

ANTERO RESOURCES Corp  
Form 10-Q  
October 28, 2015  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

80-0162034  
(IRS Employer Identification No.)

1615 Wynkoop Street  
Denver, Colorado  
(Address of principal executive offices)

80202  
(Zip Code)

(303) 357-7310

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The registrant had 277,049,261 shares of common stock outstanding as of October 22, 2015.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). 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, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q. These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- financial strategy, liquidity, and capital required for our development program;
- natural gas, natural gas liquids (“NGLs”), and oil prices;
- timing and amount of future production of natural gas, NGLs, and oil;
- hedging strategy and results;
- ability to meet our minimum volume commitments to Antero Midstream Partners LP and to utilize or monetize our firm transportation commitments;
- future drilling plans;
- competition and government regulations;

- pending legal or environmental matters;
- marketing of natural gas, NGLs, and oil;
- leasehold or business acquisitions;
- costs of developing our properties;
- operations of Antero Midstream Partners LP;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations, and intentions.

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We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering, processing, transportation, and sale of natural gas, NGLs, and oil. These risks include, but are not limited to, commodity price volatility and continued low commodity prices, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, marketing and transportation risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 (our “2014 Form 10-K”) on file with the Securities and Exchange Commission (the “SEC”) and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing and production activities, or changes in commodity prices, may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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## PART I—FINANCIAL INFORMATION

## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Balance Sheets

December 31, 2014 and September 30, 2015

(Unaudited)

(In thousands, except share amounts)

	2014	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 245,979	27,410
Accounts receivable, net of allowance for doubtful accounts of \$1,251 in 2014 and 2015	116,203	60,904
Accrued revenue	191,558	115,793
Derivative instruments	692,554	834,482
Other current assets	5,866	1,739
Total current assets	1,252,160	1,040,328
Property and equipment:		
Natural gas properties, at cost (successful efforts method):		
Unproved properties	2,060,936	2,072,475
Proved properties	6,515,221	7,805,203
Water handling systems	421,012	517,513
Gathering systems and facilities	1,197,239	1,448,404
Other property and equipment	37,687	45,494
	10,232,095	11,889,089
Less accumulated depletion, depreciation, and amortization	(879,643)	(1,427,656)
Property and equipment, net	9,352,452	10,461,433
Derivative instruments	899,997	2,007,828
Other assets	68,886	67,485
Total assets	\$ 11,573,495	13,577,074
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 531,564	337,493
Accrued liabilities	168,614	202,186
Revenue distributions payable	182,352	161,513
Deferred income tax liability	260,373	315,366
Other current liabilities	12,202	9,211
Total current liabilities	1,155,105	1,025,769



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Long-term liabilities:		
Long-term debt	4,362,550	4,406,777
Deferred income tax liability	534,423	978,139
Other liabilities	47,587	55,965
Total liabilities	6,099,665	6,466,650
Commitments and contingencies (notes 9 and 13)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value; authorized - 50,000,000 shares; none issued	—	—
Common stock, \$0.01 par value; authorized - 1,000,000,000 shares; issued and outstanding 262,071,642 shares and 277,029,931 shares, respectively	2,621	2,770
Additional paid-in capital	3,513,725	4,122,747
Accumulated earnings	867,447	1,650,347
Total stockholders' equity	4,383,793	5,775,864
Noncontrolling interest in consolidated subsidiary	1,090,037	1,334,560
Total equity	5,473,830	7,110,424
Total liabilities and equity	\$ 11,573,495	13,577,074

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Income

Three Months Ended September 30, 2014 and 2015

(Unaudited)

(In thousands, except share and per share amounts)

	2014	2015
Revenue:		
Natural gas sales	\$ 310,390	253,975
Natural gas liquids sales	91,111	50,092
Oil sales	29,304	20,138
Gathering, compression, and water handling	4,875	4,426
Marketing	17,835	35,633
Commodity derivative fair value gains	308,975	1,079,071
Total revenue	762,490	1,443,335
Operating expenses:		
Lease operating	8,680	10,786
Gathering, compression, processing, and transportation	128,531	160,302
Production and ad valorem taxes	21,726	10,721
Marketing	32,192	61,799
Exploration	7,476	1,087
Impairment of unproved properties	4,542	8,754
Depletion, depreciation, and amortization	124,624	188,667
Accretion of asset retirement obligations	320	419
General and administrative (including equity-based compensation expense of \$24,285 and \$23,915 in 2014 and 2015, respectively)	53,000	59,685
Total operating expenses	381,091	502,220
Operating income	381,399	941,115
Other expenses:		
Interest	(42,455)	(60,921)
Income before income taxes	338,944	880,194
Provision for income tax expense	(135,035)	(335,460)
Net income and comprehensive income including noncontrolling interest	203,909	544,734
Net income and comprehensive income attributable to noncontrolling interest	—	10,892
Net income and comprehensive income attributable to Antero Resources Corporation	\$ 203,909	533,842
Earnings per common share	\$ 0.78	1.93
Earnings per common share—assuming dilution	\$ 0.78	1.93

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Weighted average number of shares outstanding:

Basic	262,049,948	277,007,427
Diluted	262,069,878	277,014,756

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Income

Nine Months Ended September 30, 2014 and 2015

(Unaudited)

(In thousands, except share and per share amounts)

	2014	2015
Revenue:		
Natural gas sales	\$ 936,877	810,982
Natural gas liquids sales	244,807	188,403
Oil sales	89,059	55,627
Gathering, compression, and water handling	11,964	15,084
Marketing	23,048	143,242
Commodity derivative fair value gains (losses)	(63,720)	1,836,398
Total revenue	1,242,035	3,049,736
Operating expenses:		
Lease operating	18,570	25,561
Gathering, compression, processing, and transportation	315,878	490,633
Production and ad valorem taxes	64,123	57,458
Marketing	58,119	214,201
Exploration	21,176	3,086
Impairment of unproved properties	7,895	43,670
Depletion, depreciation, and amortization	320,984	548,013
Accretion of asset retirement obligations	931	1,227
General and administrative (including equity-based compensation expense of \$85,896 and \$79,280 in 2014 and 2015, respectively)	162,342	177,925
Contract termination and rig stacking	—	10,902
Total operating expenses	970,018	1,572,676
Operating income	272,017	1,477,060
Other expenses:		
Interest	(111,057)	(173,929)
Loss on early extinguishment of debt	(20,386)	—
Total other expenses	(131,443)	(173,929)
Income from continuing operations before income taxes and discontinued operations	140,574	1,303,131
Provision for income tax expense	(75,919)	(498,709)
Income from continuing operations	64,655	804,422
Discontinued operations:		
Income from sale of discontinued operations, net of income tax expense of \$1,354	2,210	—
Net income and comprehensive income including noncontrolling interest	66,865	804,422
Net income and comprehensive income attributable to noncontrolling interest	—	21,522

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Net income and comprehensive income attributable to Antero Resources Corporation	\$ 66,865	782,900
Earnings per common share:		
Continuing operations	\$ 0.25	2.87
Discontinued operations	0.01	—
Total	\$ 0.26	2.87
Earnings per common share—assuming dilution		
Continuing operations	\$ 0.25	2.87
Discontinued operations	0.01	—
Total	\$ 0.26	2.87
Weighted average number of shares outstanding:		
Basic	262,049,756	273,144,573
Diluted	262,066,632	273,153,965

See accompanying notes to condensed consolidated financial statements.

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## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Equity

Nine Months Ended September 30, 2015

(Unaudited)

(In thousands, except share amounts)

	Common Stock	Additional paid-in capital	Accumulated earnings	Noncontrolling interest	Total equity
Balances, December 31, 2014	\$ 2,621	3,513,725	867,447	1,090,037	5,473,830
Issuance of 14,700,000 shares of common stock in public offering, net of underwriter discounts and offering costs	147	537,685	—	—	537,832
Issuance of common units in Antero Midstream Partners LP	—	—	—	240,972	240,972
Issuance of common stock upon vesting of equity-based compensation awards, net of shares withheld for income tax withholdings	2	(4,556)	—	—	(4,554)
Equity-based compensation	—	75,893	—	3,387	79,280
Net income and comprehensive income	—	—	782,900	21,522	804,422
Distributions to noncontrolling interests	—	—	—	(21,358)	(21,358)
Balances, September 30, 2015	\$ 2,770	4,122,747	1,650,347	1,334,560	7,110,424

See accompanying notes to condensed consolidated financial statements.

## ANTERO RESOURCES CORPORATION

## Condensed Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2014 and 2015

(Unaudited)

(In thousands)

	2014	2015
Cash flows from operating activities:		
Net income including noncontrolling interest	\$ 66,865	804,422
Adjustment to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	321,915	549,240
Impairment of unproved properties	7,895	43,670
Derivative fair value (gains) losses	63,720	(1,836,398)
Gains on settled derivatives	57,333	586,639
Deferred income tax expense	75,919	498,709
Equity-based compensation expense	85,896	79,280
Loss on early extinguishment of debt	20,386	—
Gain on sale of discontinued operations	(3,564)	—
Deferred income tax expense—discontinued operations	1,354	—
Other	4,874	12,129
Changes in current assets and liabilities:		
Accounts receivable	(36,145)	15,299
Accrued revenue	(47,189)	75,765
Other current assets	975	4,127
Accounts payable	530	(1,302)
Accrued liabilities	105,278	29,537
Revenue distributions payable	72,857	(20,839)
Other current liabilities	(153)	(3,678)
Net cash provided by operating activities	798,746	836,600
Cash flows used in investing activities:		
Additions to unproved properties	(518,247)	(170,291)
Drilling and completion costs	(1,723,657)	(1,350,498)
Additions to water handling systems	(156,467)	(79,227)
Additions to gathering systems and facilities	(406,666)	(282,813)
Additions to other property and equipment	(12,539)	(5,225)
Change in other assets	(6,896)	11,190
Proceeds from asset sales	—	40,000
Net cash used in investing activities	(2,824,472)	(1,836,864)
Cash flows from financing activities:		
Issuance of common stock	—	537,832
Issuance of common units in Antero Midstream Partners LP	—	240,972
Issuance of senior notes	1,102,500	750,000

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Repayment of senior notes	(260,000)	—
Borrowings (repayments) on bank credit facilities, net	1,217,000	(705,000)
Make-whole premium on debt extinguished	(17,383)	—
Payments of deferred financing costs	(27,570)	(17,190)
Distributions to noncontrolling interest in consolidated subsidiary	—	(21,358)
Other	—	(3,561)
Net cash provided by financing activities	2,014,547	781,695
Net decrease in cash and cash equivalents	(11,179)	(218,569)
Cash and cash equivalents, beginning of period	17,487	245,979
Cash and cash equivalents, end of period	\$ 6,308	27,410
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 67,299	116,579
Supplemental disclosure of noncash investing activities:		
Increase (decrease) in accounts payable and accrued liabilities for additions to property and equipment	\$ 227,368	(193,288)

See accompanying notes to condensed consolidated financial statements.



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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

(1) Organization

(a) Business and Organization

Antero Resources Corporation (individually referred to as “Antero”) and its consolidated subsidiaries (collectively referred to as the “Company”) are engaged in the exploitation, development, and acquisition of natural gas, natural gas liquids (“NGLs”), and oil properties in the Appalachian Basin in West Virginia, Ohio, and Pennsylvania. The Company targets large, repeatable resource plays where horizontal drilling and advanced fracture stimulation technologies provide the means to economically develop and produce natural gas, NGLs, and oil from unconventional formations. Through its consolidated subsidiary, Antero Midstream Partners LP, a publicly-traded limited partnership (“Antero Midstream”), the Company has water handling operations and gathering and compression operations in the Appalachian Basin. The Company’s corporate headquarters are in Denver, Colorado.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC applicable to interim financial information and should be read in the context of the December 31, 2014 consolidated financial statements and notes thereto for a more complete understanding of the Company’s operations, financial position, and accounting policies. The December 31, 2014 consolidated financial statements have been filed with the SEC in the Company’s 2014 Form 10-K.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, and, accordingly, do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of normal and recurring accruals) considered necessary to present fairly the Company’s financial position as of September 30, 2015, the results of its operations for the three and nine months ended September 30, 2014 and 2015, and its cash flows for the nine months ended September 30, 2014 and 2015. The Company has no items of other comprehensive income or loss; therefore, its net

income or loss is identical to its comprehensive income or loss. Operating results for the period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the full year because of the impact of fluctuations in prices received for natural gas, NGLs, and oil, natural production declines, the uncertainty of exploration and development drilling results, the fair value of derivative instruments, and other factors.

The Company's exploration and production activities are accounted for under the successful efforts method.

As of the date these financial statements were filed with the SEC, the Company completed its evaluation of potential subsequent events for disclosure and no items requiring disclosure were identified, except for the increase in the borrowing base under the revolving credit facility described in note 4(a) to the condensed consolidated financial statements.

