

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

Ascent Resources Utica Holdings, LLC

As of September 30, 2020 and December 31, 2019 and for the Three and Nine Months Ended September 30, 2020 and 2019.

ASCENT RESOURCES UTICA HOLDINGS, LLC
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ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(\$ in thousands)</i>	September 30, 2020	December 31, 2019
Current Assets:		
Cash and cash equivalents	\$ 4,968	\$ 7,346
Accounts receivable – natural gas, oil and NGL sales	177,183	260,759
Accounts receivable – joint interest and other	13,096	20,425
Short-term derivative assets	2,482	248,118
Other current assets	6,508	8,468
Total Current Assets	204,237	545,116
Property and Equipment:		
Natural gas and oil properties, based on successful efforts accounting	8,682,979	8,233,964
Other property and equipment	31,517	30,818
Less: accumulated depreciation, depletion and amortization	(2,465,098)	(1,890,506)
Property and Equipment, net	6,249,398	6,374,276
Other Assets:		
Long-term derivative assets	258	70,778
Other long-term assets	17,482	20,248
Total Assets	\$ 6,471,375	\$ 7,010,418
Current Liabilities:		
Accounts payable	\$ 54,524	\$ 68,364
Revenue payable	69,905	99,300
Accrued interest	66,548	36,787
Current portion of long-term debt, net	96,536	—
Short-term derivative liabilities	150,945	—
Other current liabilities	220,512	280,841
Total Current Liabilities	658,970	485,292
Long-Term Liabilities:		
Long-term debt, net of current portion	2,672,065	2,838,676
Long-term derivative liabilities	211,073	—
Other long-term liabilities	5,203	5,067
Total Long-Term Liabilities	2,888,341	2,843,743
Commitments and contingencies (Note 9)		
Member's Equity	2,924,064	3,681,383
Total Liabilities and Member's Equity	\$ 6,471,375	\$ 7,010,418

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>(\$ in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Revenues:				
Natural gas	\$ 300,643	\$ 352,867	\$ 868,249	\$ 1,173,381
Oil	37,177	72,173	107,736	174,928
NGL	27,243	29,379	80,590	90,971
Commodity derivative (loss) gain	(386,020)	175,031	(248,066)	357,523
Total Revenues	(20,957)	629,450	808,509	1,796,803
Operating Expenses:				
Lease operating expenses	19,203	18,128	57,839	52,279
Gathering, processing and transportation expenses	227,247	219,697	689,896	619,968
Production and ad valorem taxes	9,344	9,522	28,343	25,969
Exploration expenses	28,096	25,178	77,907	82,916
General and administrative expenses	15,063	14,864	50,112	45,705
Natural gas and oil depreciation, depletion and amortization	195,120	183,815	572,001	499,323
Depreciation and amortization of other assets	928	817	2,794	2,364
Total Operating Expenses	495,001	472,021	1,478,892	1,328,524
(Loss) Income from Operations	(515,958)	157,429	(670,383)	468,279
Other (Expense) Income:				
Interest expense, net	(33,279)	(28,854)	(98,432)	(74,865)
Change in fair value of embedded derivative	—	1,259	—	4,404
(Losses) gains on purchases or exchanges of debt	(3,632)	—	9,671	—
Other income	437	315	1,024	2,892
Total Other Expense	(36,474)	(27,280)	(87,737)	(67,569)
Net (Loss) Income	\$ (552,432)	\$ 130,149	\$ (758,120)	\$ 400,710

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>(\$ in thousands)</i>				
Balance, Beginning of Period	\$ 3,475,756	\$ 3,485,910	\$ 3,681,383	\$ 3,215,097
Contributions from Member	740	62	801	314
Net (loss) income	(552,432)	130,149	(758,120)	400,710
Balance, End of Period	<u>\$ 2,924,064</u>	<u>\$ 3,616,121</u>	<u>\$ 2,924,064</u>	<u>\$ 3,616,121</u>

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30,	
<i>(\$ in thousands)</i>	2020	2019
Cash Flows from Operating Activities:		
Net (loss) income	\$ (758,120)	\$ 400,710
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and amortization	574,795	501,687
Change in fair value of commodity derivatives	677,647	(246,380)
Change in fair value of interest rate derivatives	528	—
Impairment of unproved natural gas and oil properties	75,006	79,352
Non-cash interest expense	19,394	20,770
Stock-based compensation	710	—
Change in fair value of embedded derivative	—	(4,404)
Gains on purchases or exchanges of debt	(13,303)	—
Other	(1,564)	508
Changes in operating assets and liabilities	79,454	166,967
Net Cash Provided by Operating Activities	654,547	919,210
Cash Flows from Investing Activities:		
Drilling and completion costs	(472,233)	(889,878)
Acquisitions of natural gas and oil properties	(111,499)	(202,141)
Proceeds from divestitures of natural gas and oil properties	—	14,541
Additions to other property and equipment	(1,461)	(2,964)
Net Cash Used in Investing Activities	(585,193)	(1,080,442)
Cash Flows from Financing Activities:		
Proceeds from credit facility borrowings	695,000	915,000
Repayment of credit facility borrowings	(715,000)	(758,000)
Repayment of long-term debt	(50,995)	—
Cash paid for debt issuance costs	(2,294)	—
Other	1,557	—
Net Cash (Used in) Provided by Financing Activities	(71,732)	157,000
Net Decrease in Cash and Cash Equivalents	(2,378)	(4,232)
Cash and Cash Equivalents, Beginning of Period	7,346	11,030
Cash and Cash Equivalents, End of Period	\$ 4,968	\$ 6,798
Supplemental disclosures of cash flow information:		
Interest paid, net of capitalized interest and interest paid in kind	\$ 50,919	\$ 25,395
Supplemental disclosures of significant non-cash investing activities:		
(Decrease) increase in accrued capital expenditures	\$ (59,160)	\$ 12,607

