity interest in Bison Drilling and Field Services LLC, or Bison, which owns and operates drilling rigs and related equipment. Also in 2011, we acquired a 25% interest in Muskie Proppant LLC, or Muskie, which is engaged in the processing and sale of hydraulic fracturing grade sand. In 2014, we acquired a 25% equity interest in Sturgeon Acquisitions LLC, or Sturgeon. Sturgeon owns and operates sand mines that produce hydraulic fracturing grade sand. In the fourth quarter of 2014, we contributed our investments in Stingray Pressure, Stingray Logistics, Bison and Muskie to Mammoth Energy Partners LP, or Mammoth, in exchange for a 30.5% limited partner interest in this newly formed limited partnership. Mammoth has filed a registration statement on Form S-1 with the SEC in connection with a contemplated initial public offering, which it intends to pursue in 2015 subject to market conditions. See Note 5 to our consolidated financial statements included elsewhere in this report for additional information regarding these investments.

As of December 31, 2014, we had 933.6 Bcfe of proved reserves with a present value of estimated future net revenues, discounted at 10%, or PV-10, of approximately $1.8 billion and associated standardized measure of discounted future net cash flows of approximately $1.4 billion, excluding reserves attributable to our interests in Grizzly, Tatex II and Tatex III. See "Item 2. Properties-Proved Oil and Natural Gas Reserves” for our definition of PV-10, a non-GAAP financial measure, and a reconciliation of our standardized measure of discounted future net cash flows to PV-10.
Principal Oil and Natural Gas Properties
The following table presents certain information as of December 31, 2014 reflecting our net interest in our principal producing oil and natural gas properties in the Utica Shale primarily in Eastern Ohio, along the Louisiana Gulf Coast, in the Niobrara Formation in Northwestern Colorado and in the Bakken Formation in Western North Dakota and Eastern Montana.

Field	NRI/WI (1)	Productive Wells (2)		Non-Productive Wells		Developed Acreage (3)		Proved Reserves			
								Gas	Oil	NGLs	Total
	Percentages	Gross	Net	Gross	Net	Gross	Net	MMcf	MBbls	MBbls	MMcfe
Utica Shale (4)	34.52/41.46	195	80.85	3	2.66	21,652	19,340	716,905	5,412	26,268	906,982
West Cote Blanche Bay Field (5)	80.108/100	123	123	185	185	5,668	5,668	1,318	2,968	—	19,127
E. Hackberry Field (6)	80.945/100	39	39	107	107	3,931	3,931	516	469	—	3,331
W. Hackberry Field	79.167/100	6	6	7	7	1,192	1,192	—	402	—	2,413
Niobrara Formation	39.83/47.85	6	3	—	—	3,502	1,751	135	124	—	878
Bakken Formation (4)	1.51/1.83	18	0.3	—	—	1,862	163	108	121	—	834
Overrides/Royalty Non-operated	Various	384	0.42	—	—	—	—	24	1	—	33
Total		771	252.57	302	301.66	37,807	32,045	719,006	9,497	26,268	933,598

(1) Net Revenue Interest (NRI)/Working Interest (WI) for producing wells.

(2) Includes one gross and net well at WCBB that is producing intermittently.

(3) Developed acres are acres spaced or assigned to productive wells. Approximately 16% of our acreage is developed acreage and has been held by production.

(4) Includes NRI/WI from wells that have been drilled or in which we have elected to participate. Includes 94 gross (7.57 net) wells drilled by other operators on our acreage.

(5) We have a 100% working interest (80.108% average NRI) from the surface to the base of the 13900 Sand which is located at 11,320 feet. Below the base of the 13900 Sand, we have a 40.40% non-operated working interest (29.95% NRI).

(6) NRI shown is for producing wells.

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Utica Shale (primarily in Eastern Ohio)

Location and Land

As of December 31, 2014, we held leasehold interests in approximately 185,000 gross (180,000 net) acres in the Utica Shale.