#### (b) Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Antero Resources Corporation, its wholly-owned subsidiaries, any entities in which the Company owns a controlling interest, and variable interest entities in which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in the Company's consolidated financial statements. Noncontrolling interest in the Company's consolidated financial statements represents the interests in Antero Midstream which are owned by third-party individuals or entities, or the general partner. An affiliate of the Company owns the general partner interest in Antero Midstream. Noncontrolling interest is included as a component of equity in the Company's consolidated balance sheets.

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

(c)Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or discovery of new information may result in revised estimates, and actual results could differ from those estimates.

The Company's condensed consolidated financial statements are based on a number of significant estimates including estimates of natural gas, NGLs, and oil reserve quantities, which are the basis for the calculation of depletion and impairment of oil and gas properties. Reserve estimates by their nature are inherently imprecise. Other items in the Company's consolidated financial statements which involve the use of significant estimates include derivative assets and liabilities, accrued revenue, deferred income taxes, equity-based compensation, asset retirement obligations, depreciation, amortization, and commitments and contingencies.

(d)Risks and Uncertainties

Historically, the markets for natural gas, NGLs, and oil have experienced significant price fluctuations. Price fluctuations can result from variations in weather, levels of production in the region, availability of transportation capacity to other regions of the country, and various other factors. Increases or decreases in the prices the Company receives for its production could have a significant impact on the Company's future results of operations and reserve quantities.

(e)Cash and Cash Equivalents

The Company considers all liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

(f) Derivative Financial Instruments

In order to manage its exposure to natural gas, NGLs, and oil price volatility, the Company enters into derivative transactions from time to time, including commodity swap agreements, basis swap agreements, collar agreements, and other similar agreements relating to the price risk associated with a portion of its production. To the extent legal right of offset exists with a counterparty, the Company reports derivative assets and liabilities on a net basis. The Company has exposure to credit risk to the extent the counterparty is unable to satisfy its settlement obligations. The fair value of our commodity derivative contracts of approximately \$2.8 billion at September 30, 2015 includes the following values by bank counterparty: Citigroup - \$554 million; Barclays - \$539 million; JP Morgan - \$507 million; Morgan Stanley - \$395 million; Wells Fargo - \$277 million; BNP Paribas - \$199 million; Scotiabank - \$196 million; Toronto Dominion - \$67 million; Fifth Third - \$40 million; Canadian Imperial Bank of Commerce - \$31 million; Bank of Montreal - \$21 million; SunTrust - \$11 million; and Capital One - \$5 million. The credit ratings of certain of these banks were downgraded in recent years because of the sovereign debt crisis in Europe. The Company actively monitors the creditworthiness of counterparties and assesses the impact, if any, on its derivative position.

The Company records derivative instruments on the consolidated balance sheets as either an asset or liability measured at fair value and records changes in the fair value of derivatives in current earnings as they occur. Changes in the fair value of commodity derivatives are classified as revenues on the Company's condensed consolidated statements of operations. The Company's derivatives have not been designated as hedges for accounting purposes.

(g) Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences resulting from net operating loss carryforwards for income tax purposes and the differences between the financial statement and tax basis of assets and liabilities. The effect of changes in the tax laws or tax rates is recognized in income in the period such changes are enacted.

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Unrecognized tax benefits represent potential future tax obligations for uncertain tax positions taken on previously filed tax returns that may not ultimately be sustained. The Company recognizes interest expense related to unrecognized tax benefits in interest expense and fines and penalties for tax-related matters as income tax expense.

(h) Fair Value Measurements

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, clarifies the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance also relates to all nonfinancial assets and liabilities that are not recognized or disclosed on a recurring basis (e.g., those measured at fair value in a business combination, the initial recognition of asset retirement obligations, and impairments of proved oil and gas properties, and other long-lived assets). Fair value is the price that the Company estimates would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is used to prioritize inputs to valuation techniques used to estimate fair value. An asset or liability subject to the fair value requirements is categorized within the hierarchy based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The highest priority (Level 1) is given to unadjusted, quoted market prices in active markets for identical assets or liabilities, and the lowest priority (Level 3) is given to unobservable inputs. Level 2 inputs are data, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Instruments which are valued using Level 2 inputs include non-exchange traded derivatives such as over-the-counter commodity price swaps and basis swaps. Valuation models used to measure fair value of these instruments consider various Level 2 inputs including (i) quoted forward prices for commodities, (ii) time value, (iii) quoted forward interest rates, (iv) current market prices and contractual prices for the underlying instruments, (v) risk of nonperformance by the Company and the counterparty, and (vi) other relevant economic measures.

(i) Industry Segments and Geographic Information

Management has evaluated how the Company is organized and managed and has identified the following segments: (1) the exploration, development, and production of natural gas, NGLs, and oil; (2) gathering and compression;

(3) water handling; and (4) marketing of excess firm transportation capacity.

All of the Company's assets are located in the United States and substantially all of its production revenues are attributable to customers located in the United States.

(j)Marketing Revenues and Expenses

In 2014, the Company commenced activities to purchase and sell third-party natural gas and NGLs and to market its excess firm transportation capacity in order to utilize this excess capacity. Marketing revenues include sales of purchased third-party gas and NGLs, as well as revenues from the release of firm transportation capacity to others. Marketing expenses include the cost of purchased third-party natural gas and NGLs. The Company classifies firm transportation costs related to capacity contracted for in advance of having sufficient production and infrastructure to fully utilize the capacity (excess capacity) as marketing expenses since it is marketing this excess capacity to third parties. Firm transportation for which the Company has sufficient production capacity (even though it may not use the transportation capacity because of alternative delivery points with more favorable pricing) is considered unutilized capacity. The costs of unutilized capacity are charged to transportation expense.

(k)Earnings per Common Share

Earnings per common share for each period is computed by dividing net income from continuing operations attributable to Antero or income from discontinued operations, as applicable, by the basic weighted average number of shares outstanding

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

during such period. Earnings per common share—assuming dilution for each period is computed giving consideration to the potential dilution from outstanding equity awards, calculated using the treasury stock method. During periods in which the Company incurs a net loss, diluted weighted average shares outstanding are equal to basic weighted average shares outstanding because the effect of all equity awards is antidilutive. The following is a reconciliation of the Company's basic weighted average shares outstanding to diluted weighted average shares outstanding during the periods presented:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2015	2014	2015
Basic weighted average number of shares outstanding	262,049,948	277,007,427	262,049,756	273,144,573
Add: Dilutive effect of non-vested restricted stock and restricted stock units	19,729	7,329	16,876	9,392
Add: Dilutive effect of outstanding stock options	201	—	—	—
Diluted weighted average number of shares outstanding	262,069,878	277,014,756	262,066,632	273,153,965
Weighted average number of outstanding equity awards excluded from calculation of diluted earnings per common share(1):				
Non-vested restricted stock and restricted stock units	1,906,778	2,483,363	929,223	2,239,938
Outstanding stock options	60,000	742,554	70,339	491,514

(1) The potential dilutive effects of these awards were excluded from the computation of earnings per common share—assuming dilution because the inclusion of these awards would have been anti-dilutive.

(3)Antero Midstream Partners LP

In 2014, the Company formed Antero Midstream to own, operate, and develop midstream energy assets to service Antero's production. Antero Midstream's assets consist of gathering pipelines and compressor stations, and water handling facilities, through which it provides services to Antero under long-term, fixed-fee contracts. Antero Resources Midstream Management LLC ("Midstream Management"), a wholly-owned subsidiary of Antero Investment LLC ("Antero Investment"), owns the general partnership interest in Antero Midstream, which allows Midstream Management to manage the business and affairs of Antero Midstream. Midstream Management also holds the incentive distribution rights in Antero Midstream. Antero Midstream is an unrestricted subsidiary as defined by

Antero's bank credit facility and, as such, Antero Midstream is not a guarantor of Antero's obligations, and Antero is not a guarantor of Antero Midstream's obligations (see note 12).

On September 23, 2015, Antero completed the previously announced transaction by which Antero contributed (i) all of the outstanding limited liability company interests of Antero Water LLC ("Antero Water") to Antero Midstream and (ii) all of the assets, contracts, rights, permits and properties owned or leased by Antero and used primarily in connection with the construction, ownership, operation, use or maintenance of Antero's advanced wastewater treatment complex to be constructed in Doddridge County, West Virginia, to Antero Treatment LLC ("Antero Treatment"), a subsidiary of Antero Midstream (collectively, (i) and (ii) are referred to herein as the "Contributed Assets").

In consideration for the Contributed Assets, Antero Midstream (i) paid to Antero a cash distribution equal to \$552 million, less \$171 million of assumed debt, (ii) issued to Antero 10,988,421 common units representing limited partner interests in Antero Midstream, (iii) distributed to Antero proceeds of approximately \$241 million from a private placement of Antero Midstream common units, and (iv) has agreed to pay Antero (a) \$125 million in cash if Antero purchases 176,295,000 barrels or more of fresh water from Antero Midstream during the period between January 1, 2017 and December 31, 2019 and (b) an additional \$125 million in cash if Antero purchases 219,200,000 barrels or more of fresh water from Antero Midstream during the period between January 1, 2018 and December 31, 2020. Antero Midstream borrowed \$525 million on its bank credit facility in connection with this transaction.

The transaction was accounted for as a transaction between entities under common control. As a result, the Contributed Assets have been recorded by Antero Midstream at their historical cost. The difference between the historical cost and the consideration transferred to Antero was recorded as an adjustment to partners' capital on the balance sheet of Antero Midstream. After giving effect to the transaction, Antero owns approximately 66.5% of the limited partner interests of Antero Midstream.



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## (4) Long-Term Debt

Long-term debt was as follows at December 31, 2014 and September 30, 2015 (in thousands):

	2014	2015
Antero:		
Bank credit facility(a)	\$ 1,730,000	500,000
6.00% senior notes due 2020(c)	525,000	525,000
5.375% senior notes due 2021(d)	1,000,000	1,000,000
5.125% senior notes due 2022(e)	1,100,000	1,100,000
5.625% senior notes due 2023(f)	—	750,000
Net unamortized premium	7,550	6,777
Antero Midstream:		
Bank credit facility(b)	—	525,000
	\$ 4,362,550	4,406,777

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**(a) Senior Secured Revolving Credit Facility**

Antero has a senior secured revolving bank credit facility (the “Credit Facility”) with a consortium of bank lenders. Borrowings under the Credit Facility are subject to borrowing base limitations based on the collateral value of Antero’s proved properties and commodity hedge positions and are subject to regular semiannual redeterminations. At September 30, 2015, the borrowing base was \$4.0 billion and lender commitments were \$4.0 billion. Effective October 26, 2015, the borrowing base was increased to \$4.5 billion, and lender commitments remain at \$4.0 billion. The next redetermination of the borrowing base is scheduled to occur in April 2016. The maturity date of the Credit Facility is May 5, 2019.

The Credit Facility is ratably secured by mortgages on substantially all of Antero’s properties and guarantees from Antero’s restricted subsidiaries, as applicable. The Credit Facility contains certain covenants, including restrictions on indebtedness and dividends, and requirements with respect to working capital and interest coverage ratios. Interest is payable at a variable rate based on LIBOR or the prime rate, determined by Antero’s election at the time of borrowing. Antero was in compliance with all of the financial covenants under the Credit Facility as of December 31, 2014 and September 30, 2015.

As of December 31, 2014, Antero had an outstanding balance under the Credit Facility of \$1.7 billion, with a weighted average interest rate of 2.06%, and outstanding letters of credit of \$387 million. As of September 30, 2015, Antero had a total outstanding balance under the Credit Facility of \$500 million, with a weighted average interest rate of 2.02%, and outstanding letters of credit of \$535 million. Commitment fees on the unused portion of the Credit Facility are due quarterly at rates ranging from 0.375% to 0.50% of the unused portion based on utilization.

(b)Senior Secured Revolving Credit Facility – Antero Midstream

On November 10, 2014, Antero Midstream entered into a senior secured revolving bank credit facility (the “Midstream Facility”) with a consortium of bank lenders. At September 30, 2015, the maximum amount of the facility was \$1.5 billion. The maturity date of the Midstream Facility is November 10, 2019.

The Midstream Facility is ratably secured by mortgages on substantially all of the properties of Antero Midstream and guarantees from its restricted subsidiaries, as applicable. The Midstream Facility contains certain covenants, including restrictions on indebtedness and certain distributions to owners, and requirements with respect to leverage and interest coverage ratios. Interest is payable at a variable rate based on LIBOR or the prime rate, determined by election at the time of borrowing. Antero Midstream was in compliance with all of the financial covenants under the Midstream Facility as of December 31, 2014 and September 30, 2015.