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

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

Ascent Resources Utica Holdings, LLC (“ARUH”), together with its wholly-owned subsidiaries (collectively, “we,” “our” or “us”), is engaged in the acquisition, exploration, development, production and operation of natural gas and oil properties located in the Utica Shale in Ohio (“Utica Shale”). ARUH is a wholly-owned subsidiary of Ascent Resources Operating, LLC (our “Member”), which is an indirect, wholly-owned subsidiary of Ascent Resources, LLC (our “Parent”). Together, The Energy & Minerals Group (“EMG”) and First Reserve Corporation (“First Reserve”) own a majority interest in our Parent.

Our accompanying unaudited condensed consolidated financial statements and notes were prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information, and intercompany accounts and balances have been eliminated. Certain disclosures normally included in complete consolidated financial statements prepared in accordance with GAAP have been omitted. The unaudited condensed consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2019.

The unaudited condensed consolidated financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods. All such adjustments are of a normal recurring nature. The results for any interim period are not necessarily indicative of the expected results for the entire year.

Risks and Uncertainties

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency due to the spread of a novel coronavirus (“COVID-19”), which was classified as a pandemic in March 2020 based on the rapid increase in global exposure. Under the guidance of the WHO and the Centers for Disease Control and Prevention (“CDC”) and in an effort to slow the spread of the virus, many local, state and national governments implemented new laws and regulations which led to a steep decline in the global demand for oil and, to a lesser extent, natural gas. Actions by OPEC+ and other producers to curtail oil production and reduce supply have failed to keep pace with lessened demand, resulting in oil production stressing storage limits. The high storage levels along with the COVID-19 related decreases in natural gas and oil demand have resulted in a significant decline in natural gas and oil prices and an increasingly volatile market. Due to recent decreases in commodity prices, we have curtailed certain wells in an effort to optimize revenue in future periods.

We maintain a robust hedging program to mitigate natural gas and oil price volatility. As of September 30, 2020, approximately 1,453,000 million British thermal units (“mmbtu”) per day of our projected natural gas production for the remainder of 2020 were hedged at a weighted average floor price of \$2.68 per mmbtu, and approximately 1,515,000 mmbtu per day of our projected natural gas production for 2021 were hedged at a weighted average floor price of \$2.52 per mmbtu, excluding the sold puts on our three-way collars. Additionally, as of September 30, 2020, approximately 2,500 barrels (“bbl”) per day of our projected oil production for the remainder of 2020 were hedged at a weighted average floor price of \$48.18 per bbl, and approximately 3,200 bbl per day of our projected oil production for 2021 were hedged at a weighted average floor price of \$51.07 per bbl, excluding the sold puts on our three-way collars.

Our reserves consist predominantly of natural gas, and although we have hedged a substantial portion of our projected natural gas production for 2020 and 2021, if the pricing environment for natural gas continues to decline over an extended period, it may in the future lead to (i) a reduction in reserves, including the possible removal of proved undeveloped reserves, (ii) an impairment of proved and/or unproved natural gas and oil properties, (iii) curtailment of production and/or (iv) a reduction in the borrowing base of our Credit Facility (as defined below).

As the full impact of COVID-19 and the volatility in commodity prices continues to evolve, and, although we are monitoring both closely, we cannot be certain as to the full magnitude that they will have on our future financial condition, liquidity and results of operations.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures on the condensed consolidated financial statements. Actual amounts could differ from these estimates. Estimates of natural gas, oil and natural gas liquids (“NGL”) reserves and their values, future production rates and future costs and expenses are the most significant of our estimates.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Customer Credit Risk

We are subject to credit risk resulting from the concentration of our natural gas, oil and NGL receivables. If our largest customers stopped purchasing our natural gas, oil or NGL, our revenues could decline, and our operating results and financial condition could be harmed. However, management does not believe the loss of any single customer would materially impact our operating results, as natural gas, oil and NGL are fungible products with well-established markets, and we transact with numerous customers in our operating region. We historically have not incurred losses on our natural gas, oil and NGL receivables.

We also have joint interest receivables, which arise from billings to entities that own working interests in the wells we operate. These entities participate in our wells primarily based on their ownership in leases. We have little ability to control whether these entities will participate in our wells but can require these entities to prepay drilling costs. We historically have not incurred losses on our joint interest receivables.

Reclassifications

Certain reclassifications have been made to our September 30, 2019 condensed consolidated financial statements to conform to the presentation used for the September 30, 2020 condensed consolidated financial statements.