Area History

The Ohio Department of Natural Resources reported that in the Utica Shale in Ohio, as of February 7, 2015, there were 740 producing horizontal wells, 335 horizontal wells that had been drilled but were not yet completed or connected to a pipeline, 273 horizontal wells that were being drilled and an additional 451 horizontal wells that had been permitted.

Geology

The Utica Shale is located in the Appalachian Basin of the United States and Canada. The Utica Shale is a rock unit comprised of organic-rich calcareous black shale that was deposited about 440 million to 460 million years ago during the Late Ordovician period. It overlies the Trenton Limestone and is located a few thousand feet below the Marcellus Shale.

Recently, the application of horizontal drilling, combined with multi-staged hydraulic fracturing to create permeable flow paths from shale units into wellbores, has resulted in increased drilling activity and production in the Devonian-age Marcellus Shale and the Ordovician-age Utica Shale in the Appalachian Basin states of Pennsylvania, West Virginia, Southern New York and Eastern Ohio. This proven technology has potential for application in other shale units which extend across much of the Appalachian Basin region.

The Utica Shale is estimated to be thicker and more geographically extensive than the Marcellus Shale. The source rock portion of the Utica Shale underlies portions of Kentucky, Maryland, New York, Ohio, Pennsylvania, Tennessee, West Virginia and Virginia in the United States and is also present beneath parts of Lake Ontario, Lake Erie and Ontario, Canada. Throughout this area, the Utica Shale ranges in thickness from less than 100 feet to over 500 feet. There is a general thinning from east to west.

The Utica Shale is also significantly deeper than the Marcellus Shale. In some parts of Pennsylvania, the Utica Shale is estimated to be over two miles below sea level and up to 7,000 feet below the Marcellus Shale. However, the depth of the Utica Shale decreases to the west into Ohio and to the northwest under the Great Lakes and into Canada to less than 2,000 feet below sea level.

The Utica Shale is estimated to have higher carbonate and lower clay mineral content than the Marcellus Shale. The difference in mineralogy generally produces a different response to hydraulic fracturing treatments. Operators in the Utica play continue to refine completions techniques to optimize productivity.

Facilities

There are standard land oil and gas processing facilities in the Utica Shale. Our facilities located at well site pads include storage tank batteries, oil/gas/water separation equipment, vapor recovery units, line heaters, compression emission control devices and applicable metering.

Recent and Future Activities

We spud our first well, the Wagner 1-28H, on our Utica Shale acreage in February 2012 and, as of December 31, 2014, had spud 151 gross wells, 101 of which were completed and were producing. In 2014, we spud 85 gross (67.2 net) wells, of which 36 were completed and are productive, two were non-productive and, as of December 31, 2014, 41 were in various stages of completion and six were still being drilled. During 2015 (through February 13, 2015), we had spud five gross (four net) wells during 2015 of which three were in various stages of completion and two were still drilling. In addition, 110 gross (13.3 net) wells were drilled by other operators on our Utica Shale acreage during 2014.

We currently intend to drill 46 to 52 gross (28 to 32 net) horizontal wells, and commence sales from 49 to 53 gross (42 to 46 net) horizontal wells, on our Utica Shale acreage in 2015 and anticipate 11 to 16 gross (four to six net) horizontal wells will be drilled, and sales commenced from 50 to 64 gross (seven to nine net) horizontal wells, by other operators on our Utica Shale

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acreage during 2015. As of February 25, 2015, we had four operated horizontal rigs drilling in the play, but plan to release one of these rigs by the end of the first quarter of 2015.

Production Status

Aggregate net production from the Utica Shale during the three months ended December 31, 2014 was approximately 32,513 MMcfe, or 353.4 MMcfe per day, of which 80% was from natural gas and 20% was from oil and NGLs. During January 2015, our average daily net production from the Utica Shale was approximately 345.6 MMcfe, of which 79% was from natural gas and 21% was from oil and NGLs. The slight decrease in January 2015 production was the result of adverse winter weather conditions, partially offset by our 2014 drilling activities.

