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Memorial Resource Development Corp.  
Form 10-Q  
November 04, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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: 001-36490

MEMORIAL RESOURCE DEVELOPMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

46-4710769  
(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1800, Houston, TX  
(Address of principal executive offices)

77002  
(Zip Code)

Registrant's telephone number, including area code: (713) 588-8300

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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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 31, 2015, the registrant had 205,314,453 shares of common stock, \$.01 par value, outstanding

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MemORIAL RESOURCE DEVELOPMENT CORP.

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## GLOSSARY OF OIL AND NATURAL GAS TERMS

**Analogous Reservoir:** Analogous reservoirs, as used in resource assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, analogous reservoir refers to a reservoir that shares all of the following characteristics with the reservoir of interest: (i) the same geological formation (but not necessarily in pressure communication with the reservoir of interest); (ii) the same environment of deposition; (iii) similar geologic structure; and (iv) the same drive mechanism.

**Bbl:** One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

**Bcfe:** One billion cubic feet of natural gas equivalent.

**BOEM:** Bureau of Ocean Energy Management.

**Btu:** One British thermal unit, the quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit.

**COPAS:** Council of Petroleum Accountants Societies.

**Dry Hole or Dry Well:** A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production would exceed production expenses and taxes.

**Economically Producing:** The term economically producing, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. For this determination, the value of the products that generate revenue are determined at the terminal point of oil and natural gas producing activities.

**Exploitation:** A development or other project which may target proven or unproven reserves (such as probable or possible reserves), but which generally has a lower risk than that associated with exploration projects.

**Field:** An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

**Gross Acres or Gross Wells:** The total acres or wells, as the case may be, in which we have working interest.

**MBbl:** One thousand Bbls.

**Mcf:** One thousand cubic feet of natural gas.

**MMBtu:** One million British thermal units.

**MMcf:** One million cubic feet of natural gas.

**MMcfe:** One million cubic feet of natural gas equivalent.

Net Production: Production that is owned by us less royalties and production due others.

NGLs: The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

NYMEX: New York Mercantile Exchange.

Oil: Oil and condensate.

Operator: The individual or company responsible for the exploration and/or production of an oil or natural gas well or lease.

Play: A geographic area with hydrocarbon potential.

Possible Reserves: Reserves that are less certain to be recovered than probable reserves.

Probable Reserves: Reserves that are less certain to be recovered than proved reserves but that, together with proved reserves, are as likely as not to be recovered.

**Proved Reserves:** Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible, from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time. The area of the reservoir considered as proved includes (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons, as seen in a well penetration, unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated natural gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty. Reserves which can be produced economically through application of improved recovery techniques (including fluid injection) are included in the proved classification when (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir, or an analogous reservoir or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price used is the average price during the twelve-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

**PUDs: Proved Undeveloped Reserves.**

**Proved Undeveloped Reserves:** Proved oil and natural gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

**Recompletion:** The completion for production of an existing wellbore in another formation from that which the well has been previously completed.

**Reliable Technology:** Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

**Reserve Life:** A measure of the productive life of an oil and natural gas property or a group of properties, expressed in years. Reserve life is calculated by dividing proved reserve volumes at year-end by production volumes. In our calculation of reserve life, production volumes are adjusted, if necessary, to reflect property acquisitions and

dispositions.

**Reserves:** Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market and all permits and financing required to implement the project. Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

**Reservoir:** A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reserves.

**Resources:** Resources are quantities of oil and natural gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable and another portion may be considered unrecoverable. Resources include both discovered and undiscovered accumulations.



**Standardized Measure:** The present value of estimated future net revenue to be generated from the production of proved reserves, determined in accordance with the rules, regulations or standards established by the United States Securities and Exchange Commission (“SEC”) and the Financial Accounting Standards Board (“FASB”) (using prices and costs in effect as of the date of estimation), less future development, production and income tax expenses, and discounted at 10% per annum to reflect the timing of future net revenue. Because we are a corporation, we are subject to federal or state income taxes and thus make provisions for federal or state income taxes in the calculation of our standardized measure. Standardized measure does not give effect to derivative transactions.

**Wellbore:** The hole drilled by the bit that is equipped for oil or natural gas production on a completed well. Also called well or borehole.

**Working Interest:** An interest in an oil and natural gas lease that gives the owner of the interest the right to drill for and produce oil and natural gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations.

**WTI:** West Texas Intermediate.

## NAMES OF ENTITIES

As used in this Form 10-Q, unless we indicate otherwise:

- Unless the context requires otherwise, references to “we,” “us,” “our,” “MRD,” or “the Company” or like terms are intended mean the business and operations of Memorial Resource Development Corp. and its consolidated subsidiaries;
- “MRD LLC” refers to Memorial Resource Development LLC, which historically owned our predecessor’s business and which was merged into MRD Operating LLC (“MRD Operating”), our subsidiary, subsequent to our initial public offering;
- “Memorial Production Partners,” “MEMP” and “the Partnership” refer to Memorial Production Partners LP individually and collectively with its subsidiaries, as the context requires;
- “MEMP GP” refers to Memorial Production Partners GP LLC, the general partner of the Partnership;
- “our predecessor” refers collectively to: (i) MRD LLC and its former consolidated subsidiaries, consisting of Classic Hydrocarbons Holdings, L.P. (“Classic”), Classic Hydrocarbons GP Co., L.L.C. (“Classic GP”), Black Diamond Minerals, LLC (“Black Diamond”), Beta Operating Company, LLC (“Beta Operating”), MEMP GP, BlueStone Natural Resources Holdings, LLC (“BlueStone”), MRD Operating, WildHorse Resources, LLC (“WildHorse Resources”), Tanos Energy, LLC (“Tanos”), and each of their respective subsidiaries, including MEMP and its subsidiaries and (ii) the previous owners as defined below:
  - “the Funds” refers collectively to Natural Gas Partners VIII, L.P., Natural Gas Partners IX, L.P. and NGP IX Offshore Holdings, L.P., which collectively control MRD Holdco;
- “MRD Holdco” refers to MRD Holdco LLC, a holding company controlled by the Funds that, together with a group, owns a majority of our common stock;
- “the previous owners” for accounting and financial reporting purposes refers to the carved-out net profits interest created from working interests in certain oil and natural gas properties that WildHorse Resources originally acquired in 2010 from third parties and immediately sold to NGP Income Co-Investment Fund II, L.P. (“NGPCIF”), a NGP controlled entity, and subsequently reacquired from NGPCIF on February 28, 2014;
- “NGP” refers to Natural Gas Partners, a family of private equity funds organized to make direct equity investments in the energy industry, including the Funds; and
  - “Classic Pipeline” refers to Classic Pipeline & Gathering, LLC, a subsidiary of MRD Holdco that owns certain immaterial midstream assets in Texas.

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains “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”). Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, may include statements about our:

- business strategy;
- estimated reserves and the present value thereof;
- technology;
- cash flows and liquidity;
- financial strategy, budget, projections and future operating results;
- realized commodity prices;
- timing and amount of future production of reserves;
- ability to procure drilling and production equipment;
- ability to procure oilfield labor;
  - the amount, nature and timing of capital expenditures, including future development costs;
- ability to access, and the terms of, capital;
- drilling of wells, including statements made about future horizontal drilling activities;
- competition;
- expectations regarding government regulations;
- marketing of production and the availability of pipeline capacity;
- exploitation or property acquisitions;
- costs of exploiting and developing our properties and conducting other operations;
- expectations regarding general economic and business conditions;
- competition in the oil and natural gas industry;
- effectiveness of our risk management activities;
- environmental and other liabilities;
- counterparty credit risk;
- expectations regarding taxation of the oil and natural gas industry;
- expectations regarding developments in other countries that produce oil and natural gas;
- future operating results;
- plans and objectives of management; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

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These types of statements, other than statements of historical fact included in this quarterly report, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “should,” “expect,” “plan,” “project,” “forecast,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “target,” “outlook,” “continue,” the negative of such terms or other comparable terminology. These statements discuss future expectations, contain projections of results of operations or of financial condition or include other “forward-looking” information. These forward-looking statements involve risks and uncertainties. Important factors that could cause our actual results or financial condition to differ materially from our expectations include, but are not limited to, the following risks and uncertainties:

- variations in the market demand for, and prices of, oil, natural gas and NGLs;
- uncertainties about our estimated reserves;
- the adequacy of our capital resources and liquidity including, but not limited to, access to additional borrowing capacity under our revolving credit facility;
- general economic and business conditions;
- risks associated with negative developments in the capital markets;
- failure to realize expected value creation from property acquisitions;
- uncertainties about our ability to replace reserves and economically develop our current reserves;
- drilling results;
  - potential financial losses or earnings reductions from our commodity price risk management programs;
- adoption or potential adoption of new governmental regulations;
- the availability of capital on economic terms to fund our capital expenditures and acquisitions;
- risks associated with our substantial indebtedness; and
- our ability to satisfy future cash obligations and environmental costs.

The forward-looking statements contained in this quarterly report are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this quarterly report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or that the events or circumstances described in any forward-looking statement will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors described in the “Part I—Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2014 (our “2014 Form 10-K”) and “Part II—Item 1A. Risk Factors” appearing within this quarterly report and elsewhere in this quarterly report. All forward-looking statements speak only as of the date of this quarterly report. We do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

## PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.  
MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except outstanding shares)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$7,363	\$5,958
Accounts receivable:		
Oil and natural gas sales	77,795	82,263
Joint interest owners and other	58,193	49,313
Short-term derivative instruments	383,548	340,056
Prepaid expenses and other current assets	27,856	28,027
Total current assets	554,755	505,617
Property and equipment, at cost:		
Oil and natural gas properties, successful efforts method	5,477,217	4,844,529
Other	27,053	33,815
Accumulated depreciation, depletion and impairment	(2,208,722)	(1,340,688)
Property and equipment, net	3,295,548	3,537,656
Long-term derivative instruments	630,496	435,369
Restricted investments	81,254	77,361
Other long-term assets	55,215	37,544
Total assets	\$4,617,268	\$4,593,547
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$38,668	\$25,772
Accounts payable - affiliates	9,757	624
Revenues payable	70,380	57,352
Accrued liabilities	176,599	147,123
Deferred income tax liabilities	57,444	51,877
Short-term derivative instruments	3,515	3,289
Total current liabilities	356,363	286,037
Long-term debt—MRD Segment	726,000	783,000

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Long-term debt—MEMP Segment	1,878,264	1,595,413
Asset retirement obligations	129,060	122,531
Long-term derivative instruments	3,183	—
Deferred tax liabilities	120,789	95,017
Other long-term liabilities	6,995	8,585
Total liabilities	3,220,654	2,890,583
Commitments and contingencies (Note 15)		
Equity:		
Stockholders' equity (deficit):		
Preferred stock, \$.01 par value: 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$.01 par value: 600,000,000 shares authorized; 205,318,103 shares issued and outstanding at September 30, 2015; 193,435,414 shares issued and outstanding at December 31, 2014	2,053	1,935
Additional paid-in capital	1,554,671	1,367,346
Accumulated earnings (deficit)	(757,229 )	(786,871 )
Total stockholders' equity	799,495	582,410
Noncontrolling interests	597,119	1,120,554
Total equity	1,396,614	1,702,964
Total liabilities and equity	\$4,617,268	\$4,593,547

See Accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED AND COMBINED OPERATIONS

(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Oil & natural gas sales	\$ 199,173	\$ 263,964	\$ 553,971	\$ 721,110
Other revenues	564	1,332	2,350	3,584
Total revenues	199,737	265,296	556,321	724,694
<b>Costs and expenses:</b>				
Lease operating	53,365	46,211	147,807	111,887
Gathering, processing, and transportation	30,767	19,803	77,087	51,809
Gathering, processing, and transportation - affiliate (Note 13)	9,215	—	13,028	—
Pipeline operating	461	431	1,407	1,596
Exploration	6,209	175	9,287	1,465
Production and ad valorem taxes	9,647	14,040	28,275	33,623
Depreciation, depletion, and amortization	106,340	84,447	280,251	215,906
Impairment of proved oil and natural gas properties	361,836	67,181	613,183	67,181
Incentive unit compensation expense (Note 12)	4,965	25,550	31,305	969,390
General and administrative	25,605	21,196	77,792	61,061
Accretion of asset retirement obligations	1,811	1,553	5,347	4,601
(Gain) loss on commodity derivative instruments	(370,055)	(189,492)	(531,838)	11,580
(Gain) loss on sale of properties	—	—	50	3,057
Other, net	—	—	(943 )	(12 )
Total costs and expenses	240,166	91,095	752,038	1,533,144
Operating income (loss)	(40,429 )	174,201	(195,717)	(808,450 )
<b>Other income (expense):</b>				
Interest expense, net	(40,431 )	(36,345 )	(116,528)	(104,928 )
Loss on extinguishment of debt	—	—	—	(37,248 )
Other, net	(71 )	15	112	102
Total other income (expense)	(40,502 )	(36,330 )	(116,416)	(142,074 )
Income (loss) before income taxes	(80,931 )	137,871	(312,133)	(950,524 )
Income tax benefit (expense)	(54,324 )	(25,834 )	(75,744 )	(14,398 )
Net income (loss)	(135,255)	112,037	(387,877)	(964,922 )
Net income (loss) attributable to noncontrolling interest	(191,807)	102,109	(466,471)	(34,851 )