Adopted and Recently Issued Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt - Debt with Conversion and Other Options, Subtopic 470-20, and Derivatives and Hedging - Contracts in Entity’s Own Equity, Subtopic 815-40*. This ASU modifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity, and adds new disclosure requirements. The amendments are effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2021 for public entities. For non-public entities, the amendments are effective for annual reporting periods beginning after December 15, 2023, including interim periods within those fiscal years. Entities may elect to apply the amendments in this guidance using either the modified retrospective method or the full retrospective method. We are currently evaluating the impact this standard will have on our financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, Topic 820*. The amendments in this ASU remove, modify and add to the disclosure requirements for fair value measurements. The new standard clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. These amendments were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 for both public and non-public entities. The amended guidance on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We adopted ASU 2018-13 effective January 1, 2020 and did not experience a material impact to our financial statements or disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, Topic 326*. This ASU amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, this ASU eliminates the probable initial recognition threshold in current GAAP and instead requires an entity to reflect its current estimate of all expected credit losses. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. These amendments were effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2019 for public entities. For non-public entities, the amendments will be effective for annual reporting periods beginning after December 15, 2022, including interim periods within those fiscal years. The amendments in this guidance should be applied using the modified retrospective approach with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact this standard will have on our financial statements and related disclosures, and we do not expect it to have a material impact.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, *Leases, Topic 842* (“Topic 842”). The amendments in this update require, among other things, that lessees recognize the following for all leases as defined by Topic 842 (with the exception of short-term leases) at the lease commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Classification of leases as either a finance or operating lease will determine the recognition and presentation of expenses. This ASU also requires certain quantitative and qualitative disclosures about leasing arrangements. We expect to apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented on the financial statements. The FASB has issued subsequent updates, including ASU 2018-01, ASU 2018-11 and ASU 2019-01, in order to clarify its original intent under Topic 842 and provide additional guidance for transitional disclosures and practical expedients. The amendments were effective for interim and annual reporting periods beginning after December 15, 2018 for public business entities. For non-public entities, the amendments will be effective for annual reporting periods beginning after December 15, 2021 and for interim periods beginning after December 15, 2022, with early adoption permitted. We are in the process of evaluating the impact this standard will have on our financial statements and related disclosures. Based on our preliminary review, we expect to record leases with durations greater than twelve months on our balance sheet along with expanded lease disclosures and internal control changes necessary for adoption.

Subsequent Events

As of November 11, 2020, the date the condensed consolidated financial statements were issued, we completed our evaluation of material subsequent events for disclosure, and such items are discussed herein. See Note 4, *Senior Notes*, for a discussion of our recent debt exchange.

2. Revenue from Contracts with Customers

Our revenues are derived from the sale of natural gas, oil and NGL and are recognized when production is sold to a customer at a fixed or determinable price, delivery has occurred, control has transferred and collection of the revenue is probable, in accordance with ASC 606, *Revenue from Contracts with Customers* (“ASC 606”). We typically receive payment for natural gas, oil and NGL sales within 30 days of the month of delivery. A significant number of our sales contracts are short-term in nature generally through evergreen contracts with terms of one year or less, and our sales contracts with a term greater than one year have no material long-term fixed consideration.

Under our natural gas sales contracts, we deliver natural gas to the customer at a delivery point specified under the sales contracts, utilizing third parties to gather, compress, process and transport our natural gas. Our sales contracts provide that we generally receive revenue for the sale of our natural gas based on a specific index price adjusted for pricing differentials. We transfer control of the natural gas at the delivery point and recognize revenue based on the contract price. The costs incurred to gather, compress, process and transport the natural gas prior to the point when control is transferred to the customer are recorded on the condensed consolidated statements of operations as gathering, processing and transportation expenses.

NGL, which are extracted from natural gas through processing, are either sold by us directly or to the processor under processing contracts. For NGL sold by us directly, the sales contracts provide that the product is delivered to the customer at an agreed upon delivery point and that we generally receive revenue for the sale of our NGL based on a specific index price adjusted for pricing differentials. We transfer control of the product to the customer at the delivery point and recognize revenue based on the contract price. The costs to process and transport NGL to the delivery points are recorded on the condensed consolidated statements of operations as gathering, processing and transportation expenses. For NGL sold to the processor, control is transferred by us to the processor at the tailgate of the processing plant, and revenue is recognized based on the price received from the processor.

Under our oil sales contracts, oil is sold to the customer from storage tanks near the wellhead, and we receive revenue for the sale of our oil based on a specific index price adjusted for pricing differentials. We transfer control of the product to the customer at the storage tanks and recognize revenue based on the contract price.

Our revenues from the sale of natural gas, oil and NGL are each presented separately on our condensed consolidated statements of operations. We believe that the disaggregation of revenue into these three major product types appropriately depicts the requirements of ASC 606.