As of December 31, 2014, Antero Midstream did not have a balance outstanding under the Midstream Facility. As of September 30, 2015, Antero Midstream had a total outstanding balance under the Midstream Facility of \$525 million, with a

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weighted average interest rate of 1.7%. Commitment fees on the unused portion of the Midstream Facility are due quarterly at rates ranging from 0.25% to 0.375% of the unused portion based on utilization.

(c)6.00% Senior Notes Due 2020

On November 19, 2012, Antero issued \$300 million of 6.00% senior notes due December 1, 2020 (the “2020 notes”) at par. On February 4, 2013, Antero issued an additional \$225 million of the 2020 notes at 103% of par. The 2020 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2020 notes rank pari passu to Antero’s other outstanding senior notes. The 2020 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2020 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2020 notes at any time on or after December 1, 2015 at redemption prices ranging from 104.50% on or after December 1, 2015 to 100.00% on or after December 1, 2018. In addition, on or before December 1, 2015, Antero may redeem up to 35% of the aggregate principal amount of the 2020 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 106.00% of the principal amount of the 2020 notes, plus accrued interest. At any time prior to December 1, 2015, Antero may redeem the 2020 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2020 notes, plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control, the holders of the 2020 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2020 notes, plus accrued interest.

(d)5.375% Senior Notes Due 2021

On November 5, 2013, Antero issued \$1 billion of 5.375% senior notes due November 21, 2021 (the “2021 notes”) at par. The 2021 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2021 notes rank pari passu to Antero’s other outstanding senior notes. The 2021 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2021 notes is payable on May 1 and November 1 of each year. Antero may redeem all or part of the 2021 notes at any time on or after November 1, 2016 at redemption prices ranging from 104.031% on or after November 1, 2016 to 100.00% on or after November 1, 2019. In addition, on or before November 1, 2016, Antero may redeem up to 35% of the aggregate principal amount of the 2021 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.375% of the principal amount of the 2021 notes, plus accrued interest. At any time prior to November 1, 2016, Antero may also redeem the 2021 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2021 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control, the holders of the 2021 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2021 notes, plus accrued interest.

(e)5.125% Senior Notes Due 2022

On May 6, 2014, Antero issued \$600 million of 5.125% senior notes due December 1, 2022 (the “2022 notes”) at par. On September 18, 2014, Antero issued an additional \$500 million of the 2022 notes at 100.5% of par. The 2022 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2022 notes rank pari passu to Antero’s other outstanding senior notes. The 2022 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2022 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2022 notes at any time on or after June 1, 2017 at redemption prices ranging from 103.844% on or after June 1, 2017 to 100.00% on or after June 1, 2020. In addition, on or before June 1, 2017, Antero may redeem up to 35% of the aggregate principal amount of the 2022 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.125% of the principal amount of the 2022 notes, plus accrued interest. At any time prior to June 1, 2017, Antero may also redeem the 2022 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2022 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control prior to December 1, 2015, it may redeem all, but not less than all, of the 2022 notes at a redemption price equal to 110% of the principal amount of the 2022 notes. If Antero undergoes a change of control, the holders of the 2022 notes will

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have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2022 notes, plus accrued interest.

(f)5.625% Senior Notes Due 2023

On March 17, 2015, Antero issued \$750 million of 5.625% senior notes due June 1, 2023 (the “2023 notes”) at par. The 2023 notes are unsecured and effectively subordinated to the Credit Facility to the extent of the value of the collateral securing the Credit Facility. The 2023 notes rank pari passu to Antero’s other outstanding senior notes. The 2023 notes are guaranteed on a full and unconditional and joint and several senior unsecured basis by Antero’s wholly-owned subsidiaries and certain of its future restricted subsidiaries. Interest on the 2023 notes is payable on June 1 and December 1 of each year. Antero may redeem all or part of the 2023 notes at any time on or after June 1, 2018 at redemption prices ranging from 104.219% on or after June 1, 2018 to 100.00% on or after June 1, 2021. In addition, on or before June 1, 2018, Antero may redeem up to 35% of the aggregate principal amount of the 2023 notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.625% of the principal amount of the 2023 notes, plus accrued interest. At any time prior to June 1, 2018, Antero may also redeem the 2023 notes, in whole or in part, at a price equal to 100% of the principal amount of the 2023 notes plus a “make-whole” premium and accrued interest. If Antero undergoes a change of control prior to June 1, 2016, it may redeem all, but not less than all, of the 2023 notes at a redemption price equal to 110% of the principal amount of the 2023 notes. If Antero undergoes a change of control, the holders of the 2023 notes will have the right to require Antero to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the 2023 notes, plus accrued interest.

(g)Treasury Management Facility

Antero has a stand-alone revolving note with a lender under the Credit Facility which provides for up to \$25 million of cash management obligations in order to facilitate Antero’s daily treasury management. Borrowings under the revolving note are secured by the collateral for the Credit Facility. Borrowings under the facility bear interest at the lender’s prime rate plus 1.0%. The note matures on May 1, 2016. At December 31, 2014 and September 30, 2015, there were no outstanding borrowings under this facility.

(5)Asset Retirement Obligations

The following is a reconciliation of the Company's asset retirement obligations for the nine months ended September 30, 2015 (in thousands).

Asset retirement obligations at December 31, 2014	\$ 16,614
Obligations incurred for wells drilled	2,564
Accretion expense	1,227
Asset retirement obligations at September 30, 2015	\$ 20,405

Asset retirement obligations are included in other liabilities on the condensed consolidated balance sheets.

#### (6)Equity-Based Compensation

Antero is authorized to grant up to 16,906,500 shares of common stock to employees and directors of the Company under the Antero Resources Corporation Long-Term Incentive Plan (the "Plan"). The Plan allows equity-based compensation awards to be granted in a variety of forms, including stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, dividend equivalent awards, and other types of awards. The terms and conditions of the awards granted are established by the Compensation Committee of Antero's Board of Directors. A total of 13,410,574 shares were available for future grant under the Plan as of September 30, 2015.

In connection with the Antero Midstream IPO, Antero Midstream's general partner adopted the Antero Midstream Partners LP Long-Term Incentive Plan (the "Midstream Plan"), pursuant to which non-employee directors of Antero Midstream's general partner and certain officers, employees, and consultants of Antero Midstream's general partner and its affiliates (which include Antero) are eligible to receive awards representing ownership interests in Antero Midstream. An aggregate of 10,000,000

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common units may be delivered pursuant to awards under the Midstream Plan, subject to customary adjustments. A total of 7,658,363 common units are available for future grant under the Midstream Plan as of September 30, 2015.

The Company's equity-based compensation expense was as follows for the three and nine months ended September 30, 2014 and 2015 (in thousands):

	Three months ended		Nine months ended	
	September 30, 2014	2015	September 30, 2014	2015
Profits interests awards	\$ 15,688	8,140	68,456	35,221
Restricted stock awards	8,397	10,686	16,993	29,357
Stock options	125	743	372	1,514
Antero Midstream phantom and restricted unit awards	—	4,271	—	12,963
Common stock issued to directors in lieu of cash compensation	75	75	75	225
Total expense	\$ 24,285	23,915	85,896	79,280

## Profits Interests Awards

In connection with its formation in October 2009, Antero Resources LLC issued profits interests to Antero Resources Employee Holdings LLC ("Employee Holdings"), which is owned solely by certain of the Company's officers and employees. These profits interests provide for the participation in distributions upon liquidation events meeting certain requisite financial return thresholds. In turn, Employee Holdings issued membership interests to certain of the Company's officers and employees. The Employee Holdings interests in Antero Resources LLC were exchanged for similar interests in Antero Investment in connection with the Company's initial public offering on October 16, 2013.

The limited liability company agreement of Antero Investment provides a mechanism that demonstrates how the shares of the Company's common stock will be allocated among the members of Antero Investment, including Employee Holdings. As a result of the adoption of the Antero Investment Limited Liability Company Agreement, the satisfaction of all performance and service conditions relative to the profits interest awards held by Employee Holdings in Antero Investment became probable. Accordingly, the Company has recognized approximately \$484 million of equity-based compensation expense for the vested profits interests through September 30, 2015 and will recognize approximately \$3 million over the remaining service period. Because consideration for the profits interest awards is deemed given by Antero Investment, the charge to equity-based compensation expense is accounted for as a capital contribution by Antero Investment to the Company and credited to additional paid-in capital. All available profits interest awards were made prior to the date of the IPO, and no additional profits interest awards will be made.

## Restricted Stock and Restricted Stock Unit Awards

Restricted stock and restricted stock unit awards vest subject to the satisfaction of service requirements. Expense related to each restricted stock and restricted stock unit award is recognized on a straight-line basis over the requisite service period of the entire award, less awards expected to be forfeited. The grant date fair values of these awards are determined based on the closing price of the Company's common stock on the date of the grant. A summary of restricted stock and restricted stock unit awards activity during the nine months ended September 30, 2015 is as follows:

	Number of shares	Weighted average grant date fair value	Aggregate intrinsic value (in thousands)
Total awarded and unvested—December 31, 2014	1,983,673	\$ 64.71	\$ 80,497
Granted	881,617	\$ 40.82	
Vested	(358,242)	\$ 64.28	
Forfeited	(12,016)	\$ 40.05	
Total awarded and unvested—September 30, 2015	2,495,032	\$ 56.38	\$ 52,795

Intrinsic values are based on the closing price of the Company's stock on the referenced dates. Unamortized expense of \$109.9 million at September 30, 2015 is expected to be recognized over a weighted average period of approximately 2.8 years.



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## Stock Options

Stock options granted under the Plan vest over periods from one to four years and have a maximum contractual life of 10 years. Expense related to stock options is recognized on a straight-line basis over the requisite service period of the entire award, less awards expected to be forfeited. Stock options are granted with an exercise price equal to or greater than the market price of the Company's common stock on the date of grant. A summary of stock option activity for the nine months ended September 30, 2015 is as follows:

	Stock options	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value (in thousands)
Outstanding at December 31, 2014	81,021	\$ 53.92	8.92	\$ —
Options granted	665,366	\$ 50.00		
Options exercised	—	—		
Options cancelled	(3,833)	\$ 50.00		
Options expired	—	—		
Outstanding at September 30, 2015	742,554	\$ 50.43	9.39	\$ —
Vested or expected to vest as of September 30, 2015	742,554	\$ 50.43	9.39	\$ —
Exercisable at September 30, 2015	25,339	\$ 54.15	8.04	\$ —

Intrinsic value is based on the exercise price of the options and the closing price of the Company's stock on the referenced dates.

A Black-Scholes option-pricing model is used to determine the grant-date fair value of the Company's stock options. Expected volatility was derived from the volatility of the historical stock prices of a peer group of similar publicly traded companies' stock prices. The risk-free interest rate was determined using the implied yield available for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options. A dividend yield of zero was assumed.

The following table presents information regarding the weighted average fair value for options granted in 2014 and 2015 and the assumptions used to determine fair value.

	2014	2015
Dividend yield	— %	— %
Volatility	40 %	40 %
Risk-free interest rate	1.75 %	1.66 %
Expected life (years)	5.50	6.25
Weighted average fair value of options granted	\$ 20.55	\$ 14.74

As of September 30, 2015, there was \$9.3 million of unrecognized equity-based compensation expense related to nonvested stock options. That expense is expected to be recognized over a weighted average period of approximately 3.4 years.

#### Antero Midstream Partners Phantom and Restricted Unit Awards

Restricted units and phantom units granted by Antero Midstream vest subject to the satisfaction of service requirements, upon the completion of which common units in Antero Midstream are delivered to the holder of the restricted units or phantom units. These restricted and phantom units are treated, for accounting purposes, as if Antero Midstream distributed the units to Antero. Antero recognizes compensation expense as the units are granted to employees, and a portion of the expense is allocated to Antero Midstream. Expense related to each restricted unit and phantom unit award is recognized on a straight-line basis over the requisite service period of the entire award, less awards expected to be forfeited. The grant date fair values of these awards are determined based on the closing price of Antero Midstream's common units on the date of grant. A summary of restricted unit and phantom unit awards activity during the nine months ended September 30, 2015 is as follows:

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	Number of units	Weighted average grant date fair value	Aggregate intrinsic value (in thousands)
Total awarded and unvested—December 31, 2014	2,381,440	\$ 29.00	\$ 65,490
Granted	12,057	\$ 24.88	
Vested	—	\$ —	
Forfeited	(51,860)	\$ 29.00	
Total awarded and unvested—September 30, 2015	2,341,637	\$ 28.98	\$ 41,822

Intrinsic values are based on the closing price of Antero Midstream's common units on the referenced dates. Unamortized expense of \$52.5 million at September 30, 2015 is expected to be recognized over a weighted average period of approximately 3.1 years.