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Net income (loss) attributable to Memorial Resource

Development Corp.	56,552	9,928	78,594	(930,071 )
Net (income) loss allocated to members	—	—	—	(20,305 )
Net (income) loss allocated to previous owners	—	—	—	(1,425 )
Net (income) allocated to participating restricted stockholders	(501 )	(55 )	(588 )	—
Net income (loss) available to common stockholders	\$56,051	\$9,873	\$78,006	\$(951,801 )
Earnings per common share: (Note 10)				
Basic	\$0.29	\$0.05	\$0.41	\$(4.94 )
Diluted	\$0.29	\$0.05	\$0.41	\$(4.94 )
Weighted average common and common equivalent shares outstanding:				
Basic	190,725	192,500	190,353	192,500
Diluted	190,725	192,500	190,353	192,500

See Accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED AND COMBINED CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$(387,877)	\$(964,922 )
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation, depletion, and amortization	280,251	215,906
Impairment of proved oil and natural gas properties	613,183	67,181
(Gain) loss on derivatives	(525,210)	12,737
Cash settlements (paid) received on expired derivative instruments	290,001	(22,174 )
Cash settlements on terminated derivatives	27,063	—
Premiums paid for derivatives	(27,063 )	—
Loss on extinguishment of debt	—	30,248
Amortization of deferred financing costs	6,426	5,492
Accretion of senior notes net discount	1,818	1,888
Accretion of asset retirement obligations	5,347	4,601
Amortization of equity awards	14,034	6,874
Settlement of asset retirement obligations	(780 )	—
(Gain) loss on sale of properties	50	3,057
Non-cash compensation expense	31,305	941,659
Deferred income tax expense (benefit)	68,798	13,916
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	13,759	(22,117 )
Prepaid expenses and other assets	4,134	297
Payables and accrued liabilities	22,391	67,324
Other	789	3,493
Net cash provided by operating activities	438,419	365,460
<b>Cash flows from investing activities:</b>		
Acquisitions of oil and natural gas properties	(13,362 )	(1,083,167)
Acquisition post-closing adjustment receipts	9,570	—
Additions to oil and gas properties	(634,317)	(457,838 )
Additions to other property and equipment	(3,768 )	(9,134 )
Additions to restricted investments	(3,893 )	(2,883 )
Deposits for property acquisitions	(21,286 )	—
Decrease (increase) in restricted cash	—	49,946
Proceeds from the sale of oil and natural gas properties	13,612	6,700
Other	—	(301 )
Net cash used in investing activities	(653,444)	(1,496,677)
<b>Cash flows from financing activities:</b>		
Advances on revolving credit facilities	748,000	2,464,800
Payments on revolving credit facilities	(521,000)	(2,441,900)

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Termination of second lien credit facility	—	(328,282 )
Proceeds from the issuance of senior notes	—	1,092,425
Redemption of senior notes	(2,914 )	(351,808 )
Deferred financing costs	(1,765 )	(30,284 )
Purchase of additional interests in consolidated subsidiaries	—	(3,292 )
Proceeds from MRD equity offering	242,880	408,500
Costs incurred in conjunction with MRD equity offering	(3,979 )	(28,198 )
Proceeds from MEMP equity offering	—	553,288
Costs incurred in conjunction with MEMP equity offering	—	(12,222 )
Contributions from NGP affiliates related to sale of assets	—	1,165
Distribution to MRD Holdco	—	(59,803 )
Distributions to noncontrolling interests	(138,123)	(101,327 )
Distribution to NGP affiliates related to purchase of assets	—	(66,693 )
Distribution to NGP affiliates related to sale of assets, net of cash received	—	(32,770 )
MRD equity repurchases	(51,197 )	—
MEMP equity repurchases	(55,472 )	—
Other	—	213
Net cash provided by financing activities	216,430	1,063,812
Net change in cash and cash equivalents	1,405	(67,405 )
Cash and cash equivalents, beginning of period	5,958	77,721
Cash and cash equivalents, end of period	\$7,363	\$10,316

See Accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED AND COMBINED EQUITY

(In thousands)

	Stockholders' Equity			Members' Equity			
	Common stock	Additional paid in capital	Accumulated earnings (deficit)	Members	Previous Owners	Noncontrolling Interest	Total
Balance, January 1, 2014	\$—	\$—	\$—	\$237,186	\$40,331	\$ 580,615	\$858,132
Net income (loss)	—	—	(951,801 )	20,305	1,425	(34,851 )	(964,922 )
Issuance of shares in connection with restructuring transactions	1,710	913,152	—	—	—	—	914,862
Issuance of shares/units in connection with equity offerings	215	379,962	—	—	—	540,987	921,164
Restricted stock awards	11	(11 )	—	—	—	—	—
Tax related effects in connection with restructuring transactions and initial public offering	—	(43,251 )	—	—	—	—	(43,251 )
Contribution related to MRD Holdco incentive unit compensation expense	—	137,307	—	—	—	—	137,307
Contribution related to sale of assets to NGP affiliate	—	—	—	1,165	—	—	1,165
Net book value of assets sold to NGP affiliate	—	—	—	(621 )	—	—	(621 )
Distributions	—	—	—	—	—	(101,327 )	(101,327 )
Net book value of assets acquired from NGP affiliates	—	—	—	45,059	(41,756)	—	3,303
Purchase of noncontrolling interest	—	(2,881 )	—	—	—	(411 )	(3,292 )
Distribution of net assets to MRD Holdco	—	—	—	(123,078)	—	29,994	(93,084 )
Distribution of shares received in connection with restructuring transactions to MRD Holdco	—	—	—	(110,510)	—	—	(110,510 )
	—	—	—	(66,693 )	—	—	(66,693 )

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Distribution to NGP affiliates in connection with acquisition of assets							
Net equity deemed contribution (distribution) related to net assets transferred to MEMP	—	—	—	(2,659 )	—	2,659	—
Amortization of equity awards	—	1,487	—	—	—	5,387	6,874
Other	—	378	—	(154 )	—	(332 )	(108 )
Balance, September 30 2014	\$ 1,936	\$ 1,386,143	\$ (951,801 )	\$—	\$—	\$ 1,022,721	\$ 1,458,999

Balance, January 1, 2015	\$ 1,935	\$ 1,367,346	\$ (786,871 )	\$—	\$—	\$ 1,120,554	\$ 1,702,964
Net income (loss)	—	—	78,594	—	—	(466,471 )	(387,877 )
Issuance of shares in connection with equity offering	138	242,742	—	—	—	—	242,880
Cost incurred in conjunction with equity offering	—	(4,351 )	—	—	—	—	(4,351 )
Share repurchase	(28 )	—	(47,757 )	—	—	—	(47,785 )
Restricted stock awards	9	(9 )	—	—	—	—	—
Amortization of restricted stock awards	—	6,135	—	—	—	—	6,135
Contribution related to MRD Holdco incentive unit compensation expense (Note 12)	—	31,305	—	—	—	—	31,305
Net equity deemed contribution (distribution) related to MEMP property exchange (Note 1)	—	(127,149 )	—	—	—	127,149	—
Deferred tax adjustments (Note 2)	—	38,778	—	—	—	—	38,778
Distributions	—	—	—	—	—	(138,123 )	(138,123 )
Amortization of MEMP equity awards	—	—	—	—	—	7,899	7,899
MEMP common units repurchased	—	—	—	—	—	(53,999 )	(53,999 )
MRD restricted shares repurchased	(1 )	—	(1,195 )	—	—	—	(1,196 )
Other	—	(126 )	—	—	—	110	(16 )
Balance, September 30, 2015	\$ 2,053	\$ 1,554,671	\$ (757,229 )	\$—	\$—	\$ 597,119	\$ 1,396,614

See Accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.



MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note 1. Background, Organization and Basis of Presentation

Overview

Memorial Resource Development Corp. (the “Company”) is a publicly traded Delaware corporation, the common shares of which are listed on the NASDAQ Global Market (“NASDAQ”) under the symbol “MRD.” Unless the context requires otherwise, references to “we,” “us,” “our,” “MRD,” or “the Company” are intended to mean the business and operations of Memorial Resource Development Corp. and its consolidated subsidiaries.

References to: (i) “Memorial Production Partners,” “MEMP” and “the Partnership” refer to Memorial Production Partners LP individually and collectively with its subsidiaries, as the context requires; (ii) “MEMP GP” refer to Memorial Production Partners GP LLC, the general partner of the Partnership, which we own; (iii) “MRD Holdco” refer to MRD Holdco LLC, a holding company controlled by the Funds (defined below) that, together as part of a group, owns a majority of our common stock; (iv) “MRD LLC” refer to Memorial Resource Development LLC, which historically owned our predecessor’s business and was merged into MRD Operating LLC (“MRD Operating”), our 100% owned subsidiary, subsequent to our initial public offering; (v) “WildHorse Resources” refer to WildHorse Resources, LLC, which owned our interest in the Terryville Complex and merged into MRD Operating in February 2015; (vi) “our predecessor” refer collectively to MRD LLC and its former consolidated subsidiaries, consisting of Classic Hydrocarbons Holdings, L.P., Classic Hydrocarbons GP Co., L.L.C., Black Diamond Minerals, LLC, Beta Operating Company, LLC, MEMP GP, BlueStone Natural Resources Holdings, LLC (“BlueStone”), MRD Operating, WildHorse Resources, Tanos Energy LLC and each of their respective subsidiaries, including MEMP and its subsidiaries; (vii) “the Funds” refer collectively to Natural Gas Partners VIII, L.P., Natural Gas Partners IX, L.P. and NGP IX Offshore Holdings, L.P., which collectively control MRD Holdco; and (viii) “NGP” refer to Natural Gas Partners, a family of private equity investment funds organized to make direct equity investments in the energy industry, including the Funds.

Previous Owners

References to “the previous owners” for accounting and financial reporting purposes refer to the net profits interest that WildHorse Resources purchased from NGP Income Co-Investment Fund II, L.P. (“NGPCIF”) in February 2014 (“NGPCIF NPI”). NGPCIF is controlled by NGP. Upon the completion of certain acquisitions in 2010, WildHorse Resources sold a net profits interest in these properties to NGPCIF. Since WildHorse Resources sold the net profits interest, the historical results are accounted for as a working interest for all periods.

Our unaudited financial statements reported herein include the financial position and results attributable to NGPCIF NPI.

Basis of Presentation

The financial statements reported herein include the financial position and results attributable to both our predecessor and the previous owners on a combined basis for periods prior to our initial public offering. For periods after the completion of our initial public offering, our consolidated financial statements include our accounts and those of our subsidiaries in which we have a controlling interest. Due to our control of MEMP through our ownership of MEMP GP, we are required to consolidate MEMP for accounting and financial reporting purposes. MEMP is owned 99.9% by its limited partners and 0.1% by MEMP GP.

Certain amounts in the prior year financial statements have been reclassified to conform to current presentation. Gathering, processing, and transportation costs were previously accounted for as revenue deductions and are now being presented as costs and expenses on our statements of operations on a separate line item.

All material intercompany transactions and balances have been eliminated in preparation of our consolidated and combined financial statements. Our results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of results expected for the full year. In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate and make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC").

We have two reportable business segments, both of which are engaged in the acquisition, exploration and development of oil and natural gas properties (See Note 14). Our reportable business segments are as follows:

- MRD—reflects the combined operations of the Company and its consolidating subsidiaries except for MEMP and its subsidiaries.
- MEMP—reflects the combined operations of MEMP and its subsidiaries.

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## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Segment financial information has been retrospectively revised for the acquisition by the MEMP Segment of certain assets from the MRD Segment in East Texas in February 2015 in exchange for approximately \$78.4 million in cash and certain properties in North Louisiana (the "Property Swap") for comparability purposes. Our equity statement reflects a \$127.1 million equity transfer from stockholders' equity to noncontrolling interest related to this transaction.

## Use of Estimates

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

Significant estimates include, but are not limited to, oil and natural gas reserves; depreciation, depletion, and amortization of proved oil and natural gas properties; future cash flows from oil and natural gas properties; impairment of long-lived assets; fair value of derivatives; fair value of equity compensation; fair values of assets acquired and liabilities assumed in business combinations, income taxes and asset retirement obligations.

## Note 2. Summary of Significant Accounting Policies

A discussion of our critical accounting policies and estimates is included in our Current Report on Form 8-K filed on July 8, 2015 (our "Recast Form 8-K"). Our Recast Form 8-K was filed to retrospectively revise certain historical segment financial information to give effect to the Property Swap for comparability purposes and to include a new note containing condensed consolidating financial information.

## Accrued liabilities

Current accrued liabilities consisted of the following at the dates indicated (in thousands):

	September 30, 2015	December 31, 2014
Accrued capital expenditures	\$ 84,698	\$ 80,350
Accrued lease operating expense	18,495	16,403
Accrued general and administrative expenses	14,035	8,516
Accrued ad valorem taxes	15,010	8,870
Accrued interest payable	36,810	24,797
Accrued income tax payable	4,942	52
Accrued environmental	588	2,092
Other miscellaneous, including operator advances	2,021	6,043
	\$ 176,599	\$ 147,123

## Supplemental Cash Flow Information



Supplemental cash flow for the periods presented (in thousands):

	For the Nine Months Ended September 30,	
	2015	2014
Supplemental cash flows:		
Cash paid for interest, net of capitalized interest	\$93,038	\$67,449
Cash paid for taxes	2,055	550
Noncash investing and financing activities:		
Increase (decrease) in capital expenditures in payables and accrued liabilities	4,348	29,137
(Increase) decrease in accounts receivable related to acquisitions and divestitures	9,570	(4,271 )
Accrued expenses related to MRD equity offering	372	—

#### Income Tax

MRD is a corporation subject to federal and certain state income taxes. The net income (loss) attributable to noncontrolling interest is related to MEMP, which is a pass-through entity for federal income tax purposes. As discussed in Note 12, the compensation expense associated with the incentive units of MRD Holdco creates a nondeductible permanent difference for income tax purposes. MRD's predecessor was organized as a pass-through entity for federal income tax purposes and was not subject to federal income taxes prior to our initial public offering in June 2014; however, certain of its consolidating subsidiaries were subject to federal and certain state income taxes.