Under our sales contracts, customers are invoiced after our performance obligations have been satisfied, generally when control of the product has been transferred to the customer, at which point payment is unconditional. Accordingly, our contracts do not give rise to contract assets or liabilities under ASC 606. At September 30, 2020 and December 31, 2019, receivables from contracts with customers were \$177.2 million and \$260.8 million, respectively, and were reported in accounts receivable – natural gas, oil and NGL sales on the condensed consolidated balance sheets.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Property and Equipment

Net property and equipment included the following:

<i>(\$ in thousands)</i>	September 30, 2020	December 31, 2019
Proved natural gas and oil properties	\$ 7,604,952	\$ 7,155,998
Unproved natural gas and oil properties	1,078,027	1,077,966
Other property and equipment	31,517	30,818
Total Property and Equipment	8,714,496	8,264,782
Accumulated depreciation, depletion and amortization	(2,465,098)	(1,890,506)
Property and Equipment, net	<u>\$ 6,249,398</u>	<u>\$ 6,374,276</u>

4. Debt

Our debt consisted of the following as of the dates indicated:

<i>(\$ in thousands)</i>	September 30, 2020	December 31, 2019
Long-Term Debt:		
Credit Facility ^(a)	\$ 1,168,000	\$ 1,188,000
Senior notes due 2022 ^(b)	924,713	975,000
Senior notes due 2026 ^(c)	600,000	600,000
Convertible notes due 2021 ^(d)	—	77,336
Net debt issuance costs	(2,808)	(3,522)
Net debt discounts and premiums	(17,840)	1,862
Total Long-Term Debt, net of current portion	2,672,065	2,838,676
Plus current maturities of long-term debt, net ^(d)	96,536	—
Total Debt, net	<u>\$ 2,768,601</u>	<u>\$ 2,838,676</u>

(a) The interest rate was 2.66% and 4.01% as of September 30, 2020 and December 31, 2019, respectively.

(b) The interest rate was 10.00% as of September 30, 2020 and December 31, 2019.

(c) The interest rate was 7.00% as of September 30, 2020 and December 31, 2019.

(d) The interest rate was 6.50% as of September 30, 2020 and December 31, 2019. The Convertible Notes (defined below) were reclassified from a long-term liability to a current liability due to their maturity date of March 1, 2021. The carrying value of the Convertible Notes as of September 30, 2020 consists of \$66.4 million of outstanding principal plus a premium that is being accreted over the life of the notes.

Credit Facility

Our \$2.5 billion senior secured revolving credit facility (“Credit Facility”) matures on April 1, 2024, and as of September 30, 2020, it had a fully committed borrowing base of \$1.85 billion, of which \$250.0 million was authorized for letters of credit. The Credit Facility is secured by liens on substantially all of our assets, including our natural gas and oil properties. The amount available to be borrowed under our Credit Facility is subject to a borrowing base that is required to be redetermined semiannually on or about May 1 and November 1 of each year primarily based on the estimated value and future net cash flows of our proved natural gas, oil and NGL reserves and the value of our commodity hedge positions as determined by lenders under the Credit Facility at their discretion. Additionally, we may request an interim redetermination of the borrowing base in certain circumstances, including acquisitions of proved reserves in excess of certain thresholds. As of September 30, 2020, we had \$1.2 billion of borrowings outstanding and \$155.5 million of letters of credit issued under the Credit Facility. In November 2020, the Credit Facility was reviewed, and the borrowing base was reaffirmed at \$1.85 billion.

Under the Credit Facility agreement, we may borrow either base rate loans or Eurodollar loans, and as of September 30, 2020, all of the borrowings under the Credit Facility were Eurodollar loans. Principal amounts borrowed are payable on the maturity date and may be repaid prior to the maturity date without any premium or penalty. Interest is payable at the end of the applicable interest period. Eurodollar loans bear interest at a rate per annum equal to the London Interbank Offered Rate (“LIBOR”) plus an applicable

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

margin ranging from 2.00% to 3.00% per annum based on Credit Facility utilization. Due to the weighted average 1-month LIBOR being 0.16% for the applicable interest periods on the most recent election dates, we were subject to a weighted average rate of 2.66% per annum as of September 30, 2020. We have entered into interest rate swaps to mitigate a significant portion of our exposure to future volatility in LIBOR. For further information regarding our interest rate derivatives, see Note 5.

Under the Credit Facility agreement, we are subject to commitment fees payable to the administrative agent for the unutilized portion of our available borrowing base, the rate of which ranges from 0.375% to 0.50% based on Credit Facility utilization. Additionally, we are subject to letter of credit participation fees payable to the administrative agent which escalate based on applicable margins, ranging from 2.00% to 3.00% per annum, in accordance with the Credit Facility utilization. We are also subject to a letter of credit fronting fee that is payable to the issuing bank at a rate of 0.125% per annum of the balance of outstanding letters of credit issued.

The Credit Facility contains restrictive covenants including, but not limited to, restrictions on our ability to incur additional indebtedness beyond the \$550.0 million allowed for junior secured indebtedness, create certain liens on assets, make certain investments or restricted payments, make loans to others, make certain payments, consolidate or merge, hedge hydrocarbons, enter into transactions with affiliates, dispose of assets or engage in certain other transactions without the prior consent of the lenders. The Credit Facility also requires us to maintain the following two financial ratios: (i) a consolidated leverage ratio, which requires us to maintain a consolidated funded indebtedness to consolidated EBITDAX for the aggregate of the last four consecutive quarters (as defined in the Credit Facility) ratio of not more than 4.00 to 1.00 for each fiscal quarter and (ii) a modified current ratio per the covenants of the Credit Facility, which requires us to maintain consolidated current assets to consolidated current liabilities of not less than 1.00 to 1.00 as of the end of each fiscal quarter. As of September 30, 2020, we were in compliance with the financial covenants of the Credit Facility.