## (7)Financial Instruments

The carrying values of accounts receivable and accounts payable at December 31, 2014 and September 30, 2015 approximated market value because of their short-term nature. The carrying values of the amounts outstanding under the Credit Facility and Midstream Facility at December 31, 2014 and September 30, 2015 approximated fair value because the variable interest rates are reflective of current market conditions.

Based on Level 2 market data inputs, the fair value of the Company's senior notes was approximately \$2.5 billion at December 31, 2014 and \$3.0 billion at September 30, 2015.

See note 8 for information regarding the fair value of derivative financial instruments.

## (8)Derivative Instruments

## (a)Commodity Derivatives

The Company periodically enters into natural gas, NGLs, and oil derivative contracts with counterparties to hedge the price risk associated with a portion of its production. These derivatives are not held for trading purposes. To the extent that changes occur in the market prices of natural gas, NGLs, and oil, the Company is exposed to market risk on these open contracts. This market risk exposure is generally offset by the change in market prices of natural gas, NGLs, and oil recognized upon the ultimate sale of the Company's production.

For the nine months ended September 30, 2014 and 2015, the Company was party to various natural gas, NGLs, and oil fixed price swap contracts. When actual commodity prices exceed the fixed price provided by the swap contracts, the Company pays the excess to the counterparty. When actual commodity prices are below the contractually provided fixed price, the Company receives the difference from the counterparty. In addition, the Company has entered into basis swap contracts in order to hedge the difference between the New York Mercantile Exchange ("NYMEX") index price and a local index price. The Company's derivative swap contracts have not been designated as hedges for accounting purposes; therefore, all gains and losses are recognized in the Company's statements of operations.

As of September 30, 2015, the Company's fixed price natural gas, NGLs, and oil swap positions from October 1, 2015 through December 31, 2021 were as follows (abbreviations in the table refer to the index to which the swap position is tied,

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as follows: TCO=Columbia Gas Transmission; NYMEX=Henry Hub; CGTLA=Columbia Gas Louisiana Onshore; CCG=Chicago City Gate; NYMEX-WTI=West Texas Intermediate; Mont Belvieu-TET=Mont Belvieu Propane):

	Natural gas MMbtu/day	Oil Bbls/day	Propane Bbls/day	Weighted average index price
Three months ending December 31, 2015:				
TCO (\$/MMBtu)	120,000	—	—	\$ 5.14
Dominion South (\$/MMBtu)	230,000	—	—	\$ 5.74
NYMEX (\$/MMBtu)	770,000	—	—	\$ 3.92
CGTLA (\$/MMBtu)	40,000	—	—	\$ 4.09
NYMEX-WTI (\$/Bbl)	—	3,000	—	\$ 65.67
Mont Belvieu-TET (\$/Gallon)	—	—	23,000	\$ 0.64
Total	1,160,000	3,000	23,000	
Year ending December 31, 2016:				
TCO (\$/MMBtu)	60,000	—	—	\$ 4.91
Dominion South (\$/MMBtu)	272,500	—	—	\$ 5.35
NYMEX (\$/MMBtu)	1,110,000	—	—	\$ 3.49
CGTLA (\$/MMBtu)	170,000	—	—	\$ 4.09
Mont Belvieu-TET (\$/Gallon)	—	—	30,000	\$ 0.59
Total	1,612,500	—	30,000	
Year ending December 31, 2017:				
NYMEX (\$/MMBtu)	1,000,000	—	—	\$ 3.58
CGTLA (\$/MMBtu)	420,000	—	—	\$ 4.27
CCG (\$/MMBtu)	70,000	—	—	\$ 4.57
Mont Belvieu-TET (\$/Gallon)	—	—	2,000	\$ 0.64
Total	1,490,000	—	2,000	
Year ending December 31, 2018:				
NYMEX (\$/MMBtu)	1,732,500	—	—	\$ 4.05
Mont Belvieu-TET (\$/Gallon)	—	—	2,000	\$ 0.65
Total	1,732,500	—	2,000	
Year ending December 31, 2019:				
NYMEX (\$/MMBtu)	1,800,000	—	—	\$ 3.94
Year ending December 31, 2020:				
NYMEX (\$/MMBtu)	1,212,500	—	—	\$ 3.75
Year ending December 31, 2021:				
NYMEX (\$/MMBtu)	235,000	—	—	\$ 3.67

As of September 30, 2015, the Company's natural gas basis swap positions which settle on the pricing index to basis differential of TCO to the NYMEX Henry Hub natural gas price, are as follows:

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	Natural gas MMbtu/day	Hedged Differential
Three months ending December 31, 2015:	390,000	\$ (0.35)
Year ending December 31, 2016:	290,000	\$ (0.42)
Year ending December 31, 2017:	125,000	\$ (0.49)

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As of September 30, 2015, the Company's natural gas basis swap positions which settle on the pricing index to basis differential of NYMEX Henry Hub to the TCO natural gas price, are as follows:

	Natural gas MMbtu/day	Hedged Differential
Three months ending December 31, 2015:	10,000	\$ 0.14
Year ending December 31, 2016:	160,000	\$ 0.26
Year ending December 31, 2017:	125,000	\$ 0.30

## (b)Summary

The following is a summary of the fair values of the Company's derivative instruments and where such values are recorded in the consolidated balance sheets as of December 31, 2014 and September 30, 2015. None of the Company's derivative instruments are designated as hedges for accounting purposes.

	December 31, 2014		September 30, 2015	
	Balance sheet location	Fair value (In thousands)	Balance sheet location	Fair value (In thousands)
Asset derivatives not designated as hedges for accounting purposes:				
Commodity contracts	Current assets	\$ 692,554	Current assets	\$ 834,482
Commodity contracts	Long-term assets	899,997	Long-term assets	2,007,828
Total asset derivatives		1,592,551		2,842,310
Total liability derivatives		—		—
Net derivatives		\$ 1,592,551		\$ 2,842,310

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The following table presents the gross amounts of recognized derivative assets and liabilities, the amounts offset under master netting arrangements with counterparties, and the resulting net amounts presented in the consolidated balance sheets as of the dates presented, all at fair value (in thousands):

	December 31, 2014			September 30, 2015		Net amounts of assets (liabilities) on balance sheet
	Gross amounts on balance sheet	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet	Gross amounts on balance sheet	Gross amounts offset on balance sheet	
Commodity derivative assets	\$ 1,621,665	(29,114)	1,592,551	\$ 2,885,279	(42,969)	2,842,310
Commodity derivative liabilities	\$ —	—	—	\$ —	—	—

The following is a summary of derivative fair value gains (losses) and where such values are recorded in the condensed consolidated statements of operations for three and nine months ended September 30, 2014 and 2015 (in thousands):

	Statement of operations location	Three months ended September 30,		Nine months ended September 30,	
		2014	2015	2014	2015
Commodity derivative fair value gains (losses)	Revenue	\$ 308,975	1,079,071	(63,720)	1,836,398

The fair value of commodity derivative instruments was determined using Level 2 inputs.



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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

(9)Contingencies

The Company is the subject of two nearly identical lawsuits brought by South Jersey Gas Company and South Jersey Resources Group, LLC (collectively “SJGC”) filed on February 4, 2015 in the Superior Court of New Jersey. The lawsuits have since been consolidated into one case. SJGC are purchasers of some of the Company’s natural gas production under contracts entered into in 2011. Deliveries under the contracts began in October 2011 and the delivery obligation continues through October 2019. SJGC allege that the index prices specified in the contracts, and the index prices at which SJGC paid for deliveries from 2011 through September 2014, are no longer appropriate under the contracts because a market disruption event (as defined by the contract) has occurred and, as a result, a new index price is to be determined by the parties. The lawsuit seeks a reformation of the contracts, compensatory and punitive damages to be determined at trial, and costs and expenses of the actions. Beginning in October 2014, SJGC began paying the Company under indexes unilaterally selected by SJGC and not specified in the contract. The Company contends that no market disruption event has occurred and that SJGC has breached the contracts by failing to pay the Company based on the express price terms of the contracts. The Company further contends that jurisdiction and venue are improper in New Jersey. On March 30, 2015, the Company filed suit against SJGC in United States District Court in Colorado seeking relief for breach of contract, damages in the amounts that SJGC has short paid and continues to short pay, as well as costs of the suit. Through September 30, 2015, the Company estimates that it is owed approximately \$33 million more than SJGC has paid using the indexes unilaterally selected by them.

The Company is party to various other legal proceedings and claims in the ordinary course of its business. The Company believes that certain of these matters will be covered by insurance and that the outcome of other matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations, or liquidity.

(10)Contract Termination and Rig Stacking

During the nine months ended September 30, 2015, the Company incurred \$10.9 million of costs for the delay or cancelation of drilling contracts with third-party contractors.

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## (11)Segment Information

See note 2(i) for a description of the Company's determination of its reportable segments. Operating segments are evaluated based on their contribution to consolidated results, which is determined by the respective operating income of each segment. General and administrative expenses are allocated to the gathering and compression and water handling segments based on estimates of labor and overhead expenditures on those activities. General and administrative expenses related to the marketing segment are not allocated because they are immaterial. Other income, income taxes, and interest expense are primarily managed and evaluated on a consolidated basis. Intersegment sales are transacted at prices which approximate market. Accounting policies for each segment are the same as the Company's accounting policies described in note 2 to the condensed consolidated financial statements.

The operating results and assets of the Company's reportable segments were as follows for the three months ended September 30, 2014 and 2015 (in thousands):

	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Three months ended September 30, 2014:						
Sales and revenues:						
Third-party	\$ 739,780	1,884	2,991	17,835	—	762,490
Intersegment	—	24,398	42,310	—	(66,708)	—
Total	\$ 739,780	26,282	45,301	17,835	(66,708)	762,490
Operating expenses:						
Lease operating	\$ 8,680	—	8,065	—	(8,065)	8,680
Gathering, compression, processing, and transportation	149,405	3,524	—	—	(24,398)	128,531
Depletion, depreciation, and amortization	110,008	10,227	4,389	—	—	124,624
General and administrative	45,355	5,519	2,126	—	—	53,000

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expense						
Other operating expenses	33,075	—	989	32,192	—	66,256
Total	346,523	19,270	15,569	32,192	(32,463)	381,091
Operating income (loss)	\$ 393,257	7,012	29,732	(14,357)	(34,245)	381,399
Segment assets	\$ 7,946,923	1,071,273	396,691	9,084	(108,091)	9,315,880
Capital expenditures for segment assets	\$ 935,478	144,999	56,540	—	(34,245)	1,102,772

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Three months ended September 30, 2015:						
Sales and revenues:						
Third-party	\$ 1,403,275	3,468	959	35,633	—	1,443,335
Intersegment	398	55,790	21,487	—	(77,675)	—
Total	\$ 1,403,673	59,258	22,446	35,633	(77,675)	1,443,335
Operating expenses:						
Lease operating	\$ 10,721	—	3,973	—	(3,908)	10,786
Gathering, compression, processing, and transportation	211,469	4,699	—	—	(55,866)	160,302
Depletion, depreciation, and amortization	166,900	15,282	6,485	—	—	188,667
General and administrative expense	46,165	11,265	2,577	—	(322)	59,685
Other operating expenses	28,044	(7,863)	800	61,799	—	82,780
Total	463,299	23,383	13,835	61,799	(60,096)	502,220
Operating income (loss)	\$ 940,374	35,875	8,611	(26,166)	(17,579)	941,115
Segment assets	\$ 11,940,524	1,410,920	487,734	5,847	(267,951)	13,577,074
Capital expenditures for segment assets	\$ 399,695	82,768	45,151	—	(17,579)	510,035

The operating results and assets of the Company's reportable segments were as follows for the nine months ended September 30, 2014 and 2015 (in thousands):

	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Nine months ended September 30, 2014:						
Sales and revenues:						
Third-party	\$ 1,207,023	4,831	7,133	23,048	—	1,242,035
Intersegment	—	50,147	103,445	—	(153,592)	—
Total	\$ 1,207,023	54,978	110,578	23,048	(153,592)	1,242,035
Operating expenses:						
Lease operating	\$ 18,570	—	22,495	—	(22,495)	18,570
Gathering, compression, processing, and transportation	359,364	6,661	—	—	(50,147)	315,878
Depletion, depreciation, and amortization	285,245	24,991	10,748	—	—	320,984
General and administrative expense	141,155	15,075	6,112	—	—	162,342
Other operating expenses	90,749	—	3,376	58,119	—	152,244
Total	895,083	46,727	42,731	58,119	(72,642)	970,018
Operating income (loss)	\$ 311,940	8,251	67,847	(35,071)	(80,950)	272,017
Segment assets	\$ 7,946,923	1,071,273	396,691	9,084	(108,091)	9,315,880
Capital expenditures for segment assets	\$ 2,335,393	406,666	156,467	—	(80,950)	2,817,576