MRD reported no liability for unrecognized tax benefits as of September 30, 2015 and expects no significant change to the unrecognized tax benefits in the next twelve months.

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

MRD's effective tax rate for the three and nine months ended September 30, 2015 was negative 67.1% and negative 24.3%, respectively, and the effective tax rate for the three and nine months ended September 30, 2014 was 18.7% and negative 1.5%, respectively. The effective tax rate for the three and nine months ended September 30, 2014 and 2015 differs from the statutory federal income tax rate primarily due to the following recurring items:

- earnings from the MEMP Segment pass-through entities;
- non-deductible incentive unit compensation; and
- state income tax, net of federal benefit.

MRD reported a \$38.8 million increase to equity during the nine months ended September 30, 2015, of which \$4.4 million was associated with the estimated deferred tax effects included in equity in connection with its initial public offering and \$34.4 million was attributable to the deferred tax effects of the property exchanges under common control including certain oil and gas properties in East Texas that MEMP acquired from MRD in February 2015.

#### New Accounting Pronouncements

**Simplifying the Accounting for Measurement-Period Adjustments.** In September 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. Disclosure of the effect on earnings of any amounts an acquirer would have recorded in previous periods if the accounting had been completed at the acquisition date is required. The disclosure is required for each affected income statement line item, and may be presented separately on the face of the income statement or in the notes to the financial statements. The new guidance should be applied prospectively to adjustments to provisional amounts that occur after the effective date and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company does not expect the impact of adopting this guidance to be material to the Company's financial statements and related disclosures.

**Revenue from Contracts with Customers.** In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the standard provides a five-step analysis of transactions to determine when and how revenue is recognized. In August 2015, the FASB issued an accounting standards update that formally delayed the effective date of its new revenue recognition standard. The new standard is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is now permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. This guidance will be applicable to the Company beginning on January 1, 2018. The Company has not yet selected a transition method and is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

**Presentation of Debt Issuance Cost.** In April 2015, the FASB issued an accounting standards update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The guidance is effective retrospectively for fiscal

years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the impact of adopting this guidance to be material to the Company's financial statements and related disclosures.

In August 2015, the FASB issued an accounting standards update that incorporates SEC guidance clarifying that debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

**Amendments to Consolidation Analysis.** In February 2015, the FASB issued an accounting standards update to improve consolidation guidance for certain types of legal entities. The guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provides a scope exception from consolidation guidance for certain money market funds. These provisions are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. These provisions may also be adopted using either a full retrospective or a modified retrospective approach. Although the Company continues to assess the impact that adopting this new accounting guidance will have on its consolidated financial statements and footnote disclosures, we expect that MEMP will become a VIE. We currently believe we will continue to consolidate MEMP and become subject to the VIE primary beneficiary disclosure requirements. The deconsolidation of MEMP would have a material impact on our consolidated financial statements and related disclosures in the event there is a reconsideration event that triggers deconsolidation.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations and cash flows.

### Note 3. Acquisitions and Divestitures

Transaction-related costs, which include costs associated with acquisitions and divestitures, are included in general and administrative expenses in the accompanying statements of operations for the periods indicated below (in thousands):

For the Three		For the Nine	
Months		Months	
Ended		Ended	
September 30,	September 30,	September 30,	September 30,
2015	2014	2015	2014
\$229	\$1,425	\$3,232	\$5,480

#### 2015 Acquisitions

Subsequent event. On October 22, 2015, MRD closed a transaction to acquire certain producing and non-producing oil and natural gas properties in North Louisiana from a third party for approximately \$284.0 million, subject to customary post-closing adjustments.

#### 2015 Divestitures

On April 17, 2015, MRD sold certain oil and natural gas properties in Colorado and Wyoming to a third party for approximately \$13.6 million (the “Rockies Divestiture”) and recorded a loss of less than \$0.1 million related to the sale.

## 2014 Acquisitions

On March 25, 2014, MEMP closed a transaction to acquire certain oil and natural gas producing properties in the Eagle Ford from a third party for approximately \$168.1 million, including customary post-closing adjustments (the “Eagle Ford Acquisition”).

On July 1, 2014, MEMP closed a transaction to acquire certain oil and natural gas liquids properties in Wyoming from a third party for approximately \$906.1 million, including customary post-closing adjustments (the “Wyoming Acquisition”).

The following unaudited pro forma combined results of operations are provided for the nine months ended September 30, 2014 as though the Wyoming Acquisition had been completed on January 1, 2013. The unaudited pro forma financial information was derived from the historical combined statements of operations of the Company and the previous owners and adjusted to include: (i) the revenues and direct operating expenses associated with oil and gas properties acquired, (ii) depletion expense applied to the adjusted basis of the properties acquired and (iii) interest expense on additional borrowings necessary to finance the acquisition. The unaudited pro forma financial information does not purport to be indicative of results of operations that would have occurred had the transaction occurred on the basis assumed above, nor is such information indicative of expected future results of operations.

	For the Nine Months Ended September 30, 2014
MRD Consolidated and Combined	(In thousands)
Revenues	\$ 815,893
Net income (loss)	(930,903 )
Basic and diluted earnings per share	\$(4.94 )

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

2014 Divestitures

On May 9, 2014, MRD LLC sold certain producing and non-producing properties in the Mississippian oil play of Northern Oklahoma to a third party for approximately \$7.6 million and recorded a loss of \$3.2 million.

Note 4. Fair Value Measurements of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk. A three-tier hierarchy has been established that classifies fair value amounts recognized or disclosed in the financial statements. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). All of the derivative instruments reflected on the accompanying balance sheets were considered Level 2.

The carrying values of accounts receivables, accounts payables (including accrued liabilities), restricted investments and amounts outstanding under long-term debt agreements with variable rates included in the accompanying balance sheets approximated fair value at September 30, 2015 and December 31, 2014. The fair value estimates are based upon observable market data and are classified within Level 2 of the fair value hierarchy. These assets and liabilities are not presented in the following tables. See Note 8 for the estimated fair value of our outstanding fixed-rate debt.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair market values of the derivative financial instruments reflected on the balance sheets as of September 30, 2015 and December 31, 2014 were based on estimated forward commodity prices (including nonperformance risk) and forward interest rate yield curves. Nonperformance risk is the risk that the obligation related to the derivative instrument will not be fulfilled. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement in its entirety. The significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents the gross derivative assets and liabilities that are measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014 for each of the fair value hierarchy levels:

Fair Value Measurements at September 30,			
2015 Using			
Quoted			
Prices	Significant		
in Other	Significant		
Observable	Unobservable		
Inputs	Inputs		
(Level			
1)	(Level 2)	(Level 3)	Fair Value

(In thousands)

Assets:			
Commodity derivatives	\$—\$1,095,235	\$	— \$1,095,235
Interest rate derivatives	— —		— —
Total assets	\$—\$1,095,235	\$	— \$1,095,235
Liabilities:			
Commodity derivatives	\$—\$82,529	\$	— \$82,529
Interest rate derivatives	— 5,360		— 5,360
Total liabilities	\$—\$87,889	\$	— \$87,889

Fair Value Measurements at December 31,  
2014 Using  
Quoted  
Prices  
Significant  
in Other  
Active  
Markets  
(Level  
1) (Level 2) (Level 3) Fair  
Value  
(In thousands)

Assets:			
Commodity derivatives	\$—\$ 845,759	\$	— \$845,759
Interest rate derivatives	— 1,305		— 1,305
Total assets	\$—\$ 847,064	\$	— \$847,064
Liabilities:			
Commodity derivatives	\$—\$ 71,639	\$	— \$71,639
Interest rate derivatives	— 3,289		— 3,289
Total liabilities	\$—\$ 74,928	\$	— \$74,928

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

See Note 5 for additional information regarding our derivative instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are reported at fair value on a nonrecurring basis as reflected on the balance sheets. The following methods and assumptions are used to estimate the fair values:

- The fair value of asset retirement obligations (“AROs”) is based on discounted cash flow projections using numerous estimates, assumptions, and judgments regarding factors such as the existence of a legal obligation for an ARO; amounts and timing of settlements; the credit-adjusted risk-free rate; and inflation rates. See Note 6 for a summary of changes in AROs.
- If sufficient market data is not available, the determination of the fair values of proved and unproved properties acquired in transactions accounted for as business combinations are prepared by utilizing estimates of discounted cash flow projections. The factors to determine fair value include, but are not limited to, estimates of: (i) economic reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital.
- Proved oil and natural gas properties are reviewed for impairment when events and circumstances indicate a possible decline in the recoverability of the carrying value of such properties. The factors used to determine fair value include, but are not limited to, estimates of proved reserves, future commodity prices, the timing of future production and capital expenditures and a discount rate commensurate with the risk reflective of the lives remaining for the respective oil and natural gas properties.
- During the three and nine months ended September 30, 2015, MEMP recognized \$361.8 million and \$613.2 million, respectively, of impairments related to certain properties located in East Texas, South Texas, the Permian, Wyoming and Colorado. The estimated future cash flows expected from these properties were compared to their carrying values and determined to be unrecoverable primarily as a result of declining commodity prices. As a result of the impairments, the carrying value of these properties was reduced to approximately \$407.7 million. MEMP recorded \$67.2 million of impairments during the three and nine months ended September 30, 2014 primarily related to certain properties located in South Texas. The estimated future cash flows expected from these properties were compared to their carrying values and determined to be unrecoverable in part due to a downward revision of estimated proved reserves based on declining commodity prices and increased operating costs .



MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note 5. Risk Management and Derivative Instruments

Derivative instruments are utilized to manage exposure to commodity price and interest rate fluctuations and achieve a more predictable cash flow in connection with natural gas and oil sales from production and borrowing related activities. These instruments limit exposure to declines in prices or increases in interest rates, but also limit the benefits that would be realized if prices increase or interest rates decrease.

Certain inherent business risks are associated with commodity and interest derivative contracts, including market risk and credit risk. Market risk is the risk that the price of natural gas or oil will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the counterparty to a contract. It is our policy to enter into derivative contracts, including interest rate swaps, only with creditworthy counterparties, which generally are financial institutions, deemed by management as competent and competitive market makers. Some of the lenders, or certain of their affiliates, under our credit agreements are counterparties to our derivative contracts. While collateral is generally not required to be posted by counterparties, credit risk associated with derivative instruments is minimized by limiting exposure to any single counterparty and entering into derivative instruments only with counterparties that are large financial institutions, which management believes present minimal credit risk. Additionally, master netting agreements are used to mitigate risk of loss due to default with counterparties on derivative instruments. We have also entered into the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) with each of our counterparties. The terms of the ISDA Agreements provide us and each of our counterparties with rights of set-off upon the occurrence of defined acts of default by either us or our counterparty to a derivative, whereby the party not in default may set-off all liabilities owed to the defaulting party against all net derivative asset receivables from the defaulting party.

At September 30, 2015, MEMP had net derivative assets of \$663.9 million. After taking into effect netting arrangements, MEMP had counterparty exposure of \$345.9 million related to its derivative instruments of which \$115.3 million was with a single counterparty. Had all counterparties failed completely to perform according to the terms of their existing contracts, MEMP would have the right to offset \$320.3 million against amounts outstanding under its revolving credit facility at September 30, 2015. At September 30, 2015, MRD had net derivative assets of \$343.6 million. After taking into effect netting arrangements, MRD had counterparty exposure of \$277.9 million related to derivative instruments of which \$91.4 million was with a single counterparty. Had all counterparties failed completely to perform according to the terms of their existing contracts, MRD would have the right to offset \$65.7 million against amounts outstanding under its revolving credit facility at September 30, 2015. See Note 8 for additional information regarding our revolving credit facilities.

Commodity Derivatives

We may use a combination of commodity derivatives (e.g., floating-for-fixed swaps, put options, costless collars and basis swaps) to manage exposure to commodity price volatility. We recognize all derivative instruments at fair value; however, certain of our derivative instruments have a deferred premium. The deferred premium is factored into the fair value measurement and the Company agrees to defer the premium paid or received until the time of settlement. Cash settlements received on settled derivative positions during the nine months ended September 30, 2015 is net of deferred premiums of \$7.1 million.

In February 2015, MEMP restructured a portion of its commodity derivative portfolio by effectively terminating “in-the-money” crude oil derivatives settling in 2015 through 2017 and entering into NGL derivatives with the same

tenor. Cash settlement receipts of approximately \$27.1 million from the termination of the crude oil derivatives were applied as premiums for the new NGL derivatives.