West Cote Blanche Bay Field

Location and Land

The WCBB field is located approximately five miles off the coast of Louisiana in a shallow bay with water depths averaging eight to ten feet. We own a 100% working interest (80.108% net revenue interest, or NRI), and are the operator, in depths above the base of the 13900 Sand which is located at 11,320 feet. In addition, we own a 40.40% non-operated working interest (29.95% NRI) in depths below the base of the 13900 Sand, which is operated by Chevron Corporation. Our leasehold interests at WCBB contain 5,668 gross acres.

Area History and Production

Texaco, now Chevron Corporation, drilled the discovery well in this field in 1940 based on a seismic and gravitational anomaly. WCBB was subsequently developed on an even 160-acre pattern for much of the remainder of the decade. Developmental drilling continued and reached its peak in the 1970s when over 300 wells were drilled in the field. Of the 1,077 wells drilled as of December 31, 2014, 973 were completed as producing wells. From the date of our acquisition of WCBB in 1997 through December 31, 2014, we drilled 265 new wells, 233 of which were productive, for an 88% success rate. As of December 31, 2014, estimated field cumulative gross production was 196.8 MMBOE and 237.0 Bcf of gas. Of the 1,077 wells drilled in WCBB as of December 31, 2014, 122 were producing, 185 were shut-in, one was producing intermittently, one was waiting on completion and six were being used as salt water disposal wells. The other 762 wells have been plugged and abandoned.

In 1991, Texaco conducted a 70 square mile 3-D seismic survey with 1,100 shot points per mile that processed out 100 fold. In 1993, an undershoot survey around the crest and production facilities was completed. We own the rights to the seismic data. In December 1999, we completed the reprocessing of the seismic data and our technical staff developed prospects from the data. The reprocessed data has enabled us to identify prospects in areas of the field that would have otherwise remained obscure. During the first half of 2005, we again reprocessed the seismic data using advanced seismic data processing.

Geology

WCBB overlies one of the largest salt dome structures on the Gulf Coast. The field is characterized by a piercement salt dome, which created traps from the Pleistocene through the Miocene formations. The relative movements affected deposition and created a complex system of fault traps. The compensating fault sets generally trend northwest to southeast and are intersected by sets having a major radial component. Later-stage movement caused extension over the dome and a large graben system (a downthrown area bounded by normal faults) was formed.

There are over 100 distinct sandstone reservoirs recognized throughout most of the field, and nearly 200 major and minor discrete intervals have been tested. Within the 1,077 wells that had been drilled in the field as of December 31, 2014, over 4,000 potential zones have been penetrated. These sands are highly porous and permeable reservoirs primarily with a strong water drive.

WCBB is a structurally and stratigraphically complex field. All of the proved undeveloped, or PUD, locations at WCBB are adjacent to faults and abut at least one fault. Our drilling programs are designed to penetrate each PUD trap with a new wellbore in a structurally optimum position, usually very close to the fault seal. The majority of these wells have been, and new wells drilled in connection with our drilling programs will be, directionally drilled using steering tools and downhole motors. The tolerance for error in getting near the fault is low, so the complex faulting does introduce the risk of crossing the fault before encountering the zone of interest, which could result in part or all of the zone being absent in the borehole. This, in turn,

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can result in lower than expected or no reserves for that zone. The new wellbores eliminate the mechanical risk associated with trying to produce the zone from an old existing wellbore, while the wellbore locations are selected in an effort to more efficiently drain each reservoir. The vast majority of the PUD targets are up-dip offsets to wells that produced from a sub-optimal position within a particular zone.

Facilities

We own and operate a production facility at WCBB that includes four production tank batteries, eight natural gas compressors, a storage barge facility, a dock, a dehydration unit and a salt water disposal system.