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Nine months ended September 30, 2015:						
Sales and revenues:						
Third-party	\$ 2,891,410	8,433	6,651	143,242	—	3,049,736
Intersegment	1,025	159,661	80,886	—	(241,572)	—
Total	\$ 2,892,435	168,094	87,537	143,242	(241,572)	3,049,736
Operating expenses:						
Lease operating	\$ 24,981	—	16,576	—	(15,996)	25,561
Gathering, compression, processing, and transportation	630,708	19,792	—	—	(159,867)	490,633
Depletion, depreciation, and amortization	483,991	45,255	18,767	—	—	548,013
General and administrative expense	140,821	30,685	7,238	—	(819)	177,925
Other operating expenses	113,881	25	2,437	214,201	—	330,544
Total	1,394,382	95,757	45,018	214,201	(176,682)	1,572,676
Operating income (loss)	\$ 1,498,053	72,337	42,519	(70,959)	(64,890)	1,477,060
Segment assets	\$ 11,940,524	1,410,920	487,734	5,847	(267,951)	13,577,074
Capital expenditures for segment assets	\$ 1,590,904	282,813	79,227	—	(64,890)	1,888,054

(12)Subsidiary Guarantors

Antero's wholly-owned subsidiaries each have fully and unconditionally guaranteed Antero's senior notes. Antero Midstream and its subsidiaries have been designated unrestricted subsidiaries under the Credit Facility and the indentures governing Antero's senior notes, and do not guarantee any of Antero's obligations (see note 4). In the event a subsidiary guarantor is sold or disposed of (whether by merger, consolidation, the sale of a sufficient amount of its capital stock so that it no longer qualifies as a "Subsidiary" of the Company (as defined in the indentures governing the notes) or the sale of all or substantially all of its assets (other than by lease)) and whether or not the subsidiary guarantor is the surviving entity in such transaction to a person which is not Antero or a restricted subsidiary of Antero, such subsidiary guarantor will be released from its obligations under its subsidiary guarantee if the sale or other disposition does not violate the covenants set forth in the indentures governing the notes.

In addition, a subsidiary guarantor will be released from its obligations under the indentures and its guarantee, upon the release or discharge of the guarantee of other Indebtedness (as defined in the indentures governing the notes) that resulted in the creation of such guarantee, except a release or discharge by or as a result of payment under such guarantee; if Antero designates such subsidiary as an unrestricted subsidiary and such designation complies with the other applicable provisions of the indentures governing the notes or in connection with any covenant defeasance, legal defeasance or satisfaction and discharge of the notes.

The following Condensed Consolidating Balance Sheets at December 31, 2014 and September 30, 2015, and the related statements of operations and comprehensive income (loss) and statements of cash flows for the three and nine months ended September 30, 2015 present financial information for Antero on a stand-alone basis (carrying its investment in wholly-owned subsidiaries using the equity method), financial information for the subsidiary guarantors, financial information for the non-guarantor subsidiaries, and the consolidation and elimination entries necessary to arrive at the information for the Company on a consolidated basis. Antero's wholly-owned subsidiaries during the three and nine months ended September 30, 2014 had no revenues, expenses, or cash flows. Antero's wholly-owned subsidiaries are not restricted from making distributions to the Parent.

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## Condensed Consolidating Balance Sheets

December 31, 2014

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 15,787	—	230,192	—	245,979
Accounts receivable, net	116,203	—	—	—	116,203
Intercompany receivables	1,380	—	17,646	(19,026)	—
Accrued revenue	191,558	—	—	—	191,558
Derivative instruments	692,554	—	—	—	692,554
Other current assets	5,348	1	518	(1)	5,866
Total current assets	1,022,830	1	248,356	(19,027)	1,252,160
<b>Property and equipment:</b>					
Natural gas properties, at cost (successful efforts method):					
Unproved properties	2,060,936	—	—	—	2,060,936
Proved properties	6,515,221	—	—	—	6,515,221
Water handling systems	421,012	—	—	—	421,012
Gathering systems and facilities	16,532	—	1,180,707	—	1,197,239
Other property and equipment	37,687	—	—	—	37,687
	9,051,388	—	1,180,707	—	10,232,095
Less accumulated depletion, depreciation, and amortization	(828,533)	—	(51,110)	—	(879,643)
Property and equipment, net	8,222,855	—	1,129,597	—	9,352,452
Derivative instruments	899,997	—	—	—	899,997
Investments in subsidiaries	137,423	—	—	(137,423)	—
Other assets, net	51,718	—	17,168	—	68,886
Total assets	\$ 10,334,823	1	1,395,121	(156,450)	11,573,495
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 485,628	—	45,936	—	531,564
Intercompany payable	17,646	—	1,380	(19,026)	—
Accrued liabilities	163,268	—	5,346	—	168,614
Revenue distributions payable	182,352	—	—	—	182,352



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Deferred income tax liability	260,373	—	—	—	260,373
Other current liabilities	12,203	—	—	(1)	12,202
Total current liabilities	1,121,470	—	52,662	(19,027)	1,155,105
Long-term liabilities:					
Long-term debt	4,247,550	115,000	—	—	4,362,550
Deferred income tax liability	534,423	—	—	—	534,423
Other liabilities	47,587	—	—	—	47,587
Total liabilities	5,951,030	115,000	52,662	(19,027)	6,099,665
Equity:					
Stockholders' equity:					
Parent net investment	—	(114,999)	—	114,999	—
Partners' capital	—	—	1,342,459	(1,342,459)	—
Common stock	2,621	—	—	—	2,621
Additional paid-in capital	3,513,725	—	—	—	3,513,725
Accumulated earnings	867,447	—	—	—	867,447
Total stockholders' equity	4,383,793	(114,999)	1,342,459	(1,227,460)	4,383,793
Noncontrolling interest in consolidated subsidiary	—	—	—	1,090,037	1,090,037
Total equity	4,383,793	(114,999)	1,342,459	(137,423)	5,473,830
Total liabilities and equity	\$ 10,334,823	1	1,395,121	(156,450)	11,573,495

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## Condensed Consolidating Balance Sheet

September 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 9,900	—	17,510	—	27,410
Accounts receivable, net	60,235	—	664	5	60,904
Intercompany receivables	3,560	—	42,188	(45,748)	—
Accrued revenue	115,793	—	—	—	115,793
Derivative instruments	834,482	—	—	—	834,482
Other current assets	1,677	—	62	—	1,739
Total current assets	1,025,647	—	60,424	(45,743)	1,040,328
<b>Property and equipment:</b>					
Natural gas properties, at cost (successful efforts method):					
Unproved properties	2,072,475	—	—	—	2,072,475
Proved properties	7,805,203	—	—	—	7,805,203
Water handling systems	—	—	517,518	(5)	517,513
Gathering systems and facilities	16,554	—	1,431,850	—	1,448,404
Other property and equipment	45,494	—	—	—	45,494
	9,939,726	—	1,949,368	(5)	11,889,089
Less accumulated depletion, depreciation, and amortization	(1,293,187)	—	(134,469)	—	(1,427,656)
Property and equipment, net	8,646,539	—	1,814,899	(5)	10,461,433
Derivative instruments	2,007,828	—	—	—	2,007,828
Investments in subsidiaries	(254,880)	—	—	254,880	—
Contingent acquisition consideration	174,716	—	—	(174,716)	—
Other assets, net	60,017	—	7,468	—	67,485
Total assets	\$ 11,659,867	—	1,882,791	34,416	13,577,074
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 252,146	—	85,347	—	337,493
Intercompany payable	42,188	—	3,560	(45,748)	—
Accrued liabilities	188,343	—	13,843	—	202,186

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Revenue distributions payable	161,513	—	—	—	161,513
Deferred income tax liability	315,366	—	—	—	315,366
Other current liabilities	9,080	—	131	—	9,211
Total current liabilities	968,636	—	102,881	(45,748)	1,025,769
Long-term liabilities:					
Long-term debt	3,881,777	—	525,000	—	4,406,777
Deferred income tax liability	978,139	—	—	—	978,139
Contingent acquisition consideration	—	—	174,716	(174,716)	—
Other liabilities	55,451	—	514	—	55,965
Total liabilities	5,884,003	—	803,111	(220,464)	6,466,650
Equity:					
Stockholders' equity:					
Partners' capital	—	—	1,079,680	(1,079,680)	—
Common stock	2,770	—	—	—	2,770
Additional paid-in capital	4,122,747	—	—	—	4,122,747
Accumulated earnings	1,650,347	—	—	—	1,650,347
Total stockholders' equity	5,775,864	—	1,079,680	(1,079,680)	5,775,864
Noncontrolling interest in consolidated subsidiary	—	—	—	1,334,560	1,334,560
Total equity	5,775,864	—	1,079,680	254,880	7,110,424
Total liabilities and equity	\$ 11,659,867	—	1,882,791	34,416	13,577,074

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended September 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue:					
Natural gas sales	\$ 253,975	—	—	—	253,975
Natural gas liquids sales	50,092	—	—	—	50,092
Oil sales	20,138	—	—	—	20,138
Gathering, compression, and water handling	958	—	59,258	(55,790)	4,426
Marketing	35,633	—	—	—	35,633
Commodity derivative fair value losses	1,079,071	—	—	—	1,079,071
Fee income	324	—	—	(324)	—
Total revenue	1,440,191	—	59,258	(56,114)	1,443,335
Operating expenses:					
Lease operating	10,786	—	—	—	10,786
Gathering, compression, processing, and transportation	211,469	—	4,699	(55,866)	160,302
Production and ad valorem taxes	18,584	—	(7,863)	—	10,721
Marketing	61,799	—	—	—	61,799
Exploration	1,087	—	—	—	1,087
Impairment of unproved properties	8,754	—	—	—	8,754
Depletion, depreciation, and amortization	173,592	—	15,075	—	188,667
Accretion of asset retirement obligations	419	—	—	—	419
General and administrative	48,666	—	11,267	(248)	59,685
Total operating expenses	535,156	—	23,178	(56,114)	502,220
Operating income (expense)	905,035	—	36,080	—	941,115
Other income (expenses):					
Interest	(59,647)	—	(1,274)	—	(60,921)
Equity in net income of subsidiaries	23,913	—	—	(23,913)	—
Total other expenses	(35,734)	—	(1,274)	(23,913)	(60,921)
Income (loss) before income taxes	869,301	—	34,806	(23,913)	880,194
Provision for income tax benefit	(335,460)	—	—	—	(335,460)
Net income (loss) and comprehensive income					
(loss) including noncontrolling interest	533,841	—	34,806	(23,913)	544,734
Net income and comprehensive income attributable to noncontrolling interest	—	—	—	10,892	10,892

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Net income (loss) and comprehensive income  
(loss) attributable to Antero Resources  
Corporation

\$ 533,841	—	34,806	(34,805)	533,842
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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## Condensed Consolidating Statement of Operations and Comprehensive Income

Nine Months Ended September 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue:					
Natural gas sales	\$ 810,982	—	—	—	810,982
Natural gas liquids sales	188,403	—	—	—	188,403
Oil sales	55,627	—	—	—	55,627
Gathering, compression, and water handling	6,651	—	168,094	(159,661)	15,084
Marketing	143,242	—	—	—	143,242
Commodity derivative fair value gains	1,836,398	—	—	—	1,836,398
Fee income	824	—	—	(824)	—
Total revenue	3,042,127	—	168,094	(160,485)	3,049,736
Operating expenses:					
Lease operating	25,561	—	—	—	25,561
Gathering, compression, processing, and transportation	630,708	—	19,792	(159,867)	490,633
Production and ad valorem taxes	57,433	—	25	—	57,458
Marketing	214,201	—	—	—	214,201
Exploration	3,086	—	—	—	3,086
Impairment of unproved properties	43,670	—	—	—	43,670
Depletion, depreciation, and amortization	503,265	—	44,748	—	548,013
Accretion of asset retirement obligations	1,227	—	—	—	1,227
General and administrative	147,858	—	30,685	(618)	177,925
Contract termination and rig stacking	10,902	—	—	—	10,902
Total operating expenses	1,637,911	—	95,250	(160,485)	1,572,676
Operating income	1,404,216	—	72,844	—	1,477,060
Other income (expenses):					
Interest	(170,989)	—	(2,940)	—	(173,929)
Equity in net income of subsidiaries	48,381	—	—	(48,381)	—
Total other expenses	(122,608)	—	(2,940)	(48,381)	(173,929)
Income before income taxes	1,281,608	—	69,904	(48,381)	1,303,131
Provision for income tax expense	(498,709)	—	—	—	(498,709)
Net income and comprehensive income including noncontrolling interest	782,899	—	69,904	(48,381)	804,422
	—	—	—	21,522	21,522