As of September 30, 2020, we had \$17.3 million in unamortized debt issuance costs associated with the Credit Facility, which are presented as other long-term assets on the condensed consolidated balance sheet.

Senior Notes

In April 2017, we issued \$1.5 billion in aggregate principal amount of senior unsecured notes (“2022 Notes”) in a private placement to eligible purchasers under Rule 144A and Regulation S of the Securities Act of 1933 (the “Securities Act”). The 2022 Notes are due on April 1, 2022, and interest is payable at an annual rate of 10.00% on April 1 and October 1 of each year. Our obligations under the 2022 Notes are fully and unconditionally guaranteed, jointly and severally, by any of our current and future material subsidiaries. The 2022 Notes are governed by an indenture (the “2022 Notes Indenture”) containing certain covenants, and we were in compliance with all applicable covenants under the 2022 Notes Indenture as of September 30, 2020. During the nine months ended September 30, 2020, we repurchased approximately \$50.3 million of outstanding principal amount of the 2022 Notes at a discount for \$35.4 million in cash, plus accrued and unpaid interest, and recorded a \$14.3 million gain, including the write-off of unamortized debt issuance costs and discounts. As of September 30, 2020, we had \$924.7 million in principal of 2022 Notes outstanding.

In October 2020, we closed an exchange (the “Exchange”) of \$856.7 million of the aggregate principal amount of the 2022 Notes for \$537.8 million in aggregate principal amount of second lien term loans due November 1, 2025 (“2025 Term Loans”) and \$339.7 million in aggregate principal amount of 9.00% senior unsecured notes due November 1, 2027 (“2027 Notes”). The 2025 Term Loans bear interest at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor, and interest is payable quarterly beginning on February 1, 2021. The 2027 Notes bear interest at an annual rate of 9.00%, and interest is payable on May 1 and November 1 of each year, beginning on May 1, 2021. The 2027 Notes also have a contingent payment associated with them if certain triggering events occur prior to maturity. As of September 30, 2020, we have accrued \$3.6 million of fees related to the Exchange, which are presented as a loss on purchases or exchanges of debt on the condensed consolidated statements of operations. Immediately prior to the close of the Exchange, we entered into a supplemental indenture to the 2022 Notes Indenture which eliminated certain restrictive covenants and events of default from the 2022 Notes Indenture. Upon completion of the Exchange, approximately \$68.0 million of aggregate principal under the 2022 Notes remained outstanding.

Additionally, in connection with the Exchange, we also issued \$12.0 million in aggregate principal amount of 2025 Term Loans, \$8.6 million in aggregate principal amount of 2027 Notes and additional equity to certain equity holders of our Parent for \$20.0 million in cash from such holders, the proceeds of which were used to pay fees for the Exchange and to repay a portion of the borrowings outstanding under the Credit Facility.

In October 2018, we issued \$600.0 million in aggregate principal amount of senior unsecured notes (“2026 Notes”) in a private placement to eligible purchasers under Rule 144A and Regulation S of the Securities Act. The 2026 Notes are due on November 1, 2026, and interest is payable at an annual rate of 7.00% on May 1 and November 1 of each year. We used the proceeds primarily to

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

redeem \$525.0 million of outstanding principal of the 2022 Notes and pay accrued and unpaid interest up to, but excluding, the date of the redemption. The remaining net proceeds were used to repay borrowings under the Credit Facility. Our obligations under the 2026 Notes are fully and unconditionally guaranteed, jointly and severally, by any of our current and future material subsidiaries. The 2026 Notes are governed by an indenture containing covenants limiting, among other things, our ability to incur additional indebtedness, make investments or loans, create liens, consummate mergers and similar fundamental changes, make restricted payments, make investments in unrestricted subsidiaries and enter into certain transactions with affiliates. We were in compliance with all applicable covenants under the indenture as of September 30, 2020.

At any time prior to November 1, 2021, we may redeem up to 40% of the aggregate principal amount of the 2026 Notes at a price equal to 107% of the principal amount, plus accrued and unpaid interest up to, but excluding, the redemption date, with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Additionally, at any time prior to November 1, 2021, we may redeem some or all of the 2026 Notes subject to a make-whole premium plus accrued and unpaid interest up to, but excluding, the redemption date. We may redeem some or all of the 2022 Notes or the 2026 Notes (together, the “Senior Notes”) at the applicable redemption prices (expressed as percentages of the principal amount for the periods noted) set forth in the table below:

Senior Notes	Redemption Period	Redemption Price
2022 Notes	April 1, 2020 through March 31, 2021	107.500%
2022 Notes	April 1, 2021 through September 30, 2021	105.000%
2022 Notes	October 1, 2021 and thereafter	100.000%
2026 Notes	November 1, 2021 through October 31, 2022	103.500%
2026 Notes	November 1, 2022 through October 31, 2023	102.333%
2026 Notes	November 1, 2023 through October 31, 2024	101.167%
2026 Notes	November 1, 2024 and thereafter	100.000%

We are not prohibited from acquiring the Senior Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not violate the terms of the applicable indenture. Upon the occurrence of a qualifying change of control, we are required to offer to repurchase all or any part of the Senior Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest up to, but excluding, the date of purchase, subject to the rights of the note holders on the relevant record date to receive interest due on an interest payment date that is on or prior to the date we repurchased the notes from the holder.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured debt, and the Senior Notes will rank senior in right of payment to all of our future subordinated debt. The Senior Notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such indebtedness.