We enter into natural gas derivative contracts that are indexed to NYMEX-Henry Hub and regional indices such as NGPL TXOK, TETCO STX, TGT Z1, and Houston Ship Channel in proximity to our areas of production. We also enter into oil derivative contracts indexed to a variety of locations such as NYMEX-WTI, Inter-Continental Exchange (“ICE”) Brent, California Midway-Sunset and other regional locations. Our NGL derivative contracts are primarily indexed to OPIS Mont Belvieu.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

At September 30, 2015, the MRD Segment had the following open commodity positions:

	Remaining 2015	2016	2017	2018
<b>Natural Gas Derivative Contracts:</b>				
Fixed price swap contracts:				
Average Monthly Volume (MMBtu)	3,400,000	2,570,000	1,770,000	4,600,000
Weighted-average fixed price	\$4.15	\$4.09	\$4.24	\$4.06
Collar contracts:				
Average Monthly Volume (MMBtu)	130,000	1,100,000	1,050,000	—
Weighted-average floor price	\$4.00	\$4.00	\$4.00	\$—
Weighted-average ceiling price	\$4.64	\$4.71	\$5.06	\$—
Purchased put option contracts:				
Average Monthly Volume (MMBtu)	4,100,000	6,000,000	5,350,000	3,450,000
Weighted-average strike price	\$3.75	\$3.51	\$3.48	\$3.62
Weighted-average deferred premium paid	\$(0.33 )	\$(0.34 )	\$(0.32 )	\$(0.34 )
Written call option contracts (1):				
Average Monthly Volume (MMBtu)	3,225,000	—	—	—
Weighted-average sold strike price	\$3.75	\$—	\$—	\$—
Weighted-average deferred premium received	\$0.08	\$—	\$—	\$—
TGT Z1 basis swaps:				
Average Monthly Volume (MMBtu)	3,380,000	1,120,000	200,000	—
Spread - Henry Hub	\$(0.10 )	\$(0.10 )	\$(0.08 )	\$—
<b>Crude Oil Derivative Contracts:</b>				
Fixed price swap contracts:				
Average Monthly Volume (Bbls)	42,000	8,500	28,000	31,625
Weighted-average fixed price	\$91.67	\$84.80	\$84.70	\$84.50
Collar contracts:				
Average Monthly Volume (Bbls)	2,000	27,000	—	—
Weighted-average floor price	\$85.00	\$80.00	\$—	\$—
Weighted-average ceiling price	\$101.35	\$99.70	\$—	\$—
Purchased put option contracts:				
Average Monthly Volume (Bbls)	39,000	—	—	—
Weighted-average strike price	\$85.00	\$—	\$—	\$—
Weighted-average deferred premium paid	\$(3.80 )	\$—	\$—	\$—
Written call option contracts (1):				
Average Monthly Volume (Bbls)	29,250	—	—	—

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Weighted-average sold strike price	\$85.00	\$—	\$—	\$—
Weighted-average deferred premium received	\$0.48	\$—	\$—	\$—
NGL Derivative Contracts:				
Fixed price swap contracts:				
Average Monthly Volume (Bbls)	163,000	185,658	—	—
Weighted-average fixed price	\$41.52	\$34.06	\$—	\$—

(1) These transactions were entered into for the purpose of creating a ceiling on our put options, which effectively converted the applicable puts into swaps.

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## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

At September 30, 2015, the MEMP Segment had the following open commodity positions:

	Remaining 2015	2016	2017	2018	2019
<b>Natural Gas Derivative Contracts:</b>					
Fixed price swap contracts:					
Average Monthly Volume (MMBtu)	3,359,237	3,592,442	3,350,067	3,060,000	2,814,583
Weighted-average fixed price	\$4.08	\$4.14	\$4.06	\$4.18	\$4.31
Collar contracts:					
Average Monthly Volume (MMBtu)	350,000	—	—	—	—
Weighted-average floor price	\$4.62	\$—	\$—	\$—	\$—
Weighted-average ceiling price	\$5.80	\$—	\$—	\$—	\$—
Call spreads (1):					
Average Monthly Volume (MMBtu)	80,000	—	—	—	—
Weighted-average sold strike price	\$5.25	\$—	\$—	\$—	\$—
Weighted-average bought strike price	\$6.75	\$—	\$—	\$—	\$—
Basis swaps:					
Average Monthly Volume (MMBtu)	3,690,000	3,578,333	2,210,000	1,315,000	900,000
Spread	\$(0.12 )	\$(0.07 )	\$(0.04 )	\$(0.02 )	\$0.01
<b>Crude Oil Derivative Contracts:</b>					
Fixed price swap contracts:					
Average Monthly Volume (Bbls)	272,531	279,813	301,600	312,000	160,000
Weighted-average fixed price	\$91.34	\$86.87	\$84.70	\$83.74	\$85.52
Collar contracts:					
Average Monthly Volume (Bbls)	5,000	—	—	—	—
Weighted-average floor price	\$80.00	\$—	\$—	\$—	\$—
Weighted-average ceiling price	\$94.00	\$—	\$—	\$—	\$—
Basis swaps:					
Average Monthly Volume (Bbls)	97,000	95,000	30,000	—	—
Spread	\$(7.06 )	\$(9.56 )	\$(2.35 )	\$—	\$—
<b>NGL Derivative Contracts:</b>					
Fixed price swap contracts:					
Average Monthly Volume (Bbls)	209,200	213,100	43,300	—	—
Weighted-average fixed price	\$42.38	\$35.64	\$37.55	\$—	\$—

(1) These transactions were entered into for the purpose of eliminating the ceiling portion of certain collar arrangements, which effectively converted the applicable collars into swaps.



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The MEMP Segment basis swaps included in the table above is presented on a disaggregated basis below:

	Remaining				
	2015	2016	2017	2018	2019
<b>Natural Gas Derivative Contracts:</b>					
<b>NGPL TexOk basis swaps:</b>					
Average Monthly Volume (MMBtu)	3,030,000	3,003,333	1,800,000	1,200,000	900,000
Spread - Henry Hub	\$(0.11 )	\$(0.07 )	\$(0.07 )	\$(0.03 )	\$0.01
<b>HSC basis swaps:</b>					
Average Monthly Volume (MMBtu)	150,000	135,000	115,000	115,000	—
Spread - Henry Hub	\$(0.08 )	\$0.07	\$0.14	\$0.15	\$—
<b>CIG basis swaps:</b>					
Average Monthly Volume (MMBtu)	210,000	170,000	—	—	—
Spread - Henry Hub	\$(0.25 )	\$(0.30 )	\$—	\$—	\$—
<b>TETCO STX basis swaps:</b>					
Average Monthly Volume (MMBtu)	300,000	270,000	295,000	—	—
Spread - Henry Hub	\$(0.09 )	\$0.06	\$0.03	\$—	\$—
<b>Crude Oil Derivative Contracts:</b>					
<b>Midway-Sunset basis swaps:</b>					
Average Monthly Volume (Bbls)	57,000	55,000	—	—	—
Spread - Brent	\$(9.73 )	\$(13.35 )	\$—	\$—	\$—
<b>Midland basis swaps:</b>					
Average Monthly Volume (Bbls)	40,000	40,000	30,000	—	—
Spread - WTI	\$(3.25 )	\$(4.34 )	\$(2.35 )	\$—	\$—

## Interest Rate Swaps

Periodically, we enter into interest rate swaps to mitigate exposure to market rate fluctuations by converting variable interest rates such as those in our credit agreements to fixed interest rates. From time to time we enter into offsetting positions to avoid being economically over-hedged. At September 30, 2015, we had the following interest rate swap open positions:

	Remaining			
Credit Facility	2015	2016	2017	2018
<b>MEMP:</b>				
Average Monthly Notional (in thousands)	\$ 400,000	\$ 400,000	\$ 400,000	\$ 100,000
Weighted-average fixed rate	0.943 %	0.943 %	1.612 %	1.946 %
Floating rate	1 Month LIBOR	1 Month LIBOR	1 Month LIBOR	1 Month LIBOR





## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Balance Sheet Presentation

The following table summarizes both: (i) the gross fair value of derivative instruments by the appropriate balance sheet classification even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the balance sheet and (ii) the net recorded fair value as reflected on the balance sheet at September 30, 2015 and December 31, 2014. There was no cash collateral received or pledged associated with our derivative instruments since most of the counterparties, or certain of their affiliates, to our derivative contracts are lenders under our collective credit agreements.

Type	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
(In thousands)					
Commodity contracts	Short-term derivative instruments	\$428,389	\$378,908	\$46,127	\$38,852
Interest rate swaps	Short-term derivative instruments	—	—	2,229	3,289
Gross fair value		428,389	378,908	48,356	42,141
Netting arrangements	Short-term derivative instruments	(44,841)	(38,852)	(44,841)	(38,852)
Net recorded fair value	Short-term derivative instruments	\$383,548	\$340,056	\$3,515	\$3,289
Commodity contracts	Long-term derivative instruments	\$666,846	\$466,851	\$36,402	\$32,787
Interest rate swaps	Long-term derivative instruments	—	1,305	3,131	—
Gross fair value		666,846	468,156	39,533	32,787
Netting arrangements	Long-term derivative instruments	(36,350)	(32,787)	(36,350)	(32,787)
Net recorded fair value	Long-term derivative instruments	\$630,496	\$435,369	\$3,183	\$—

## (Gains) Losses on Derivatives

All gains and losses, including changes in the derivative instruments' fair values, have been recorded in the accompanying statements of operations since derivative instruments are not designated as hedging instruments for accounting and financial reporting purposes. The following table details the gains and losses related to derivative instruments for the periods indicated (in thousands):

	Statements of Operations Location	For the Three Months Ended		For the Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Commodity derivative contracts	(Gain) loss on commodity derivatives	\$(370,055)	\$(189,492)	\$(531,838)	\$11,580
Interest rate derivatives	Interest expense, net	3,543	(175)	6,628	1,157

## Note 6. Asset Retirement Obligations

Asset retirement obligations primarily relate to our portion of future plugging and abandonment costs for wells and related facilities. The following table presents the changes in the asset retirement obligations for the nine months ended September 30, 2015 (in thousands):

Asset retirement obligations at beginning of period	\$ 122,531
Liabilities added from acquisitions or drilling	1,565
Liabilities settled	(780 )
Revision of estimates	573
Liabilities removed upon sale of wells	(176 )
Accretion expense	5,347
Asset retirement obligations at end of period	\$ 129,060

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Note 7. Restricted Investments

Various restricted investment accounts fund certain long-term contractual and regulatory asset retirement obligations and collateralize certain regulatory bonds associated with offshore Southern California oil and gas properties owned by MEMP. The components of the restricted investment balance consisted of the following at the dates indicated:

	September 30, 2015	December 31, 2014
	(In thousands)	
BOEM platform abandonment (See Note 15)	\$73,488	\$ 69,954
BOEM lease bonds	794	794
SPBPC Collateral:		
Contractual pipeline and surface facilities abandonment	3,060	2,701
California State Lands Commission pipeline right-of-way bond	3,005	3,005
City of Long Beach pipeline facility permit	500	500
Federal pipeline right-of-way bond	307	307
Port of Long Beach pipeline license	100	100
Restricted investments	\$81,254	\$ 77,361

## Note 8. Long Term Debt

The following table presents our consolidated debt obligations at the dates indicated:

	September 30, 2015	December 31, 2014
	(In thousands)	
MRD Segment:		
MRD \$2.0 billion revolving credit facility, variable-rate, due June 2019	\$ 126,000	\$ 183,000
5.875% senior unsecured notes, due July 2022 ("MRD Senior Notes") (1) (4)	600,000	600,000
Subtotal	726,000	783,000
MEMP Segment:		
MEMP \$2.0 billion revolving credit facility, variable-rate, due March 2018	696,000	412,000
7.625% senior unsecured notes, due May 2021 ("2021 Senior Notes") (2) (4)	700,000	700,000
6.875% senior unsecured notes, due August 2022 ("2022 Senior Notes") (3) (4)	496,990	500,000
Unamortized discounts	(14,726 )	(16,587 )
Subtotal	1,878,264	1,595,413

Total long-term debt	\$2,604,264	\$2,378,413
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- (1) The estimated fair value of this fixed-rate debt was \$547.5 million and \$534.0 million at September 30, 2015 and December 31, 2014, respectively.
- (2) The estimated fair value of this fixed-rate debt was \$469.0 million and \$563.5 million at September 30, 2015 and December 31, 2014, respectively.
- (3) The estimated fair value of this fixed-rate debt was \$303.2 million and \$380.0 million at September 30, 2015 and December 31, 2014, respectively.
- (4) The estimated fair value is based on quoted market prices and is classified as Level 2 within the fair value hierarchy.

#### Borrowing Base

Credit facilities tied to borrowing bases are common throughout the oil and gas industry. Each of the revolving credit facilities' borrowing base is subject to redetermination, on at least a semi-annual basis, primarily based on estimated proved reserves. The borrowing base for each credit facility was the following at the date indicated (in thousands):

	September 30, 2015
<b>MRD Segment:</b>	
MRD \$2.0 billion revolving credit facility, variable-rate, due June 2019	\$1,000,000
<b>MEMP Segment:</b>	
MEMP \$2.0 billion revolving credit facility, variable-rate, due March 2018	1,300,000

On September 18, 2015, the borrowing base under the MRD revolving credit facility was increased to \$1.0 billion in connection with the semi-annual borrowing base redetermination by the lenders, and can increase to \$1.05 billion, subject to certain conditions, if MRD consummates a certain potential acquisition before December 31, 2015, as acknowledged by the parties in the fifth amendment to the revolving credit agreement.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Subsequent event. On November 4, 2015, MEMP's borrowing base under its revolving credit facility was redetermined in connection with the semi-annual borrowing base redetermination by the lenders and decreased to approximately \$1.18 billion.