Net income and comprehensive income attributable to noncontrolling interest					
Net income and comprehensive income attributable to Antero Resources Corporation	\$ 782,899	—	69,904	(69,903)	782,900

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## ANTERO RESOURCES CORPORATION

## Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

## Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ 706,466	—	130,134	—	836,600
Cash flows used in investing activities:					
Additions to unproved properties	(170,291)	—	—	—	(170,291)
Drilling and completion costs	(1,350,498)	—	—	—	(1,350,498)
Additions to water handling systems	(79,227)	—	—	—	(79,227)
Additions to gathering systems and facilities	(40,264)	—	(242,549)	—	(282,813)
Additions to other property and equipment	(5,225)	—	—	—	(5,225)
Change in other assets	307	—	10,883	—	11,190
Net distributions from guarantor subsidiary	(115,000)	—	—	115,000	—
Distributions from non-guarantor subsidiary	49,161	—	—	(49,161)	—
Proceeds from contribution of assets to non-guarantor subsidiary	804,630	—	—	(804,630)	—
Proceeds from asset sales	40,000	—	—	—	40,000
Net cash used in investing activities	(866,407)	—	(231,666)	(738,791)	(1,836,864)
Cash flows provided by (used in) financing activities:					
Issuance of common stock	537,832	—	—	—	537,832
Issuance of common units in Antero Midstream Partners LP	—	—	240,972	—	240,972
Issuance of senior notes	750,000	—	—	—	750,000
Borrowings (repayments) on bank credit facility, net	(1,115,000)	(115,000)	525,000	—	(705,000)



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Payments of deferred financing costs	(15,234)	—	(1,956)	—	(17,190)
Distributions	—	115,000	(875,149)	738,791	(21,358)
Other	(3,544)	—	(17)	—	(3,561)
Net cash provided by (used in) financing activities	154,054	—	(111,150)	738,791	781,695
Net increase (decrease) in cash and cash equivalents	(5,887)	—	(212,682)	—	(218,569)
Cash and cash equivalents, beginning of period	15,787	—	230,192	—	245,979
Cash and cash equivalents, end of period	\$ 9,900	—	17,510	—	27,410

(13) Commitments

The following is a schedule of future minimum payments for firm transportation, drilling rig and hydraulic fracturing, and processing gathering and compression, office and equipment agreements, and leases that have remaining lease terms in excess of one year as of September 30, 2015 (in millions).

Year ending September 30:	Firm transportation (a)	Processing, gathering and compression (b)	Drilling rigs and frac services (c)	Office and equipment (d)	Total
2016	\$ 499	331	181	10	1,021
2017	795	361	139	9	1,304
2018	844	250	6	8	1,108
2019	1,039	198	—	5	1,242
2020	1,079	186	—	3	1,268
Thereafter	11,044	907	—	8	11,959
Total	\$ 15,300	2,233	326	43	17,902

(a) Firm Transportation

The Company has entered into firm transportation agreements with various pipelines in order to facilitate the delivery of its production to market. These contracts commit the Company to transport minimum daily natural gas or NGLs volumes at

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ANTERO RESOURCES CORPORATION

Notes to Condensed Consolidated Financial Statements

December 31, 2014 and September 30, 2015

negotiated rates, or pay for any deficiencies at specified reservation fee rates. The amounts in this table represent the Company's minimum daily volumes at the reservation fee rate. The values in the table represent the gross amounts that the Company is committed to pay; however, the Company will record in the consolidated financial statements its proportionate share of costs based on its working interest.

(b) Processing and Compression Service Commitments

The Company has entered into various long term gas processing agreements for certain of its production that will allow it to realize the value of its NGLs. The minimum payment obligations under the agreements are presented in the table.

The Company has various compressor service agreements with third parties that provide for payments based on volumes compressed and have minimum payment obligations which are presented in the table.

The values in the table represent the gross amounts that the Company is committed to pay; however, the Company will record in the consolidated financial statements its proportionate share of costs based on its working interest.

(c) Drilling Rig Service Commitments

The Company has obligations under agreements with service providers to procure drilling rigs and hydraulic fracturing services. The values in the table represent the gross amounts that the Company is committed to pay; however, the Company will record in the consolidated financial statements its proportionate share of costs based on its working interest.

(d) Office and Equipment Leases

The Company leases various office space and equipment, as well as field equipment, under operating lease arrangements.



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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 our condensed consolidated financial statements and related notes included elsewhere in this report. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors that could cause actual results to vary from our expectations include changes in natural gas, NGLs, and oil prices, the timing of planned capital expenditures, our ability to fund our development programs, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them, and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, as well as those factors discussed below, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. See "Cautionary Statement Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Item 1A. Risk Factors." We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

In this section, references to "Antero Resources," "the Company," "we," "us," and "our" refer to Antero Resources Corporation and its subsidiaries, unless otherwise indicated or the context otherwise requires.

Our Company

Antero Resources Corporation is an independent oil and natural gas company engaged in the exploitation, development and acquisition of natural gas, NGLs, and oil properties located in the Appalachian Basin. We focus on unconventional reservoirs, which can generally be characterized as fractured shale formations. Our management team has worked together for many years and has a successful track record of reserve and production growth as well as significant expertise in unconventional resource plays. Our strategy is to leverage our team's experience delineating and developing natural gas resource plays to profitably grow our reserves and production, primarily on our existing multi-year project inventory of drilling locations.

We have assembled a portfolio of long-lived properties that are characterized by what we believe to be low geologic risk and repeatability. Our drilling opportunities are focused in the Marcellus Shale and Utica Shale of the Appalachian Basin. As of September 30, 2015, we held approximately 565,000 net acres of rich gas and dry gas properties located in the Appalachian Basin in West Virginia, Ohio, and Pennsylvania. Our corporate headquarters are in Denver, Colorado.

We operate in the following industry segments: (i) the exploration, development and production of natural gas, NGLs, and oil; (ii) gathering and compression; (iii) water handling; and (iv) marketing of excess firm transportation capacity. All of our operations are conducted in the United States.

#### Address, Internet Website and Availability of Public Filings

Our principal executive offices are at 1615 Wynkoop Street, Denver, Colorado 80202. Our telephone number is (303) 357-7310. Our website is located at [www.anteroresources.com](http://www.anteroresources.com).

We make available our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K. These documents are located [www.anteroresources.com](http://www.anteroresources.com) under the “Investors Relations” link.

Information on our website is not incorporated into this Quarterly Report on Form 10-Q or our other filings with the SEC and is not a part of them.

#### 2015 Developments and Highlights

##### Energy Industry Environment

In late 2014, global energy commodity prices declined precipitously as a result of several factors, including an increase in worldwide commodity supplies, a stronger U.S. dollar, relatively mild weather in large portions of the U.S. during winter months, and strong competition among oil producing countries for market share. Commodity prices have continued to remain low through the third quarter of 2015; prices for West Texas Intermediate remained below \$50 per Bbl for most of the quarter, and Henry Hub natural gas prices remained below \$3.00 per MMBtu during the quarter. Additionally, NGL prices have declined from approximately 50% of

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WTI in January 2015 to 29% of WTI in September 2015. Average 5-year NYMEX strip pricing for both natural gas and oil have declined approximately 20% from December 31, 2014 levels. In response to these market conditions and concerns about access to capital markets, many U.S. exploration and development companies significantly reduced their capital spending plans for 2015. Our capital budget for 2015 is \$1.8 billion (exclusive of the capital budget for Antero Midstream Partners LP, or “Antero Midstream”), a 49% reduction from our 2014 capital expenditures. We plan to operate an average of 14 drilling rigs in 2015 as compared to an average of 21 rigs in 2014, and we plan to complete 130 horizontal wells in the Marcellus and Utica Shales in 2015 as compared to 177 in 2014. Additionally, we have deferred 50 Marcellus completions until the first half of 2016. We believe that our 2015 capital budget will be fully funded through operating cash flows and available borrowing capacity under our revolving credit facility. We will continue to monitor commodity prices and may revise the capital budget if conditions warrant. Additionally, given the current commodity price environment, we have evaluated the carrying value of our proved properties. See Critical Accounting Policies and Estimates for a discussion of such evaluation.

Production and Financial Results

For the three months ended September 30, 2015, we generated cash flow from operations of \$246 million, net income of \$534 million, and Adjusted EBITDAX of \$291 million. This compares to cash flow from operations of \$301 million, net income of \$204 million, and Adjusted EBITDAX of \$292 million for the three months ended September 30, 2014. Net income of \$534 million for the three months ended September 30, 2015 included \$1.1 billion of commodity derivative fair value gains, including \$206 million of settled derivative gains, deferred tax expense of \$335 million, and a noncash charge of \$24 million for equity-based compensation. See “—Non-GAAP Financial Measure” for a definition of Adjusted EBITDAX (a non-GAAP measure) and a reconciliation of Adjusted EBITDAX to net income.

For the nine months ended September 30, 2015, we generated cash flow from operations of \$837 million, net income of \$783 million, and Adjusted EBITDAX of \$914 million. This compares to cash flow from operations of \$799 million, net income of \$67 million, and Adjusted EBITDAX of \$832 million for the nine months ended September 30, 2014. Net income of \$783 million for the nine months ended September 30, 2015 included \$1.8 billion of commodity derivative fair value gains, including \$587 million of settled derivative gains, deferred tax expense of \$499 million, and a noncash charge of \$79 million for equity-based compensation. See “—Non-GAAP Financial Measure” for a definition of Adjusted EBITDAX (a non-GAAP measure) and a reconciliation of Adjusted EBITDAX to net income.

For the three months ended September 30, 2015, our production totaled approximately 139 Bcfe, or 1,506 MMcfe per day, a 39% increase compared to 99 Bcfe, or 1,080 MMcfe per day, for the three months ended September 30, 2014. The average price received for production for the three months ended September 30, 2015 was \$2.34 per Mcfe before the effects of settled commodity hedges compared to \$4.33 per Mcfe for the three months ended September 30, 2014. Average prices after the effects of settled commodity hedges were \$3.83 per Mcfe for the three months ended September 30, 2015 compared to \$4.91 per Mcfe for the three months ended September 30, 2014.

For the nine months ended September 30, 2015, our production totaled approximately 407 Bcfe, or 1,492 MMcfe per day, a 62% increase compared to 251 Bcfe, or 920 MMcfe per day, for the nine months ended September 30, 2014. The average price received for production for the nine months ended September 30, 2015 was \$2.59 per Mcfe before the effects of settled commodity hedges compared to \$5.06 per Mcfe for the nine months ended September 30, 2014. Average prices after the effects of settled commodity hedges were \$4.03 per Mcfe for the nine months ended September 30, 2015 compared to \$5.29 per Mcfe for the nine months ended September 30, 2014.

#### Dropdown of Water Handling Assets

On September 23, 2015, Antero completed the previously announced transaction by which Antero contributed (i) all of the outstanding limited liability company interests of Antero Water to Antero Midstream and (ii) all of the assets, contracts, rights, permits and properties owned or leased by Antero and used primarily in connection with the construction, ownership, operation, use or maintenance of Antero's advanced wastewater treatment complex to be constructed in Doddridge County, West Virginia, to Antero Treatment.

In consideration for the Contributed Assets, Antero Midstream (i) paid to Antero a cash distribution equal to \$552.5 million, less \$171 million of assumed debt, (ii) issued to Antero 10,988,421 common units representing limited partner interests in Antero Midstream, (iii) distributed to Antero proceeds of approximately \$241 million from a private placement of Antero Midstream common units, and (iv) has agreed to pay Antero (a) \$125 million in cash if Antero purchases 176,295,000 barrels or more of fresh water from Antero Midstream during the period between January 1, 2017 and December 31, 2019 and (b) an additional \$125 million in cash if

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Antero purchases 219,200,000 barrels or more of fresh water from Antero Midstream during the period between January 1, 2018 and December 31, 2020. Antero Midstream borrowed \$525 million on its bank credit facility in connection with this transaction.

### 2015 Capital Budget

For the nine months ended September 30, 2015, our consolidated capital expenditures were approximately \$1.9 billion, including drilling and completion costs of \$1.4 billion, gathering and compression project costs of \$283 million, water handling costs of \$79 million, leasehold acquisition costs of \$170 million, and other capital expenditures of \$5 million. Antero's capital budget for 2015, which excludes capital spending by Antero Midstream, is \$1.8 billion and includes \$1.6 billion for drilling and completion, \$50 million for water handling infrastructure, and \$150 million for core leasehold acquisitions. We do not budget for producing property acquisitions. Substantially all of the \$1.6 billion allocated for drilling and completion is allocated to our operated drilling in liquids-rich gas areas. Approximately 60% of the drilling and completion budget is allocated to the Marcellus Shale, and the remaining 40% is allocated to the Utica Shale. During 2015, we plan to operate an average of nine drilling rigs in the Marcellus Shale and five drilling rigs in the Utica Shale. Additionally, the capital budget for Antero Midstream for 2015 is a range of \$425 million to \$450 million. We periodically review our capital expenditures and adjust our budget and its allocation based on liquidity, drilling results, leasehold acquisition opportunities, and commodity prices.