In connection with the issuance and sale of the 2022 Notes, we entered into a registration rights agreement with the initial purchasers. Pursuant to the registration rights agreement, we have agreed to file a registration statement with the United States Securities and Exchange Commission subsequent to an initial public offering of our equity so that the holders may exchange the 2022 Notes for registered notes that have substantially identical terms. In addition, we have agreed to exchange the guarantee related to the 2022 Notes for a registered guarantee having substantially the same terms. We will use commercially reasonable efforts to cause the exchange to be completed within 365 days following the closing date of an underwritten public offering by ARUH or any parent entity. If we fail to comply with certain obligations to register the 2022 Notes, then for each 90-day period beginning immediately following such failure, the interest rate on the 2022 Notes will increase by 0.25% per annum, up to a maximum aggregate increase of 1.00% per annum. Upon regaining compliance with the terms of the registration rights agreement, the increase in interest rate on the 2022 Notes will cease, and the interest rate will return to the stated annual rate of 10.00%.

Convertible Notes

In 2014, we issued \$1.0 billion of convertible notes due 2021 (“Convertible Notes”). Through multiple transactions from 2015 through 2017, we repurchased or otherwise retired \$950.3 million in aggregate principal and accrued and unpaid interest of the Convertible Notes. During the nine months ended September 30, 2020, we repurchased an additional \$10.9 million of outstanding principal amount of the Convertible Notes for \$15.6 million in cash, plus accrued and unpaid interest, and recorded a \$1.0 million loss, including the write-off of debt issuance costs, discounts and premiums.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Convertible Notes mature on March 1, 2021, and as of September 30, 2020, we had \$66.4 million in aggregate principal of the Convertible Notes outstanding. The Convertible Notes are subordinate to the Senior Notes, which rank senior in right of payment. Interest may be paid in cash or in kind semi-annually in arrears on March 1 and September 1 of each year and is currently payable at an annual rate of 6.50%. We elected to pay interest in kind on each interest payment date from September 2015 through September 2019. Upon maturity, unless earlier repurchased or converted, we will be required to redeem the Convertible Notes at 153.8% of the outstanding principal value, plus accrued and unpaid interest up to, but not including, the maturity date. We accrete the 53.8% premium to interest expense through the maturity date using the effective interest method. As of September 30, 2020, the carrying value of the Convertible Notes, including the portion of the premium that has been accreted, was \$96.5 million.

Conversion of the Convertible Notes into common shares of the qualified public offering issuer (“Qualified PO Issuer”) following a qualified public offering (“Qualified PO”) is at the option of the noteholders. A Qualified PO is the first public offering of common stock in which the aggregate gross proceeds to the Qualified PO Issuer and the shareholders selling such common stock, if any, equal or exceed \$200.0 million and, following such offering, such common stock is listed on a United States securities exchange. Following the closing of a Qualified PO, we will have the option to redeem all of the Convertible Notes that were not otherwise converted at a price equal to 100% of the principal of the Convertible Notes to be redeemed, plus accrued and unpaid interest, if any. The Convertible Notes also provide for cash redemption upon a change of control event at the option of the holders at a price, including a premium, of 153.8% of the principal amount of the Convertible Notes, plus accrued and unpaid interest up to, but not including, the date of redemption. The Convertible Notes are not redeemable by the noteholders prior to a change of control or the closing of a Qualified PO.

Interest Expense

Interest expense was comprised of the following for the periods indicated:

<i>(\$ in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Interest expense	\$ 46,714	\$ 51,687	\$ 143,278	\$ 156,747
Debt accretion expense	4,614	4,329	13,673	12,319
Deferred debt issuance cost amortization	1,434	1,574	5,600	4,695
Capitalized interest	(19,483)	(28,736)	(64,119)	(98,896)
Total Interest Expense, net	\$ 33,279	\$ 28,854	\$ 98,432	\$ 74,865

5. Derivative Instruments

We use derivative instruments to mitigate our exposure to fluctuations in future commodity prices and floating interest rates in order to protect our anticipated operating cash flow against significant market movements or volatility. We do not use derivative instruments for speculative or trading purposes. As of September 30, 2020, our derivative instruments consisted of the following types of instruments:

- *Swaps.* We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.
- *Call Options.* We sell call options in exchange for a premium, which establish the maximum price we will receive for contracted commodity volumes. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the difference to the counterparty. From time to time, we may sell future call options to obtain more favorable strike prices on swap or collar contracts.
- *Collars.* These instruments contain a fixed floor price (“put”) and ceiling price (“call”). If the market price exceeds the call strike price, we pay the difference between the market price and the strike price of the sold call to the counterparty. If the market price falls below the put strike price, we receive the difference between the market price and the strike price of the purchased put from the counterparty. If the market price is between the put and the call strike prices, no payments are due to or from either party.
- *Three-Way Collars.* Three-way collars consist of a traditional collar and our sale of an additional put option in exchange for more favorable strike prices on purchased put or sold call options.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- *Basis Swaps.* Our natural gas production is sold at various delivery points that at times may have material spreads or volatility relative to NYMEX. Therefore, we periodically use basis swaps to fix the differential between product prices at the following market locations relative to NYMEX: Chicago (Citygate), Dawn (Ontario), MichCon, Rex Zone 3, Dominion South, TCO and Tetco M-2. Under these instruments, we receive the fixed price differential and pay the floating market price differential to the counterparty for the contracted volumes.
- *Interest Rate Swaps.* Interest rate swaps are used to fix interest rates on existing or anticipated floating rate indebtedness. The purpose of these instruments is to manage our existing or anticipated exposure to unfavorable interest rate changes. We pay a fixed interest rate and receive a floating interest rate from the counterparty subject to a floor of zero basis points.