## Weighted-Average Interest Rates

The following table presents the weighted-average interest rates paid on our consolidated variable-rate debt obligations for the periods presented:

Credit Facility	For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2014	
	2015	2014	2015	2014
<b>MRD Segment:</b>				
MRD revolving credit facility	1.94%	2.62%	1.86%	2.15%
WildHorse Resources revolver terminated June 2014	n/a	n/a	n/a	4.04%
WildHorse Resources second lien terminated June 2014	n/a	n/a	n/a	6.44%
<b>MEMP Segment:</b>				
MEMP revolving credit facility	2.14%	2.16%	2.06%	2.08%

## Unamortized Deferred Financing Costs

Unamortized deferred financing costs associated with our consolidated debt obligations were as follows at the dates indicated:

	September 30, 2015	December 31, 2014
(In thousands)		
<b>MRD Segment:</b>		
MRD revolving credit facility	\$5,264	\$4,285
MRD Senior Notes	11,355	12,455
<b>MEMP Segment:</b>		
MEMP revolving credit facility	4,534	6,468
2021 Senior Notes	11,722	13,308
2022 Senior Notes	7,375	7,958
	\$40,250	\$44,474

## Note 9. Stockholders' Equity and Noncontrolling Interests

## Common Stock

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The Company's authorized capital stock includes 600,000,000 shares of common stock, \$0.01 par value per share. The following is a summary of the changes in our common shares issued for the nine months ended September 30, 2015:

Balance December 31, 2014	193,435,414
Shares of common stock issued	13,800,000
Shares of common stock repurchased	(2,764,887 )
Restricted common shares issued (Note 11)	938,558
Restricted common shares repurchased (1)	(60,773 )
Restricted common shares forfeited	(30,209 )
Balance September 30, 2015	205,318,103

(1) Restricted common shares are generally net-settled by shareholders to cover the required withholding tax upon vesting. Participants surrendered shares with value equivalent to the employee's minimum statutory obligation for the applicable income and other employment taxes. Total payments remitted for the employees' tax obligations to the appropriate taxing authorities were approximately \$1.2 million. These net-settlements had the effect of shares repurchased by the Company as they reduced the number of shares that would have otherwise been outstanding as a result of the vesting and did not represent an expense to the Company.

See Note 11 for additional information regarding restricted common shares. Restricted shares of common stock are considered issued and outstanding on the grant date of the restricted stock award.

On September 25, 2015, MRD issued 13,800,000 shares of common stock (including 1,800,000 shares of common stock sold pursuant to the full exercise of the underwriters' option to purchase additional shares of common stock) to the public generating total net proceeds of approximately \$238.4 million after deducting underwriting discounts and offering expenses. The net proceeds from the equity offering were used to temporarily pay down our revolving credit facility as of September 30, 2015 and subsequently re-borrowed to fund a portion of the purchase price of the North Louisiana Acquisition that closed on October 22, 2015.

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Share Repurchase Program

MRD repurchased 2,764,887 shares of common stock under the December 2014 repurchase program for an aggregate price of \$47.8 million through March 16, 2015, which exhausted the December 2014 repurchase program. MRD has retired all of the shares of common stock repurchased and the shares of common stock are no longer issued or outstanding.

In April 2015, the board of directors (“Board”) of the Company authorized the repurchase of up to \$50.0 million of the Company’s outstanding common stock from time to time on the open market, through block trades or otherwise. The Company is not obligated to repurchase any dollar amount or specific number of shares of its common stock under the program, which may be suspended or discontinued at any time. The amount, timing and price of purchases will depend on market conditions and other factors. The Company did not repurchase any shares of common stock under this program through September 30, 2015.

Noncontrolling Interests

Noncontrolling interests is the portion of equity ownership in the Company’s consolidated subsidiaries not attributable to the Company and primarily consists of the equity interests held by: (i) the limited partners of MEMP and (ii) a third party investor in the San Pedro Bay Pipeline Company. Prior to our initial public offering, certain current or former key employees of certain of MRD LLC’s subsidiaries also held equity interests in those subsidiaries.

Distributions paid to the limited partners of MEMP primarily represent the quarterly cash distributions paid to MEMP’s unitholders, excluding those paid to MRD LLC prior to our initial public offering. Contributions received from limited partners of MEMP primarily represent net cash proceeds received from common unit offerings.

During the nine months ended September 30, 2015, MEMP repurchased 3,547,921 common units under its repurchase program for an aggregate price of \$52.8 million. MEMP has retired all common units repurchased and those common units are no longer issued or outstanding.

On July 15, 2014, MEMP sold 9,890,000 common units representing limited partner interests in MEMP (including 1,290,000 common units sold pursuant to the full exercise of the underwriters’ option to purchase additional common units) to the underwriters at a negotiated price of \$22.25 per unit generating total net proceeds of approximately \$220.0 million after deducting offering expenses. The net proceeds from the equity offering were used to repay a portion of the outstanding borrowings under MEMP’s revolving credit facility.

On September 9, 2014, MEMP issued 14,950,000 common units representing limited partner interests in MEMP (including 1,950,000 common units sold pursuant to the full exercise of the underwriters’ option to purchase additional common units) to the public at an offering price of \$22.29 per unit generating total net proceeds of approximately \$321.3 million after deducting underwriting discounts and offering expenses. The net proceeds from the equity offering were used to repay a portion of the outstanding borrowings under MEMP’s revolving credit facility.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Note 10. Earnings per Share

The following sets forth the calculation of earnings (loss) per share, or EPS, for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Numerator:</b>				
Net income (loss) available to common stockholders	\$56,051	\$9,873	\$78,006	\$(951,801)
<b>Denominator:</b>				
Weighted average common shares outstanding	190,725	192,500	190,353	192,500
Incremental treasury stock method shares (1)	86	216	410	207
Basic EPS	\$0.29	\$0.05	\$0.41	\$(4.94 )
Diluted EPS (1)	\$0.29	\$0.05	\$0.41	\$(4.94 )

- (1) The Company determines the more dilutive of either the two-class method or the treasury stock method for diluted EPS. The two-class method was more dilutive for each period presented.

## Note 11. Long-Term Incentive Plans

## MRD

The following table summarizes information regarding restricted common share awards granted under the Memorial Resource Development Corp. 2014 Long-Term Incentive Plan for the periods presented:

	Number of Shares	Weighted-Average Grant Date Fair Value per Share (1)
Restricted common shares outstanding at December 31, 2014	1,059,211	\$ 19.00
Granted (2)	938,558	\$ 18.80



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Forfeited	(30,209 )	\$ 18.86
Vested	(274,355 )	\$ 19.00
Restricted common shares outstanding at September 30, 2015	1,693,205	\$ 18.89

(1) Determined by dividing the aggregate grant date fair value of awards issued.

(2) The aggregate grant date fair value of restricted common share awards issued in 2015 was \$17.6 million based on a grant date market price ranging from \$17.58 to \$18.91 per share.

The following table summarizes the amount of recognized compensation expense associated with these awards that are reflected in the accompanying statements of operations for the periods presented (in thousands):

For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2014	
\$2,692	\$1,312	\$6,135	\$1,487

The unrecognized compensation cost associated with restricted common share awards was \$28.1 million at September 30, 2015. We expect to recognize the unrecognized compensation cost for these awards over a weighted-average period of 2.66 years.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## MEMP

The following table summarizes information regarding restricted common unit awards granted under the Memorial Production Partners GP LLC Long-Term Incentive Plan for the periods presented:

	Number of Units	Weighted-Average Grant Date Fair Value per Unit (1)
Restricted common units outstanding at December 31, 2014	1,093,520	\$ 20.93
Granted (2)	815,607	\$ 15.04
Forfeited	(32,876 )	\$ 19.61
Vested	(483,627 )	\$ 20.37
Restricted common units outstanding at September 30, 2015	1,392,624	\$ 17.70

(1) Determined by dividing the aggregate grant date fair value of awards issued.

(2) The aggregate grant date fair value of restricted common unit awards issued in 2015 was \$12.3 million based on a grant date market price ranging from \$14.70 to \$15.45 per unit.

The following table summarizes the amount of recognized compensation expense associated with these awards that are reflected in the accompanying statements of operations for the periods presented (in thousands):

For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2014	
\$2,993	\$2,427	\$7,899	\$5,387

The unrecognized compensation cost associated with restricted common unit awards was \$20.0 million at September 30, 2015. We expect to recognize the unrecognized compensation cost for these awards over a weighted-average period of 2.03 years. Since the restricted common units are participating securities, distributions received by the restricted common unitholders are generally included in distributions to noncontrolling interests as presented on our unaudited condensed statements of consolidated and combined cash flows.

## Note 12. Incentive Units

## MRD Holdco

MRD LLC incentive units were originally granted in June 2012 and February 2013. In connection with our initial public offering and the related restructuring transactions, these incentive units were exchanged for substantially identical units in MRD Holdco, and such incentive units entitle holders thereof to portions of future distributions by

MRD Holdco. MRD Holdco's governing documents authorize the issuance of 1,000 incentive units, of which 930 incentive units were granted in an exchange for the cancelled MRD LLC awards (the "Exchanged Incentive Units"). Subsequent to our initial public offering, MRD Holdco granted the remaining 70 incentive units to certain key employees (the "Subsequent Incentive Units").

We recognized \$5.0 million and \$31.3 million of compensation expense for the three and nine months ending September 30, 2015, respectively, offset by a deemed capital contribution from MRD Holdco and the unrecognized compensation expense of approximately \$72.7 million as of September 30, 2015 will be recognized over the remaining expected service period of 1.67 years.

The fair value of the Exchanged and Subsequent Incentive Units will be remeasured on a quarterly basis until all payments have been made. The settlement obligation rests with MRD Holdco. Accordingly, no payments will ever be made by us related to these incentive units; however, non-cash compensation expense will be allocated to us in future periods offset by deemed capital contributions. As such, these awards are not dilutive to our stockholders.

The fair value of the incentive units was estimated using a Monte Carlo simulation valuation model with the following assumptions:

	Exchanged Incentive Units		Subsequent Incentive Units	
Valuation date	9/30/2015		9/30/2015	
Dividend yield	0	%	0	%
Expected volatility	48.99	%	48.99	%
Risk-free rate	0.54	%	0.54	%
Expected life (years)	1.67		1.67	

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Note 13. Related Party Transactions

Amounts due to (due from) MRD Holdco and certain affiliates of NGP at September 30, 2015 and December 31, 2014 are presented as “Accounts receivable – affiliates” and “Accounts payable – affiliates” in the accompanying balance sheets.

## NGP Affiliated Companies

During the three and nine months ended September 30, 2015, MRD paid approximately \$4.8 million and \$6.7 million, respectively to Cretic Energy Services, LLC, an NGP affiliated company, for services related to our drilling and completion activities.

During the three and nine months ended September 30, 2015, MRD paid approximately \$1.0 million and \$1.2 million, respectively to Multi-Shot, LLC, an NGP affiliated company, for services related to our drilling and completion activities.

## NGPCIF NPI Acquisition

WildHorse Resources purchased a net profits interest from NGPCIF on February 28, 2014 for a purchase price of \$63.4 million (see Note 1). This acquisition was accounted for as a combination of entities under common control at historical cost in a manner similar to the pooling of interest method. WildHorse Resources recorded the following net assets (in thousands):

Accounts receivable	\$2,274
Oil and natural gas properties, net	40,056
Accrued liabilities	(297 )
Asset retirement obligations	(277 )
Net assets	\$41,756

Due to common control considerations, the difference between the purchase price and the net assets acquired are reflected within equity as a deemed distribution to NGP affiliates.

## Other Acquisitions or Dispositions

On March 10, 2014, BlueStone sold certain interests in oil and gas properties in McMullen, Webb, Zapata, and Hidalgo Counties located in South Texas to BlueStone Natural Resources II, LLC, an NGP controlled entity. Total cash consideration received by BlueStone was approximately \$1.2 million, which exceeded the net book value of the properties sold by \$0.5 million. Due to common control considerations, the \$0.5 million was recognized in the equity statement as a contribution.

On March 28, 2014, our predecessor acquired certain interests in oil and gas properties in Gonzales and Karnes Counties located in South Texas from an NGP affiliated company for \$3.3 million.

On June 18, 2014, in connection with our initial public offering and the related restructuring transactions, WHR Management Company was sold by WildHorse Resources to an affiliate of the Funds for net book value. The net book

value of the assets sold was as follows (in thousands):

Cash and cash equivalents	\$33,001
Restricted cash	300
Accounts receivable	5,256
Prepaid expenses and other current assets	379
Property, plant and equipment, net	3,410
Other long-term assets	4
Accounts payable	(19,959)
Accounts payable - affiliates	(17,099)
Accrued liabilities	(5,061 )
Net assets	\$231

#### Related Party Agreements

We and certain of our affiliates have entered into various documents and agreements. These agreements have been negotiated among affiliated parties and, consequently, are not the result of arm's-length negotiations.