### Credit Facilities

As of September 30, 2015, the borrowing base under our revolving credit facility was \$4.0 billion and lender commitments were \$4.0 billion. The borrowing base under our revolving credit facility is redetermined semi-annually and is based on the lenders' judgment of the volume of our proved oil and gas reserves, the estimated future cash flows from these reserves, and the values of our commodity hedge positions. Effective October 26, 2015, the borrowing base was increased to \$4.5 billion and lender commitments remain at \$4.0 billion. The next redetermination is scheduled to occur in April 2016. At September 30, 2015, we had \$500 million of borrowings and \$535 million of letters of credit outstanding under the revolving credit facility. Our revolving credit facility matures in May 2019. See “—Debt Agreements and Contractual Obligations—Senior Secured Revolving Credit Facility” for a description of our revolving credit facility.

Our consolidated subsidiary, Antero Midstream, has a revolving credit facility agreement that provides for lender commitments of \$1.5 billion. At September 30, 2015, Antero Midstream had \$525 million of borrowings outstanding under its revolving credit facility. The facility will mature in November 2019. See “—Debt Agreements and Contractual Obligations—Midstream Credit Facility” for a description of this revolving credit facility.



Hedge Position

As of September 30, 2015, we had entered into hedging contracts for October 1, 2015 through December 31, 2021 for 3.06 Tcf of our projected natural gas production at a weighted average index price of \$3.92 per MMBtu, 276 MBbls of oil at a weighted average price of \$65.67 per Bbl, and 611 million gallons of propane at a weighted average price of \$0.60 per gallon. These hedging contracts include contracts for the remaining three months ended December 31, 2015 of approximately 107 Bcf of natural gas at a weighted average index price of \$4.41 per Mcf, 276 MBbls of oil at \$65.67 per Bbl, and 89 million gallons of propane at a weighted average price of \$0.64 per gallon.

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## Results of Operations

## Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2015

The Company has four operating segments: (1) the exploration, development, and production of natural gas, NGLs, and oil; (2) gathering and compression; (3) water handling; and (4) marketing of excess firm transportation capacity. Revenues from the gathering and compression and water handling segments are primarily derived from intersegment transactions for services provided to our exploration and production segment. Marketing revenues are primarily derived from activities to purchase and sell third-party natural gas and NGLs and to market excess firm transportation capacity to third parties. The operating results and assets of the Company's reportable segments were as follows for the three months ended September 30, 2014 and 2015:

	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Three months ended September 30, 2014:						
Sales and revenues:						
Third-party	\$ 739,780	1,884	2,991	17,835	—	762,490
Intersegment	—	24,398	42,310	—	(66,708)	—
Total	\$ 739,780	26,282	45,301	17,835	(66,708)	762,490
Operating expenses:						
Lease operating	\$ 8,680	—	8,065	—	(8,065)	8,680
Gathering, compression, processing, and transportation	149,405	3,524	—	—	(24,398)	128,531
Depletion, depreciation, and amortization	110,008	10,227	4,389	—	—	124,624
General and administrative expense (before equity-based compensation)	23,181	3,957	1,577	—	—	28,715
Equity-based compensation expense	22,174	1,562	549	—	—	24,285
Other operating expenses	33,075	—	989	32,192	—	66,256
Total	346,523	19,270	15,569	32,192	(32,463)	381,091
Operating income (loss)	\$ 393,257	7,012	29,732	(14,357)	(34,245)	381,399
	Exploration and	Gathering and	Water	Marketing	Elimination of	Consolidated total

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	production	compression	handling		intersegment transactions	
Three months ended September 30, 2015:						
Sales and revenues:						
Third-party	\$ 1,403,275	3,468	959	35,633	—	1,443,335
Intersegment	398	55,790	21,487	—	(77,675)	—
Total	\$ 1,403,673	59,258	22,446	35,633	(77,675)	1,443,335
Operating expenses:						
Lease operating	\$ 10,721	—	3,973	—	(3,908)	10,786
Gathering, compression, processing, and transportation	211,469	4,699	—	—	(55,866)	160,302
Depletion, depreciation, and amortization	166,900	15,282	6,485	—	—	188,667
General and administrative expense (before equity-based compensation)	27,534	7,060	1,498	—	(322)	35,770
Equity-based compensation expense	18,631	4,205	1,079	—	—	23,915
Other operating expenses	28,044	(7,863)	800	61,799	—	82,780
Total	463,299	23,383	13,835	61,799	(60,096)	502,220
Operating income (loss)	\$ 940,374	35,875	8,611	(26,166)	(17,579)	941,115

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The following tables set forth selected operating data for the three months ended September 30, 2014 compared to the three months ended September 30, 2015:

(in thousands)	Three Months Ended		Amount of Increase (Decrease)	Percent Change	
	September 30, 2014	2015			
Operating revenues:					
Natural gas sales	\$ 310,390	\$ 253,975	\$ (56,415)	(18)	%
NGLs sales	91,111	50,092	(41,019)	(45)	%
Oil sales	29,304	20,138	(9,166)	(31)	%
Gathering, compression, and water handling	4,875	4,426	(449)	(9)	%
Marketing	17,835	35,633	17,798	100	%
Commodity derivative fair value gains	308,975	1,079,071	770,096	249	%
Total operating revenues	762,490	1,443,335	680,845	89	%
Operating expenses:					
Lease operating	8,680	10,786	2,106	24	%
Gathering, compression, processing, and transportation	128,531	160,302	31,771	25	%
Production and ad valorem taxes	21,726	10,721	(11,005)	(51)	%
Marketing	32,192	61,799	29,607	92	%
Exploration	7,476	1,087	(6,389)	(85)	%
Impairment of unproved properties	4,542	8,754	4,212	93	%
Depletion, depreciation, and amortization	124,624	188,667	64,043	51	%
Accretion of asset retirement obligations	320	419	99	31	%
General and administrative (before equity-based compensation)	28,715	35,770	7,055	25	%
Equity-based compensation	24,285	23,915	(370)	(2)	%
Total operating expenses	381,091	502,220	121,129	32	%
Operating income	381,399	941,115	559,716	147	%
Other Expenses:					
Interest expense	(42,455)	(60,921)	(18,466)	43	%
Income before income taxes	338,944	880,194	541,250	160	%
Income tax expense	(135,035)	(335,460)	(200,425)	148	%
Net income and comprehensive income including noncontrolling interest	203,909	544,734	340,825	167	%
Net income and comprehensive income attributable to noncontrolling interest	—	10,892	10,892	*	
Net income and comprehensive income attributable to Antero Resources Corporation	\$ 203,909	\$ 533,842	\$ 329,933	162	%
Adjusted EBITDAX (1)	\$ 291,572	\$ 290,807	\$ (765)	—	%

(1) See “—Non-GAAP Financial Measure” for a definition of Adjusted EBITDAX (a non-GAAP measure) and a reconciliation of Adjusted EBITDAX to net income.

\*Not meaningful or applicable



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	Three Months		Amount of Increase (Decrease)	Percent Change	
	Ended September 30, 2014	2015			
Production data:					
Natural gas (Bcf)	86	110	24	28	%
NGLs (MBbl)	1,953	4,147	2,194	112	%
Oil (MBbl)	348	660	312	90	%
Combined (Bcfe)	99	139	40	39	%
Daily combined production (MMcfe/d)	1,080	1,506	426	39	%
Average prices before effects of derivative settlements(2):					
Natural gas (per Mcf)	\$ 3.63	\$ 2.32	\$ (1.31)	(36)	%
NGLs (per Bbl)	\$ 46.66	\$ 12.08	\$ (34.58)	(74)	%
Oil (per Bbl)	\$ 84.17	\$ 30.49	\$ (53.68)	(64)	%
Combined (per Mcfe)	\$ 4.33	\$ 2.34	\$ (1.99)	(46)	%
Average realized prices after effects of derivative settlements(2):					
Natural gas (per Mcf)	\$ 4.31	\$ 3.99	\$ (0.32)	(7)	%
NGLs (per Bbl)	\$ 46.66	\$ 16.47	\$ (30.19)	(65)	%
Oil (per Bbl)	\$ 82.47	\$ 38.18	\$ (44.29)	(54)	%
Combined (per Mcfe)	\$ 4.91	\$ 3.83	\$ (1.08)	(22)	%
Average Costs (per Mcfe):					
Lease operating	\$ 0.09	\$ 0.08	\$ (0.01)	(11)	%
Gathering, compression, processing, and transportation	\$ 1.29	\$ 1.16	\$ (0.13)	(10)	%
Production and ad valorem taxes	\$ 0.22	\$ 0.08	\$ (0.14)	(64)	%
Marketing, net	\$ 0.14	\$ 0.19	\$ 0.05	36	%
Depletion, depreciation, amortization, and accretion	\$ 1.26	\$ 1.37	\$ 0.11	9	%
General and administrative (before equity-based compensation)	\$ 0.29	\$ 0.26	\$ (0.03)	(10)	%

(2) Average sales prices shown in the table reflect both of the before and after effects of our settled derivatives. Our calculation of such after effects includes realized gains or losses on settlements of commodity derivatives, which do not qualify for hedge accounting because we do not designate or document them as hedges for accounting purposes. Oil and NGLs production was converted at 6 Mcf per Bbl to calculate total Bcfe production and per Mcfe amounts. This ratio is an estimate of the equivalent energy content of the products and does not necessarily reflect their relative economic value.

Discussion of Consolidated Results for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2015

Our gathering and compression, water handling, and marketing segments primarily support our exploration and production segment. The following discussion of our results consolidates those segments with our exploration and production segment.

Natural gas, NGLs, and oil sales. Revenues from production of natural gas, NGLs, and oil decreased from \$431 million for the three months ended September 30, 2014 to \$324 million for the three months ended September 30, 2015, a decrease of \$107 million, or 25%. Our production increased by 39% over that same period, from 99 Bcfe, or

1,080 MMcfe per day, for the three months ended September 30, 2014 to 139 Bcfe, or 1,506 MMcfe per day, for the three months ended September 30, 2015. Net equivalent prices before the effects of settled derivative gains decreased from \$4.33 per Mcfe for the three months ended September 30, 2014 to \$2.34 for the three months ended September 30, 2015, a decrease of 46%. Prices for natural gas, NGLs, and oil all declined from 2014 levels. Net equivalent prices after the effects of gains on settled derivatives decreased from \$4.91 for the three months ended September 30, 2014 to \$3.83 for the three months ended September 30, 2015.

Increased production volumes accounted for an approximate \$169 million increase in year-over-year product revenues (calculated as the change in year-to-year volumes times the prior year average price), and decreases in our equivalent prices accounted for an approximate \$276 million decrease in year-over-year revenues (calculated as the change in year-to-year average price times current year production volumes). Production increases resulted from an increase in the number of producing wells as a result of our active drilling program. Based on our current drilling and completion plans for the remainder of 2015, the increasing size of our production base, and the current commodity price environment, we expect the rate of growth in our production to decline from the rate of growth realized in 2014.

Commodity derivative fair value gains. To achieve more predictable cash flows, and to reduce our exposure to downward price fluctuations, we enter into derivative contracts using fixed for variable swap contracts when management believes that favorable future sales prices for our natural gas, NGLs, and oil production can be secured. Because we do not designate these derivatives as accounting hedges, they do not receive accounting hedge treatment, and all mark-to-market gains or losses, as well as cash receipts or payments on settled derivative instruments, are recognized in our statements of operations. For the three months ended September 30,

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2014 and 2015, our hedges resulted in derivative fair value gains of \$309 million and \$1.1 billion, respectively. The derivative fair value gains included \$57 million and \$206 million of gains on settled derivatives for the three months ended September 30, 2014 and 2015, respectively. Commodity derivative fair value gains or losses will vary based on future commodity prices and have no cash flow impact until the derivative contracts are settled. Derivative asset or liability positions at the end of any accounting period may reverse to the extent natural gas, NGLs, and oil strip prices increase or decrease from their levels at the end of the accounting period, or as gains or losses are realized through settlement. We expect continued volatility in commodity prices and the related fair value of our derivative instruments in the future.

Gathering, compression, and water handling revenues. Gathering, compression, and water handling revenues decreased from \$5 million (net of intercompany eliminations of \$67 million) for the three months ended September 30, 2014 to \$4 million (net of intercompany eliminations of \$77 million) for the three months ended September 30, 2015. These amounts represent the portion of such fees that are charged to outside working interest owners in Company-operated wells, as well as fees charged to other third parties for water provided by the Company or usage of Antero Midstream's gathering pipelines.