All derivative instruments are recognized at their current fair value as either assets or liabilities on the condensed consolidated balance sheets. Changes in the fair value of these derivative instruments are recorded in earnings as we have not elected hedge accounting for any of our derivative instruments. By using derivative instruments, we are exposed to credit risk associated with our hedge counterparties. To minimize such risk, our derivative contracts are with multiple counterparties, reducing our exposure to any individual counterparty. Also, we only enter into derivative contracts with counterparties that we determine are creditworthy, and such creditworthiness is subject to periodic review.

The following table sets forth the average volumes per day associated with our outstanding natural gas derivative instruments as of September 30, 2020, the contracted weighted average natural gas prices, the contracted weighted average basis swap spreads and the estimated fair values:

	Average Volume (mmbtu/d)	Weighted Average Prices (\$/mmbtu)			Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	Purchased Put Strike Price	
Natural gas:					
Swaps:					\$ (188,172)
Remaining in 2020	1,313,000	\$ 2.69			
2021	1,065,000	\$ 2.53			
2022	1,010,000	\$ 2.51			
2023	550,000	\$ 2.45			
2024	165,000	\$ 2.46			
Collars:					(7,804)
Remaining in 2020	140,000		\$ 3.09	\$ 2.59	
2021	180,000		\$ 3.05	\$ 2.50	
Three-way collars:					(28,738)
2021	270,000		\$ 2.91	\$ 2.50	\$ 2.00
2022	160,000		\$ 3.00	\$ 2.50	\$ 2.01
Call options:					(148,354)
Remaining in 2020	250,000		\$ 3.00		
2021	335,000		\$ 3.02		
2022	360,000		\$ 2.99		
2023	370,000		\$ 2.89		
2024	400,000		\$ 2.84		
Basis swaps:					2,379
Remaining in 2020	702,000	\$ (0.28)			
2021	534,000	\$ (0.27)			
2022	349,000	\$ (0.18)			
Total Estimated Fair Value					<u>\$ (370,689)</u>

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table sets forth the average volumes per day associated with our outstanding oil derivative instruments as of September 30, 2020, the contracted weighted average oil prices and the estimated fair values:

	Average Volume (bbl/d)	Weighted Average Prices (\$/bbl)			Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	Purchased Put Strike Price	
Oil:					
Swaps:					\$ 9,571
Remaining in 2020	1,800	\$ 57.33			
2021	2,200	\$ 50.44			
Collars:					(220)
Remaining in 2020	700		\$ 37.00	\$ 23.00	
Three-way collars:					2,019
2021	1,000		\$ 65.30	\$ 52.50	\$ 42.50
Call options:					(389)
Remaining in 2020	6,000		\$ 70.00		
2021	3,500		\$ 70.00		
Total Estimated Fair Value					<u>\$ 10,981</u>

The following table sets forth the average volumes per day associated with our outstanding NGL derivative instruments as of September 30, 2020, the contracted weighted average NGL prices and the estimated fair values:

	Average Volume (bbl/d)	Weighted Average Prices (\$/bbl)		Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	
NGL:				
Swaps - Propane:				\$ 964
Remaining in 2020	2,500	\$ 25.68		
Call options - Propane:				(9)
Remaining in 2020	3,150		\$ 33.60	
Swaps - Ethane:				3
Remaining in 2020	1,000	\$ 8.40		
Total Estimated Fair Value				<u>\$ 958</u>

The following table sets forth the notional amounts associated with our outstanding interest rate derivative instruments as of September 30, 2020, the contracted fixed rate to be paid, the contracted floating rate to be received and the estimated fair value:

<i>(\$ in thousands)</i>	Notional Amount	Fixed Rate	Floating Rate ^(a)	Fair Value
Interest Rate Swaps:				\$ (528)
Remaining in 2020	\$ 550,000	0.2385 %	1-month LIBOR	
2021	\$ 550,000	0.2525 %	1-month LIBOR	

^(a) The interest rate swaps include an embedded put option (floor) of zero basis points, limiting our exposure should 1-month LIBOR rates fall below this threshold.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables summarize the fair value of our derivative instruments on a gross basis, the effects of netting assets and liabilities for which the right of offset exists based on master netting agreements and the net amount presented on our condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019:

September 30, 2020

(\$ in thousands)