#### Registration Rights Agreement

In connection with the closing of our initial public offering, we entered into a registration rights agreement with MRD Holdco and former management members of WildHorse Resources, Jay Graham ("Graham") and Anthony Bahr ("Bahr"). Pursuant to the registration rights agreement, we have agreed to register the sale of shares of our common stock under certain circumstances.

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Voting Agreement

In connection with the closing of our initial public offering, we entered into a voting agreement with MRD Holdco, WHR Incentive LLC, a limited liability company beneficially owned by Messrs. Bahr and Graham, and certain former management members of WildHorse Resources, who contributed their ownership of WildHorse Resources to us in the restructuring transactions. Among other things, the voting agreement provides that those former management members of WildHorse Resources will vote all of their shares of our common stock as directed by MRD Holdco.

Services Agreement

In connection with the closing of our initial public offering, we entered into a services agreement with WildHorse Resources and WildHorse Resource Management Company, LLC (“WHR Management Company”), pursuant to which WHR Management Company agreed to provide operating and administrative services to us for twelve months relating to the Terryville Complex. In exchange for such services, we paid a monthly management fee to WHR Management Company of approximately \$1.0 million excluding third party COPAS income credits.

Upon the closing of our initial public offering, WHR Management Company became a subsidiary of WildHorse Resources II, LLC, an affiliate of the Company (“WHR II”). NGP and certain former management members of WildHorse Resources own WHR II.

The services agreement was terminated effective March 1, 2015.

WildHorse Management Services Agreement

A discussion of the WildHorse and WHR II management services and related agreements is included in our Recast Form 8-K. These agreements were terminated in connection with our initial public offering.

Midstream Agreements

On April 14, 2015, we, through our wholly-owned subsidiary, MRD Operating, entered into an amended and restated gas processing agreement (“GPA”) with PennTex North Louisiana Operating, LLC (“PennTex Operating”), a wholly-owned subsidiary of PennTex North Louisiana, LLC (“PennTex”). WildHorse Resources, which owned our interest in the Terryville Complex and merged into MRD Operating in February 2015, initially entered into a gas processing agreement with PennTex in March 2014, prior to our initial public offering. PennTex is a joint venture among certain affiliates of NGP in which MRD Midstream LLC, a wholly-owned subsidiary of MRD Holdco, owns a minority interest. Once PennTex Operating’s first processing plant became operational on June 1, 2015, it began to process natural gas produced from wells located on certain leases owned by us in the state of Louisiana. The GPA has a 15-year primary term, subject to one-year extensions at either party’s election. We pay PennTex Operating a monthly volume processing fee, subject to annual inflation escalators, based on volumes of natural gas processed by PennTex Operating. Once the first plant was declared operational, we became obligated to pay a minimum processing fee equal to approximately \$18.3 million on an annual basis, subject to certain adjustments and conditions until the second processing plant was declared operational. Once the second plant was declared operational in October 2015, we became obligated to pay a minimum volume processing fee equal to approximately \$55.0 million on an annual basis, subject to certain adjustments and conditions.

In addition, on April 14, 2015, we entered into (i) an amended and restated area of mutual interest and midstream exclusivity agreement (“AMI”) with PennTex NLA Holdings, LLC, which owns a majority interest in PennTex, MRD WHR LA Midstream LLC, an affiliate of MRD Holdco, and PennTex, (ii) a gas transportation agreement (“GTA”) with PennTex Operating, (iii) a gas gathering agreement (“GGA”) with PennTex Operating, and (iv) a transportation services agreement (“TSA” and, together with the GPA, AMI, GTA, and GGA, the “Midstream Agreements”) with PennTex Operating to provide gathering, residue gas and natural gas liquids transportation services to us in the state of Louisiana. The Midstream Agreements have a 15-year primary term, subject to one-year extensions at either party’s elections.

Under the GGA, once the first processing plant was declared operational, we began to pay PennTex Operating a commodity usage charge equal to at least the minimum volume commitment (115,000 MMBtu per day) times \$0.02 per MMBtu until PennTex Operating’s second processing plant was declared operational. Once the second processing plant was declared operational, we became obligated to pay PennTex Operating a commodity usage charge equal to at least an increased minimum volume commitment (345,000 MMBtu per day) times \$0.02 MMBtu through November 30, 2019. The minimum volume commitment will increase to 460,000 MMBtu on July 1, 2016 and may further increase subject to the terms of the GGA. Prior to December 1, 2019, PennTex Operating is also entitled to a payback demand fee from us equal to the monthly demand quantity (460,000 MMBtu per day) times a \$0.03 MMBtu through November 30, 2019. Beginning on December 1, 2019, PennTex Operating is not entitled to a monthly demand charge, the commodity usage charge escalates to \$0.05 per MMBtu, and PennTex Operating is entitled to receive a commodity usage charge from us equal to the minimum volume commitment (460,000 MMBtu per day through June 30, 2026, and 345,000 MMBtu per day thereafter) times \$0.05 MMBtu.

MEMORIAL RESOURCE DEVELOPMENT CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Similarly, under the GTA which commences concurrently with the operational dates of the two processing plants, PennTex Operating will be entitled to a commodity usage charge of \$0.04 per MMBtu for all volumes of residue gas produced on our behalf. Under the TSA, which commences concurrently with the operational dates of the two processing plants, PennTex Operating will be entitled to a commodity usage charge of \$0.04 per gallon for all volumes of natural gas liquids produced on our behalf.

Under the AMI, we granted PennTex Operating the exclusive right to build all of our midstream infrastructure in northern Louisiana and to provide midstream services to support our current and future production on our operated acreage within such area (other than production subject to existing third-party commitments).

All net costs associated with these gas processing agreements are reflected in the statement of operations in the “Gathering processing, and transportation – affiliate” line.

Classic Pipeline Gas Gathering Agreement & Water Disposal Agreement

In November 2011, Classic Hydrocarbons Operating, LLC (“Classic Operating”), which became our wholly-owned subsidiary in connection with the restructuring transactions, and Classic Pipeline entered into a gas gathering agreement. Pursuant to the gas gathering agreement, Classic Operating dedicated to Classic Pipeline all of the natural gas produced (up to 50,000 MMBtus per day) on the properties operated by Classic Operating within certain counties in Texas through 2020, subject to one-year extensions at either party’s election. In May 2014, Classic Operating and Classic Pipeline amended the gas gathering agreement with respect to Classic Operating’s remaining assets located in Panola and Shelby Counties, Texas. Under the amended gas gathering agreement, Classic Operating agreed to pay a fee of (i) \$0.30 per MMBtu, subject to an annual 3.5% inflationary escalation, based on volumes of natural gas delivered and processed, and (ii) \$0.07 per MMBtu per stage of compression plus its allocated share of compressor fuel. The amended gas gathering agreement has a term until December 31, 2023, subject to one-year extensions at either party’s election.

In May 2014, Classic Operating and Classic Pipeline entered into a water disposal agreement. The water disposal agreement has a three-year term, subject to one-year extensions at either party’s election. Under the water disposal agreement, Classic Operating agreed to pay a fee of \$1.10 per barrel for each barrel of water delivered to Classic Pipeline. Effective July 1, 2015, the fee was reduced to \$0.40 per barrel for each barrel of water delivered to Classic Pipeline.

In February 2015, in connection with and as part of the Property Swap, Classic sold all of the equity interests owned by it in Classic Operating to Memorial Production Operating LLC, a wholly-owned subsidiary of MEMP, and Classic and Classic GP were merged into MRD Operating in March 2015.

Note 14. Business Segment Data

Our reportable business segments are organized in a manner that reflects how management manages those business activities.



We have two reportable business segments, both of which are engaged in the acquisition, exploration and development of oil and natural gas properties. Our reportable business segments are as follows:

- MRD—reflects the combined operations of the Company and its consolidating subsidiaries except for MEMP and its subsidiaries.
- MEMP—reflects the combined operations of MEMP and its subsidiaries.

We evaluate segment performance based on Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss), plus interest expense; loss on extinguishment of debt; income tax expense; depreciation, depletion and amortization (“DD&A”); impairment of goodwill and long-lived properties; accretion of asset retirement obligations (“AROs”); losses on commodity derivative contracts and cash settlements received; losses on sale of properties; incentive-based compensation expenses; exploration costs; provision for environmental remediation; equity loss from MEMP (MRD Segment only); cash distributions from MEMP (MRD Segment only); transaction related costs; amortization of investment premium; and other non-routine items, less interest income; income tax benefit; gains on commodity derivative contracts and cash settlements paid on expired positions; equity income from MEMP (MRD Segment only); gains on sale of assets and other non-routine items.

Financial information presented for the MEMP business segment is derived from the underlying consolidated and combined financial statements of MEMP that are publicly available.

Segment revenues and expenses include intersegment transactions. Our consolidated totals reflect the elimination of intersegment transactions.

In the MRD Segment’s individual financial statements, investments in the MEMP Segment that are included in the consolidated and combined financial statements are accounted for by the equity method.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The following table presents selected business segment information for the periods indicated (in thousands):

	MRD	MEMP	Other, Adjustments & Eliminations	Consolidated & Combined Totals
<b>Total revenues:</b>				
Three Months Ended September 30, 2015	\$ 111,654	\$ 88,083	\$ —	\$ 199,737
Three Months Ended September 30, 2014	99,035	166,261	—	265,296
Nine Months Ended September 30, 2015	277,282	279,039	—	556,321
Nine Months Ended September 30, 2014	297,340	427,354	—	724,694
<b>Adjusted EBITDA: (1)</b>				
Three Months Ended September 30, 2015	104,319	80,766	(75 )	185,010
Three Months Ended September 30, 2014	76,237	97,196	(64 )	173,369
Nine Months Ended September 30, 2015	273,980	250,073	(226 )	523,827
Nine Months Ended September 30, 2014	222,460	243,717	(6,068 )	460,109
<b>Segment assets: (2)</b>				
As of September 30, 2015	1,871,270	2,749,376	(3,378 )	4,617,268
As of December 31, 2014	1,413,768	3,189,760	(9,981 )	4,593,547
<b>Total cash expenditures for additions to long-lived assets:</b>				
Nine Months Ended September 30, 2015	449,297	202,150	—	651,447
Nine Months Ended September 30, 2014	249,324	1,300,815	—	1,550,139

- (1) Adjustments and eliminations for the three and nine months ended September 30, 2015 and 2014 include cash distributions that MEMP paid to MRD during the three and nine months ended September 30, 2015 and 2014, related to the ownership of partnership interests in MEMP. In 2014, MRD LLC owned MEMP subordinated units, which were distributed to MRD Holdco in connection with the Company's initial public offering in June 2014.
- (2) As of September 30, 2015, adjustments and eliminations primarily represent the elimination of accounts receivable and accounts payable balances between the MRD Segment and the MEMP Segment.

## Calculation of Reportable Segments' Adjusted EBITDA

	For the Three Months Ended September 30, 2015		
	MRD	MEMP	Combined Totals
	(In thousands)		
Net income (loss)	\$56,551	\$(191,981)	\$(135,430)
Interest expense, net	9,176	31,255	40,431
Income tax expense (benefit)	54,431	(107 )	54,324
DD&A	53,035	53,305	106,340
Impairment of proved oil and natural gas properties	—	361,836	361,836
Accretion of AROs	95	1,716	1,811
(Gain) loss on commodity derivative instruments	(125,167)	(244,888)	(370,055)
Cash settlements received (paid) on expired commodity derivative instruments	44,010	64,480	108,490

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Transaction related costs	213	16	229
Incentive-based compensation expense	7,657	2,993	10,650
Exploration costs	4,068	2,141	6,209
Non-cash equity (income) loss from MEMP	175	—	175
Cash distributions from MEMP	75	—	75
Adjusted EBITDA	\$104,319	\$80,766	\$185,085

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## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

For the Three Months Ended  
September 30, 2014

	MRD	MEMP	Combined Totals
	(In thousands)		
Net income (loss)	\$10,816	\$101,307	\$112,123
Interest expense, net	9,887	26,458	36,345
Income tax expense (benefit)	26,522	(688 )	25,834
DD&A	30,798	53,649	84,447
Impairment of proved oil and natural gas properties	—	67,181	67,181
Accretion of AROs	132	1,421	1,553
(Gain) loss on commodity derivative instruments	(33,090)	(156,402)	(189,492)
Cash settlements received (paid) on expired commodity derivative instruments	3,699	876	4,575
Transaction related costs	500	925	1,425
Incentive-based compensation expense	26,862	2,427	29,289
Exploration costs	133	42	175
Non-cash equity (income) loss from MEMP	(86 )	—	(86 )
Cash distributions from MEMP	64	—	64
Adjusted EBITDA	\$76,237	\$97,196	\$173,433

For the Nine Months Ended  
September 30, 2015

	MRD	MEMP	Combined Totals
	(In thousands)		
Net income (loss)	\$80,219	\$(468,498)	\$(388,279)
Interest expense, net	28,545	87,983	116,528
Income tax expense (benefit)	77,345	(1,601 )	75,744
DD&A	129,394	150,857	280,251
Impairment of proved oil and natural gas properties	—	613,183	613,183
Accretion of AROs	311	5,036	5,347
(Gain) loss on commodity derivative instruments	(202,894)	(328,944)	(531,838)
Cash settlements received (paid) on expired commodity derivative instruments	114,298	178,955	293,253
(Gain) loss on sale of properties	50	—	50
Transaction related costs	1,620	1,612	3,232
Incentive-based compensation expense	37,440	7,899	45,339
Exploration costs	7,024	2,263	9,287
Loss on settlement of AROs	—	1,328	1,328
Non-cash equity (income) loss from MEMP	402	—	402
Cash distributions from MEMP	226	—	226
Adjusted EBITDA	\$273,980	\$250,073	\$524,053