Lease operating expenses. Lease operating expenses increased from \$9 million (net of intercompany eliminations of \$8 million) for the three months ended September 30, 2014 to \$11 million (net of intercompany eliminations of \$4 million) for the three months ended September 30, 2015, an increase of 24%. The increase is a result of an increase in the number of producing wells. On a per unit basis, lease operating expenses decreased from \$0.09 per Mcfe for the three months ended September 30, 2014 to \$0.08 for the three months ended September 30, 2015 as production from new wells caused overall production to increase at a faster rate than our lease operating costs. Lease operating expenses are expected to slowly increase on a per unit basis as older properties mature and production declines on a per well basis.

Gathering, compression, processing, and transportation expense. Gathering, compression, processing, and transportation expense increased from \$129 million (net of intercompany eliminations of \$24 million) for the three months ended September 30, 2014 to \$160 million (net of intercompany eliminations of \$56 million) for the three months ended September 30, 2015. The increase in these expenses is a result of the increase in production, firm transportation commitments, and third-party gathering, compression, and processing expenses. On a per Mcfe basis, total gathering, compression, processing and transportation expenses decreased from \$1.29 per Mcfe for the three months ended September 30, 2014 to \$1.16 for the three months ended September 30, 2015 primarily as a result of decreases in fuel costs as compared to the prior year period.

We have entered into contracts for significant firm transportation volumes in advance of having sufficient production to fully utilize the capacity. Based on current projections for our 2015 annual production levels, we estimate that we could incur total annual net marketing costs of \$100 million to \$150 million in 2015 for unutilized transportation capacity depending on the amount of unutilized capacity that can be marketed to third parties or utilized to transport third party gas and capture positive basis differentials.



Production and ad valorem tax expense. Total production and ad valorem taxes decreased from \$22 million for the three months ended September 30, 2014 to \$11 million for the three months ended September 30, 2015, primarily as a result of a decrease in the estimate of ad valorem taxes payable by Antero Midstream, partially offset by increased production. Production and ad valorem taxes as a percentage of natural gas, NGLs, and oil revenues before the effects of hedging decreased from 5.0% for the three months ended September 30, 2014 to 3.3% for the three months ended September 30, 2015, primarily due to the decrease in the estimate of ad valorem taxes payable by Antero Midstream. Legislative proposals in the State of Ohio to increase severance taxes on production from horizontally drilled wells could increase our future production tax rates in Ohio if such legislation is enacted.

Exploration expense. Exploration expense of \$7 million for the three months ended September 30, 2014 decreased to \$1 million for the three months ended September 30, 2015 primarily because of an overall decrease in lease acquisition efforts, resulting in a decrease in unsuccessful lease acquisitions.

Impairment of unproved properties. Impairment of unproved properties increased from \$5 million for the three months ended September 30, 2014 to \$9 million for the three months ended September 30, 2015. We charge impairment expense for expired or soon-to-be expired leases when we determine they are impaired based on factors such as remaining lease terms, reservoir performance, commodity price outlooks, or future plans to develop the acreage, and recognize impairment costs accordingly.

Depletion, depreciation, and amortization. Depletion, depreciation, and amortization (“DD&A”) increased from \$125 million for the three months ended September 30, 2014 to \$189 million for the three months ended September 30, 2015, primarily because of increased production. DD&A per Mcfe increased by 9%, from \$1.26 per Mcfe during the three months ended September 30, 2014 to \$1.37 per Mcfe during the three months ended September 30, 2015, primarily due to proved developed reserves increasing at a slower rate than the corresponding cost additions from wells completed during the three months ended September 30, 2015.

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We evaluate the carrying amount of our proved natural gas, NGLs, and oil properties for impairment on a field-by-field basis whenever events or changes in circumstances (such as the decline in commodity prices during 2015) indicate that a property's carrying amount may not be recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows (measured using strip prices at the end of the quarter), we would record an impairment charge equal to the amount by which the carrying amount of the oil and gas properties exceeded the estimated fair value of the properties. No impairment expenses were recorded for the three months ended September 30, 2014 and 2015 for proved properties.

General and administrative and equity-based compensation expense. General and administrative expense (before equity-based compensation expense) increased from \$29 million for the three months ended September 30, 2014 to \$36 million for the three months ended September 30, 2015, primarily as a result of increased staffing levels and related salary and benefits expenses, as well as increases in legal and other general corporate expenses, all of which are due to our increase in development activities and production levels. On a per unit basis, general and administrative expense before equity-based compensation decreased by 10%, from \$0.29 per Mcfe during the three months ended September 30, 2014 to \$0.26 per Mcfe during the three months ended September 30, 2015, primarily due to a 39% increase in production. We had 384 employees as of September 30, 2014 and 482 employees as of September 30, 2015.

Noncash equity-based compensation expense remained constant at \$24 million for the three months ended September 30, 2014 and 2015 as a result of a \$8 million decrease in amortization of expense related to the vesting of profits interests, offset by a \$8 million increase in equity-based compensation primarily related to restricted stock unit, stock option, and Antero Midstream phantom unit awards. See note 6 to the condensed consolidated financial statements included elsewhere in this report for more information on the vested profits interest charges.

Interest expense. Interest expense increased from \$42 million for the three months ended September 30, 2014 to \$61 million for the three months ended September 30, 2015, primarily due to increased indebtedness. Interest expense includes approximately \$2.4 million and \$2.6 million of non-cash amortization of deferred financing costs for the three months ended September 30, 2014 and 2015, respectively.

Income tax expense. Income tax expense increased from \$135 million for the three months ended September 30, 2014 to \$335 million for the three months ended September 30, 2015 because of the increase in our pre-tax income compared to the prior year period. Equity-based compensation expense of \$16 million and \$8 million for the three months ended September 30, 2014 and 2015, respectively, related to the vested profits interests charges is not deductible for federal or state income taxes and, along with the effect of state taxes, largely accounts for the difference between the federal tax rate of 35% and the rate at which income tax expense was recognized for the three months ended September 30, 2015.

At December 31, 2014, we had approximately \$1.1 billion of U.S. federal net operating loss carryforwards (“NOLs”) and approximately \$1.0 billion of state NOLs, which expire from 2024 through 2034. From time to time there has been proposed legislation in the U.S. Congress to eliminate or limit future deductions for intangible drilling costs. Such legislation could significantly affect our future taxable position if passed. The impact of any change will be recorded in the period that any such legislation might be enacted.

The calculation of our tax liabilities involves uncertainties in the application of complex tax laws and regulations. We give financial statement recognition to those tax positions that we believe are more-likely-than-not to be sustained upon examination by the Internal Revenue Service or state revenue authorities. The financial statements include unrecognized benefits at September 30, 2015 of \$11 million that, if recognized, would result in a reduction of current income taxes payable and an increase in noncurrent deferred tax liabilities. As of September 30, 2015, we have accrued approximately \$1.6 million of interest on unrecognized tax benefits.

Adjusted EBITDAX. Adjusted EBITDAX decreased from \$292 million for the three months ended September 30, 2014 to \$291 million for the three months ended September 30, 2015, primarily due to a 39% increase in production, which was offset by a 22% decrease in the average per Mcfe price received after the impact of settled derivatives, net of the related increases in cash operating and general and administrative expenses. See “—Non-GAAP Financial Measure” for a definition of Adjusted EBITDAX (a non-GAAP measure) and a reconciliation of Adjusted EBITDAX to net income from continuing operations.

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Discussion of Segment Results for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2015

**Gathering and Compression.** Revenue for the gathering and compression segment increased from \$26.3 million for the three months ended September 30, 2014 to \$59.3 million for the three months ended September 30, 2015, an increase of \$33.0 million, or 125%. Gathering revenues increased by \$27.5 million from the prior year period and compression revenues increased by \$5.5 million as additional wells on production increased throughput volumes. Total operating expenses related to gathering and compression increased from \$19.3 million for the three months ended September 30, 2014 to \$23.4 million for the three months ended September 30, 2015 as a result of the increased throughput volumes, as well as increases in depreciation expense due to a larger base of gathering and compression assets.

**Water Handling.** Revenue for the water handling segment decreased from \$45.3 million for the three months ended September 30, 2014 to \$22.4 million for the three months ended September 30, 2015, a decrease of \$22.9 million, or 50%. The decrease was due to decreased use of the water systems in our hydraulic fracturing activities as a result of the deferral of some well completions until the latter part of 2015 and into 2016. The volume of water delivered through the system decreased from 12.9 MMBbls for the three months ended September 30, 2014 to 6.2 MMBbls for the three months ended September 30, 2015. Operating expenses for the water handling segment decreased from \$15.6 million for the three months ended September 30, 2014 to \$13.8 million for the three months ended September 30, 2015 as a result of the decreased use of the fresh water distribution systems.

**Marketing.** We purchase and sell third-party natural gas and NGLs and market our excess firm transportation capacity, or engage third parties to conduct these activities on our behalf, in order to optimize the revenues from these transportation agreements. Marketing revenues of \$18 million and \$36 million and expenses of \$32 million and \$62 million for the three months ended September 30, 2014 and 2015, respectively, relate to these activities. Net losses on our marketing activities were \$14 million and \$26 million for the three months ended September 30, 2014 and 2015, respectively. Marketing costs include firm transportation costs related to current excess capacity as well as the cost of third-party purchased gas and NGLs. This includes firm transportation costs of \$18 million and \$30 million for the three months ended September 30, 2014 and 2015, respectively, related to unutilized excess capacity which increased due to new firm transportation agreements. We enter into long-term firm transportation agreements for a significant part of our current and expected future production in order to secure guaranteed capacity to favorable markets.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2015

The operating results and assets of the Company's reportable segments were as follows for the nine months ended September 30, 2014 and 2015:

Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment	Consolidated total
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	transactions					
Nine months ended						
September 30, 2014:						
Sales and revenues:						
Third-party	\$ 1,207,023	4,831	7,133	23,048	—	1,242,035
Intersegment	—	50,147	103,445	—	(153,592)	—
Total	\$ 1,207,023	54,978	110,578	23,048	(153,592)	1,242,035
Operating expenses:						
Lease operating	\$ 18,570	—	22,495	—	(22,495)	18,570
Gathering, compression, processing, and transportation	359,364	6,661	—	—	(50,147)	315,878
Depletion, depreciation, and amortization	285,245	24,991	10,748	—	—	320,984
General and administrative expense (before equity-based compensation)	62,651	9,710	4,085	—	—	76,446
Equity-based compensation expense	78,504	5,365	2,027	—	—	85,896
Other operating expenses	90,749	—	3,376	58,119	—	152,244
Total	895,083	46,727	42,731	58,119	(72,642)	970,018
Operating income (loss)	\$ 311,940	8,251	67,847	(35,071)	(80,950)	272,017

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	Exploration and production	Gathering and compression	Water handling	Marketing	Elimination of intersegment transactions	Consolidated total
Nine months ended September 30, 2015:						
Sales and revenues:						
Third-party	\$ 2,891,410	8,433	6,651	143,242	—	3,049,736
Intersegment	1,025	159,661	80,886	—	(241,572)	—
Total	\$ 2,892,435	168,094	87,537	143,242	(241,572)	3,049,736
Operating expenses:						
Lease operating	\$ 24,981	—	16,576	—	(15,996)	25,561
Gathering, compression, processing, and transportation	630,708	19,792	—	—	(159,867)	490,633
Depletion, depreciation, and amortization	483,991	45,255	18,767	—	—	548,013
General and administrative expense (before equity-based compensation)	79,204	16,467	3,793	—	(819)	98,645
Equity-based compensation expense	61,617	14,218	3,445	—	—	79,280
Other operating expenses	113,881	25	2,437	214,201	—	330,544
Total	1,394,382	95,757	45,018	214,201	(176,682)	1,572,676
Operating income (loss)	\$ 1,498,053	72,337	42,519	(70,959)	(64,890)	1,477,060

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The following tables set forth selected operating data for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015:

(in thousands)	Nine Months Ended		Amount of Increase (Decrease)	Percent Change	
	September 30, 2014	2015			
Operating revenues:					
Natural gas sales	\$ 936,877	\$ 810,982	\$ (125,895)	(13)	%
NGLs sales	244,807	188,403	(56,404)	(23)	%
Oil sales	89,059	55,627	(33,432)	(38)	%
Gathering, compression, and water handling	11,964	15,084	3,120	26	%
Marketing	23,048	143,242	120,194	521	%
Commodity derivative fair value gains (losses)	(63,720)	1,836,398	1,900,118	*	
Total operating revenues	1,242,035	3,049,736	1,807,701	146	%
Operating expenses:					