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	For the Nine Months Ended September 30, 2014		
	MRD	MEMP	Combined Totals
	(In thousands)		
Net income (loss)	\$ (934,541)	\$ (43,225 )	\$ (977,766)
Interest expense, net	44,355	60,573	104,928
Loss on debt extinguishment	37,248	—	37,248
Income tax expense (benefit)	14,701	(303 )	14,398
DD&A	86,741	129,165	215,906
Impairment of proved oil and natural gas properties	—	67,181	67,181
Accretion of AROs	389	4,212	4,601
(Gain) loss on commodity derivative instruments	(17,130 )	28,710	11,580
Cash settlements received (paid) on expired commodity derivative instruments	(4,930 )	(14,999 )	(19,929 )
(Gain) loss on sale of properties	3,057	—	3,057
Transaction related costs	1,568	3,912	5,480
Incentive-based compensation expense	970,877	5,387	976,264
Exploration costs	1,213	252	1,465
Non-cash equity (income) loss from MEMP	12,844	—	12,844
Provision for environmental remediation	—	2,852	2,852
Cash distributions from MEMP	6,068	—	6,068
Adjusted EBITDA	\$ 222,460	\$ 243,717	\$ 466,177

The following table presents a reconciliation of total reportable segments' Adjusted EBITDA to net income (loss) for each of the periods indicated (in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Total Reportable Segments' Adjusted EBITDA	\$ 185,085	\$ 173,433	\$ 524,053	\$ 466,177
Adjustments to reconcile Adjusted EBITDA to net income (loss):				
Interest expense, net	(40,431 )	(36,345 )	(116,528 )	(104,928 )
Loss on debt extinguishment	—	—	—	(37,248 )
Income tax benefit (expense)	(54,324 )	(25,834 )	(75,744 )	(14,398 )
DD&A	(106,340)	(84,447 )	(280,251 )	(215,906)
Impairment of proved oil and natural gas properties	(361,836)	(67,181 )	(613,183 )	(67,181 )
Accretion of AROs	(1,811 )	(1,553 )	(5,347 )	(4,601 )
Gains (losses) on commodity derivative instruments	370,055	189,492	531,838	(11,580 )
Cash settlements paid (received) on expired commodity derivative instruments	(108,490)	(4,575 )	(293,253 )	19,929
Gain (loss) on sale of properties	—	—	(50 )	(3,057 )
Transaction related costs	(229 )	(1,425 )	(3,232 )	(5,480 )
Incentive-based compensation expense	(10,650 )	(29,289 )	(45,339 )	(976,264)
Exploration costs	(6,209 )	(175 )	(9,287 )	(1,465 )
Provision for environmental remediation	—	—	—	(2,852 )

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Loss on settlement of AROs	—	—	(1,328 )	—
Cash distributions from MEMP	(75 )	(64 )	(226 )	(6,068 )
Net income (loss)	\$(135,255)	\$112,037	\$(387,877)	\$(964,922)

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## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Included below is our consolidated and combined statement of operations disaggregated by reportable segment for the period indicated (in thousands):

	Three Months Ended September 30, 2015			
	MRD	MEMP	Other, Adjustments & Eliminations	Consolidated
<b>Revenues:</b>				
Oil & natural gas sales	\$ 111,654	\$ 87,519	\$ —	\$ 199,173
Other revenues	—	564	—	564
Total revenues	111,654	88,083	—	199,737
<b>Costs and expenses:</b>				
Lease operating	7,949	45,416	—	53,365
Gathering, processing, and transportation	22,633	8,134	—	30,767
Gathering, processing, and transportation - affiliate	9,215	—	—	9,215
Pipeline operating	—	461	—	461
Exploration	4,068	2,141	—	6,209
Production and ad valorem taxes	2,751	6,896	—	9,647
Depreciation, depletion, and amortization	53,035	53,305	—	106,340
Impairment of proved oil and natural gas properties	—	361,836	—	361,836
Incentive unit compensation expense	4,965	—	—	4,965
General and administrative	11,695	13,910	—	25,605
Accretion of asset retirement obligations	95	1,716	—	1,811
(Gain) loss on commodity derivative instruments	(125,167)	(244,888)	—	(370,055)
Total costs and expenses	(8,761)	248,927	—	240,166
Operating income (loss)	120,415	(160,844)	—	(40,429)
<b>Other income (expense):</b>				
Interest expense, net	(9,176)	(31,255)	—	(40,431)
Earnings from equity investments	(175)	—	175	—
Other, net	(82)	11	—	(71)
Total other income (expense)	(9,433)	(31,244)	175	(40,502)
Income (loss) before income taxes	110,982	(192,088)	175	(80,931)
Income tax benefit (expense)	(54,431)	107	—	(54,324)
Net income (loss)	\$ 56,551	\$ (191,981)	\$ 175	\$ (135,255)



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2014			
	MRD	MEMP	Other, Adjustments & Eliminations	Consolidated
<b>Revenues:</b>				
Oil & natural gas sales	\$99,029	\$164,935	\$ —	\$ 263,964
Other revenues	6	1,326	—	1,332
Total revenues	99,035	166,261	—	265,296
<b>Costs and expenses:</b>				
Lease operating	4,333	41,878	—	46,211
Gathering, processing, and transportation	11,941	7,862	—	19,803
Pipeline operating	—	431	—	431
Exploration	133	42	—	175
Production and ad valorem taxes	2,987	11,053	—	14,040
Depreciation, depletion, and amortization	30,798	53,649	—	84,447
Impairment of proved oil and natural gas properties	—	67,181	—	67,181
Incentive unit compensation expense	25,550	—	—	25,550
General and administrative	9,127	12,069	—	21,196
Accretion of asset retirement obligations	132	1,421	—	1,553
(Gain) loss on commodity derivative instruments	(33,090)	(156,402)	—	(189,492 )
Total costs and expenses	51,911	39,184	—	91,095
Operating income (loss)	47,124	127,077	—	174,201
<b>Other income (expense):</b>				
Interest expense, net	(9,887 )	(26,458 )	—	(36,345 )
Earnings from equity investments	86	—	(86 )	—
Other, net	15	—	—	15
Total other income (expense)	(9,786 )	(26,458 )	(86 )	(36,330 )
Income (loss) before income taxes	37,338	100,619	(86 )	137,871
Income tax benefit (expense)	(26,522)	688	—	(25,834 )
Net income (loss)	\$10,816	\$101,307	\$ (86 )	\$ 112,037

	Nine Months Ended September 30, 2015			
	MRD	MEMP	Other, Adjustments & Eliminations	Consolidated
<b>Revenues:</b>				
Oil & natural gas sales	\$277,282	\$276,689	\$ —	\$ 553,971
Other revenues	—	2,350	—	2,350
Total revenues	277,282	279,039	—	556,321
<b>Costs and expenses:</b>				

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Lease operating	17,025	130,782	—	147,807
Gathering, processing, and transportation	51,685	25,402	—	77,087
Gathering, processing, and transportation - affiliate	13,028	—	—	13,028
Pipeline operating	—	1,407	—	1,407
Exploration	7,024	2,263	—	9,287
Production and ad valorem taxes	8,666	19,609	—	28,275
Depreciation, depletion, and amortization	129,394	150,857	—	280,251
Impairment of proved oil and natural gas properties	—	613,183	—	613,183
Incentive unit compensation expense	31,305	—	—	31,305
General and administrative	34,994	42,798	—	77,792
Accretion of asset retirement obligations	311	5,036	—	5,347
(Gain) loss on commodity derivative instruments	(202,894)	(328,944)	—	(531,838 )
(Gain) loss on sale of properties	50	—	—	50
Other, net	—	(943 )	—	(943 )
Total costs and expenses	90,588	661,450	—	752,038
Operating income (loss)	186,694	(382,411)	—	(195,717 )
Other income (expense):				
Interest expense, net	(28,545 )	(87,983 )	—	(116,528 )
Earnings from equity investments	(402 )	—	402	—
Other, net	(183 )	295	—	112
Total other income (expense)	(29,130 )	(87,688 )	402	(116,416 )
Income (loss) before income taxes	157,564	(470,099)	402	(312,133 )
Income tax benefit (expense)	(77,345 )	1,601	—	(75,744 )
Net income (loss)	\$80,219	\$(468,498)	\$ 402	\$(387,877 )

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## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2014			
	MRD	MEMP	Other, Adjustments & Eliminations	Consolidated & Combined
<b>Revenues:</b>				
Oil & natural gas sales	\$297,328	\$423,782	\$ —	\$ 721,110
Other revenues	12	3,572	—	3,584
Total revenues	297,340	427,354	—	724,694
<b>Costs and expenses:</b>				
Lease operating	12,361	99,526	—	111,887
Gathering, processing, and transportation	30,793	21,016	—	51,809
Pipeline operating	—	1,596	—	1,596
Exploration	1,213	252	—	1,465
Production and ad valorem taxes	9,141	24,482	—	33,623
Depreciation, depletion, and amortization	86,741	129,165	—	215,906
Impairment of proved oil and natural gas properties	—	67,181	—	67,181
Incentive unit compensation expense	969,390	—	—	969,390
General and administrative	26,880	34,181	—	61,061
Accretion of asset retirement obligations	389	4,212	—	4,601
(Gain) loss on commodity derivative instruments	(17,130 )	28,710	—	11,580
(Gain) loss on sale of properties	3,057	—	—	3,057
Other, net	—	(12 )	—	(12 )
Total costs and expenses	1,122,835	410,309	—	1,533,144
Operating income (loss)	(825,495 )	17,045	—	(808,450 )
<b>Other income (expense):</b>				
Interest expense, net	(44,355 )	(60,573 )	—	(104,928 )
Loss on extinguishment on debt	(37,248 )	—	—	(37,248 )
Earnings from equity investments	(12,844 )	—	12,844	—
Other, net	102	—	—	102
Total other income (expense)	(94,345 )	(60,573 )	12,844	(142,074 )
Income before income taxes	(919,840 )	(43,528 )	12,844	(950,524 )
Income tax benefit (expense)	(14,701 )	303	—	(14,398 )
Net income (loss)	\$(934,541 )	\$(43,225 )	\$ 12,844	\$(964,922 )

## Note 15. Commitments and Contingencies

## Litigation &amp; Environmental

As part of our normal business activities, we may be named as defendants in litigation and legal proceedings, including those arising from regulatory and environmental matters. Although we are insured against various risks to the extent we believe it is prudent, there is no assurance that the nature and amount of such insurance will be adequate, in every case, to indemnify us against liabilities arising from future legal proceedings. We are not aware of any litigation, pending or threatened, that we believe is reasonably likely to have a significant adverse effect on our financial position, results of operations or cash flows.

At September 30, 2015 and December 31, 2014, we had \$0.6 million and \$2.1 million of environmental reserves recorded on our balance sheets, respectively.

#### Midstream Agreements

See Note 13 for additional information.

#### Supplemental Bond for Decommissioning Liabilities Trust Agreement

In connection with its 2009 acquisition of the Beta properties, Rise Energy Operating, LLC (“REO”), a wholly-owned subsidiary of MEMP, assumed an obligation with the BOEM for the decommissioning of the offshore production facilities. The trust account is held by REO for the benefit of all working interest owners. The following is a summary of the gross held-to-maturity investments held in the trust account less the outside working interest owners share as of September 30, 2015 (in thousands):

Investment	Amortized Cost
U.S. Bank Money Market Cash Equivalent	\$ 142,005
Less: Outside working interest owners share	(68,517 )
	\$ 73,488

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The trust account must maintain minimum balances attributable to REO's net working interest as follows (in thousands):

June 30, 2016	\$76,590
December 31, 2016	\$78,660

As of September 30, 2015, the maximum remaining obligation net to REO's interest was approximately \$5.2 million.

## Processing Plant Expansions by Third Party Gatherer

A discussion of processing plant expansions by a third party gatherer is included in our Recast Form 8-K.

## Related Party Agreements

See Note 13 for additional information.

## Note 16. Condensed Consolidating Financial Information

The Company owns no operating assets and has no significant operations independent of its subsidiaries. Our obligations under the MRD Senior Notes outstanding are fully and unconditionally guaranteed, jointly and severally, by certain of our 100% owned subsidiaries on a senior unsecured basis. Subsidiaries with noncontrolling interests (i.e. MEMP) and certain de minimis subsidiaries are non-guarantors.

The following condensed consolidating financial information presents the financial information of the Company on a unconsolidated stand-alone basis and its combined guarantor and combined non-guarantor subsidiaries as of and for the period indicated. Such financial information may not necessarily be indicative of our results of operations, cash flows or financial position had these subsidiaries operated as independent entities.

	As of September 30, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$4,725	\$2,107	\$531	\$—	\$7,363
Accounts receivable - trade	6,890	76,715	55,169	(2,786 )	135,988
Accounts receivable - affiliates	7,438	—	—	(7,438 )	—
Short-term derivative instruments	152,208	—	231,340	—	383,548
Prepaid expenses and other current assets	4,995	8,603	14,258	—	27,856
Total current assets	176,256	87,425	301,298	(10,224 )	554,755
Property and equipment, net	16,814	1,371,384	1,907,350	—	3,295,548
Long-term derivative instruments	191,426	—	439,070	—	630,496
Investments in subsidiaries	1,261,135	—	—	(1,261,135 )	—
Other long-term assets	13,526	21,285	101,658	—	136,469

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Total assets	\$1,659,157	\$1,480,094	\$2,749,376	\$(1,271,359)	\$4,617,268
<b>LIABILITIES AND EQUITY</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities	\$24,574	\$86,766	\$104,488	\$(561)	\$215,267
Accounts payable - affiliates	—	14,376	5,006	(9,625)	9,757
Revenues payable	80	37,600	32,700	—	70,380
Deferred tax liabilities	55,985	—	1,459	—	57,444
Short-term derivative instruments	—	—	3,515	—	3,515
Total current liabilities	80,639	138,742	147,168	(10,186)	356,363
Long-term debt	726,000	—	1,878,264	—	2,604,264
Asset retirement obligations	—	8,316	120,744	—	129,060
Long-term derivative instruments	—	—	3,183	—	3,183
Deferred tax liabilities	46,028	72,372	2,389	—	120,789
Other long-term liabilities	6,995	—	—	—	6,995
Total liabilities	859,662	219,430	2,151,748	(10,186)	3,220,654
<b>Equity:</b>					
Equity	799,495	1,260,664	591,740	(1,852,404)	799,495
Noncontrolling interest	—	—	5,888	591,231	597,119
Total equity	799,495	1,260,664	597,628	(1,261,173)	1,396,614
Total liabilities & equity	\$1,659,157	\$1,480,094	\$2,749,376	\$(1,271,359)	\$4,617,268

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

As of December 30, 2014

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$2,241	\$3,762	\$970	\$(1,015)	\$5,958
Accounts receivable- trade	5,995	44,952	83,346	(2,717)	131,576
Accounts receivable - affiliates	10,047	—	28	(10,075)	—
Short-term derivative instruments	131,471	—	208,585	—	340,056
Prepaid expenses and other current assets	5,833	7,993	14,201	—	28,027
Total current assets	155,587	56,707	307,130	(13,807)	505,617
Property and equipment, net	16,601	1,050,722	2,470,333	—	3,537,656
Long-term derivative instruments	123,567	—	311,802	—	435,369
Investments in subsidiaries	1,139,792	—	—	(1,139,792)	—
Other long-term assets	14,124	5,660	100,521	(5,400)	114,905
Total assets	\$1,449,671	\$1,113,089	\$3,189,786	\$(1,158,999)	\$4,593,547
<b>LIABILITIES AND EQUITY</b>					
Current Liabilities:					
Accounts payable and accrued expenses	\$6,245	\$56,598	\$113,177	\$(3,125)	\$172,895
Accounts payable - affiliates	—	3,638	6,409	(9,423)	624
Revenues payable	—	27,242	30,110	—	57,352
Deferred tax liabilities	—	50,470	1,407	—	51,877
Short-term derivative instruments	—	—	3,289	—	3,289
Total current liabilities	6,245	137,948	154,392	(12,548)	286,037
Long-term debt	783,000	—	1,595,413	—	2,378,413
Asset retirement obligations	—	9,830	112,701	—	122,531
Deferred tax liabilities	69,431	—	30,986	(5,400)	95,017
Other long-term liabilities	8,585	—	—	—	8,585
Total liabilities	867,261	147,778	1,893,492	(17,948)	2,890,583
Equity:					
Equity	582,410	965,311	1,290,734	(2,256,045)	582,410
Noncontrolling interest	—	—	5,560	1,114,994	1,120,554
Total equity	582,410	965,311	1,296,294	(1,141,051)	1,702,964
Total liabilities & equity	\$1,449,671	\$1,113,089	\$3,189,786	\$(1,158,999)	\$4,593,547

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2015				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
		Subsidiaries	Subsidiaries		
(In thousands)					
<b>Revenues:</b>					
Oil & natural gas sales	\$—	\$ 111,654	\$ 87,519	\$—	\$ 199,173
Other income	—	—	564	—	564
Total revenues	—	111,654	88,083	—	199,737
<b>Costs and expenses:</b>					
Lease operating	—	7,949	45,416	—	53,365
Gathering, processing and transportation	—	22,633	8,134	—	30,767
Gathering, processing and transportation - affiliate	—	9,215	—	—	9,215
Pipeline operating	—	—	461	—	461
Exploration	—	4,068	2,141	—	6,209
Production and ad valorem taxes	—	2,751	6,896	—	9,647
Depreciation, depletion and amortization	1,087	51,948	53,305	—	106,340
Impairment of proved oil and natural gas properties	—	—	361,836	—	361,836
Incentive unit compensation expense	4,965	—	—	—	4,965
General and administrative	11,327	368	13,910	—	25,605
Accretion of asset retirement obligations	—	95	1,716	—	1,811
(Gain) loss on commodity derivatives	(125,167)	—	(244,888)	—	(370,055)
Total costs and expenses	(107,788)	99,027	248,927	—	240,166
Operating income (loss)	107,788	12,627	(160,844)	—	(40,429)
<b>Other income (expense):</b>					
Interest expense, net	(9,174)	(2)	(31,255)	—	(40,431)
Equity earnings from subsidiaries	10,839	—	—	(10,839)	—
Other, net	(100)	18	11	—	(71)
Total other income (expense)	1,565	16	(31,244)	(10,839)	(40,502)
Income before income taxes	109,353	12,643	(192,088)	(10,839)	(80,931)
Income tax benefit (expense)	(52,801)	(1,630)	107	—	(54,324)
Net income (loss)	56,552	11,013	(191,981)	(10,839)	(135,255)
Net income (loss) attributable to noncontrolling interest	—	—	104	(191,911)	(191,807)
Net income (loss) attributable to Memorial Resource Development Corp.	\$56,552	\$ 11,013	\$ (192,085)	\$ 181,072	\$ 56,552



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2014				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
		Subsidiaries	Subsidiaries		
	(In thousands)				
<b>Revenues:</b>					
Oil & natural gas sales	\$—	\$ 99,026	\$ 164,938	\$—	\$ 263,964
Other income	6	—	1,326	—	1,332
Total revenues	6	99,026	166,264	—	265,296
<b>Costs and expenses:</b>					
Lease operating	—	4,320	41,891	—	46,211
Gathering, processing and transportation	—	11,941	7,862	—	19,803
Pipeline operating	—	—	431	—	431
Exploration	—	133	42	—	175
Production and ad valorem taxes	—	2,987	11,053	—	14,040
Depreciation, depletion and amortization	168	30,630	53,649	—	84,447
Impairment of proved oil and natural gas properties	—	—	67,181	—	67,181
Incentive unit compensation expense	25,550	—	—	—	25,550
General and administrative	7,215	1,889	12,092	—	21,196
Accretion of asset retirement obligations	1	131	1,421	—	1,553
(Gain) loss on commodity derivatives	(33,090)	—	(156,402 )	—	(189,492 )
Total costs and expenses	(156 )	52,031	39,220	—	91,095
Operating income (loss)	162	46,995	127,044	—	174,201
<b>Other income (expense):</b>					
Interest expense, net	(9,868 )	(19 )	(26,458 )	—	(36,345 )
Equity earnings from subsidiaries	25,675	—	—	(25,675 )	—
Other, net	—	5	10	—	15
Total other income (expense)	15,807	(14 )	(26,448 )	(25,675 )	(36,330 )
Income before income taxes	15,969	46,981	100,596	(25,675 )	137,871
Income tax benefit (expense)	(6,041 )	(20,489 )	696	—	(25,834 )
Net income (loss)	9,928	26,492	101,292	(25,675 )	112,037
Net income (loss) attributable to noncontrolling interest	—	—	52	102,057	102,109
Net income (loss) attributable to Memorial Resource Development Corp.	\$9,928	\$ 26,492	\$ 101,240	\$(127,732 )	\$ 9,928

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2015				Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
	(In thousands)				
<b>Revenues:</b>					
Oil & natural gas sales	\$—	\$ 277,282	\$ 276,689	\$—	\$ 553,971
Other income	—	—	2,350	—	2,350
Total revenues	—	277,282	279,039	—	556,321
<b>Costs and expenses:</b>					
Lease operating	—	17,025	130,782	—	147,807
Gathering, processing and transportation	—	51,685	25,402	—	77,087
Gathering, processing and transportation -affiliate	—	13,028	—	—	13,028
Pipeline operating	—	—	1,407	—	1,407
Exploration	—	7,024	2,263	—	9,287
Production and ad valorem taxes	—	8,666	19,609	—	28,275
Depreciation, depletion and amortization	3,139	126,255	150,857	—	280,251
Impairment of proved oil and natural gas properties	—	—	613,183	—	613,183
Incentive unit compensation expense	31,305	—	—	—	31,305
General and administrative	32,656	2,338	42,798	—	77,792
Accretion of asset retirement obligations	—	311	5,036	—	5,347
(Gain) loss on commodity derivatives	(202,894)	—	(328,944)	—	(531,838)
(Gain) loss on sale of properties	—	50	—	—	50
Other, net	—	—	(943)	—	(943)
Total costs and expenses	(135,794)	226,382	661,450	—	752,038
Operating income (loss)	135,794	50,900	(382,411)	—	(195,717)
<b>Other income (expense):</b>					
Interest expense, net	(28,456)	(89)	(87,983)	—	(116,528)
Equity earnings from subsidiaries	28,180	—	—	(28,180)	—
Other, net	(100)	(83)	295	—	112
Total other income (expense)	(376)	(172)	(87,688)	(28,180)	(116,416)
Income before income taxes	135,418	50,728	(470,099)	(28,180)	(312,133)
Income tax benefit (expense)	(56,824)	(20,521)	1,601	—	(75,744)
Net income (loss)	78,594	30,207	(468,498)	(28,180)	(387,877)
Net income (loss) attributable to noncontrolling interest	—	—	328	(466,799)	(466,471)
Net income (loss) attributable to Memorial Resource Development Corp.	\$78,594	\$ 30,207	\$ (468,826)	\$ 438,619	\$ 78,594



## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2014				Combined & Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
(In thousands)					
<b>Revenues:</b>					
Oil & natural gas sales	\$—	\$297,325	\$423,785	\$—	\$721,110
Other income	5	7	3,572	—	3,584
Total revenues	5	297,332	427,357	—	724,694
<b>Costs and expenses:</b>					
Lease operating	—	12,348	99,539	—	111,887
Gathering, processing and transportation	—	30,793	21,016	—	51,809
Pipeline operating	—	—	1,596	—	1,596
Exploration	—	1,213	252	—	1,465
Production and ad valorem taxes	—	9,141	24,482	—	33,623
Depreciation, depletion and amortization	168	86,573	129,165	—	215,906
Impairment of proved oil and natural gas properties	—	—	67,181	—	67,181
Incentive unit compensation expense	137,307	831,060	1,023	—	969,390
General and administrative	7,390	19,450	34,221	—	61,061
Accretion of asset retirement obligations	1	388	4,212	—	4,601
(Gain) loss on commodity derivatives	(36,525 )	19,395	28,710	—	11,580
(Gain) loss on sale of properties	—	3,167	(110 )	—	3,057
Other, net	—	—	(12 )	—	(12 )
Total costs and expenses	108,341	1,013,528	411,275	—	1,533,144
Operating income (loss)	(108,336)	(716,196 )	16,082	—	(808,450 )
<b>Other income (expense):</b>					
Interest expense, net	(10,843 )	(33,512 )	(60,573 )	—	(104,928 )
Debt extinguishment costs	(23,562 )	(13,686 )	—	—	(37,248 )
Equity earnings from subsidiaries	(811,093)	—	—	811,093	—
Other, net	—	92	10	—	102
Total other income (expense)	(845,498)	(47,106 )	(60,563 )	811,093	(142,074 )
Income before income taxes	(953,834)	(763,302 )	(44,481 )	811,093	(950,524 )
Income tax benefit (expense)	2,033	(16,742 )	311	—	(14,398 )
Net income (loss)	(951,801)	(780,044 )	(44,170 )	811,093	(964,922 )
Net income (loss) attributable to noncontrolling interest	—	—	95	(34,946 )	(34,851 )
Net income (loss) attributable to Memorial Resource Development Corp.	(951,801)	(780,044 )	(44,265 )	846,039	(930,071 )

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2015				Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
	(In thousands)				
Net cash provided by (used in) operating activities	\$64,375	\$ 187,457	\$ 185,572	\$ 1,015	\$ 438,419
Cash flows from investing activities:					
Acquisitions of oil and natural gas properties	—	(7,267 )	(6,095 )	—	(13,362 )
Acquisition post-closing adjustment receipts	—	—	9,570	—	9,570
Additions to oil and gas properties	—	(438,262 )	(196,055 )	—	(634,317 )
Additions to other property and equipment	(3,340 )	(428 )	—	—	(3,768 )
Additions to restricted investments	—	—	(3,893 )	—	(3,893 )
Deposit for property acquisition	—	(21,286 )	—	—	(21,286 )
Investments in subsidiaries	(266,431)	—	—	266,431	—
Distributions from subsidiaries	78,622	—	—	(78,622 )	—
Proceeds from the sale of oil and gas properties	—	13,612	—	—	13,612
Net cash used in investing activities	(191,149)	(453,631 )	(196,473 )	187,809	(653,444 )
Cash flows from financing activities:					
Advances on revolving credit facility	403,000				