Condensed Consolidated Balance Sheet Classification	Amounts		
	Fair Value, Gross	Netted on Balance Sheet	Fair Value, Net
Short-term derivative assets:			
Commodity derivatives	\$ 84,566	\$ (82,084)	\$ 2,482
Total short-term derivative assets	<u>\$ 84,566</u>	<u>\$ (82,084)</u>	<u>\$ 2,482</u>
Long-term derivative assets:			
Commodity derivatives	\$ 70,279	\$ (70,021)	\$ 258
Total long-term derivative assets	<u>\$ 70,279</u>	<u>\$ (70,021)</u>	<u>\$ 258</u>
Short-term derivative liabilities:			
Commodity derivatives	\$ 232,595	\$ (82,084)	\$ 150,511
Interest rate derivatives	434	—	434
Total short-term derivative liabilities	<u>\$ 233,029</u>	<u>\$ (82,084)</u>	<u>\$ 150,945</u>
Long-term derivative liabilities:			
Commodity derivatives	\$ 281,000	\$ (70,021)	\$ 210,979
Interest rate derivatives	94	—	94
Total long-term derivative liabilities	<u>\$ 281,094</u>	<u>\$ (70,021)</u>	<u>\$ 211,073</u>

December 31, 2019

(\$ in thousands)

Condensed Consolidated Balance Sheet Classification	Amounts		
	Fair Value, Gross	Netted on Balance Sheet	Fair Value, Net
Short-term derivative assets:			
Commodity derivatives	\$ 298,113	\$ (49,995)	\$ 248,118
Total short-term derivative assets	<u>\$ 298,113</u>	<u>\$ (49,995)</u>	<u>\$ 248,118</u>
Long-term derivative assets:			
Commodity derivatives	\$ 148,721	\$ (77,943)	\$ 70,778
Total long-term derivative assets	<u>\$ 148,721</u>	<u>\$ (77,943)</u>	<u>\$ 70,778</u>
Short-term derivative liabilities:			
Commodity derivatives	\$ 49,995	\$ (49,995)	\$ —
Total short-term derivative liabilities	<u>\$ 49,995</u>	<u>\$ (49,995)</u>	<u>\$ —</u>
Long-term derivative liabilities:			
Commodity derivatives	\$ 77,943	\$ (77,943)	\$ —
Total long-term derivative liabilities	<u>\$ 77,943</u>	<u>\$ (77,943)</u>	<u>\$ —</u>

The following table summarizes the effects of derivative instruments on the condensed consolidated statements of operations for the periods indicated:

(\$ in thousands)

Condensed Consolidated Statements of Operations Presentation	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2020	2019	2020	2019	
Commodity derivatives	Commodity derivative (loss) gain	\$ (386,020)	\$ 175,031	\$ (248,066)	\$ 357,523
Interest rate derivatives	Interest expense, net	\$ (118)	\$ —	\$ (620)	\$ —

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Fair Value Measurements

We use a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.

Level 3 – Unobservable inputs that reflect our own assumptions.

Fair Value of Derivative Instruments

The following tables summarize the valuation of financial instruments by pricing levels that were accounted for at fair value on a recurring basis as of September 30, 2020 and December 31, 2019. The fair values of the commodity derivatives and interest rate derivatives are based primarily on inputs that are derived from observable data at commonly quoted intervals and are therefore classified as Level 2. See Note 5 for further information regarding our derivative instruments.

<i>(\$ in thousands)</i>	Fair value measurements at September 30, 2020 using:			
	Level 1	Level 2	Level 3	Total
Derivative assets:				
Commodity derivatives	\$ —	\$ 2,740	\$ —	\$ 2,740
Total	\$ —	\$ 2,740	\$ —	\$ 2,740
Derivative liabilities:				
Commodity derivatives	\$ —	\$ 361,490	\$ —	\$ 361,490
Interest rate derivatives	—	528	—	528
Total	\$ —	\$ 362,018	\$ —	\$ 362,018

<i>(\$ in thousands)</i>	Fair value measurements at December 31, 2019 using:			
	Level 1	Level 2	Level 3	Total
Derivative assets:				
Commodity derivatives	\$ —	\$ 318,896	\$ —	\$ 318,896
Total	\$ —	\$ 318,896	\$ —	\$ 318,896
Derivative liabilities:				
Commodity derivatives	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —

Fair Value of Debt

The carrying amounts and estimated fair values of our debt instruments as of September 30, 2020 and December 31, 2019 are shown in the table below. The fair values were estimated using Level 2 market data inputs. See Note 4 for further information regarding our debt.

<i>(\$ in thousands)</i>	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Facility	\$ 1,168,000	\$ 1,168,000	\$ 1,188,000	\$ 1,188,000
2022 Notes	916,550	920,089	962,594	969,764
2026 Notes	587,515	457,500	586,330	478,500
Convertible Notes	96,536	100,702	101,752	105,950
Total	\$ 2,768,601	\$ 2,646,291	\$ 2,838,676	\$ 2,742,214

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Stock-Based Compensation

In July 2020, our Parent established a long-term incentive plan (the “Plan”) in order to further our growth and success. Under this Plan, the board of managers of our Parent may, among other things, grant time-vested restricted stock units (“Time-Vested RSUs”) and performance-vested restricted stock units (“Performance-Vested RSUs,” and together with the Time-Vested RSUs, the “RSUs”) to certain of our employees and managers of the board of our Parent. Under the Plan, 356,608,098 Series B units (“Units”) of the Parent were reserved for issuance. As of September 30, 2020, the Parent had granted approximately 159.8 million Time-Vested RSUs and 159.8 million Performance-Vested RSUs which are currently outstanding.

The Time-Vested RSUs are accounted for as equity awards. Stock-based compensation related to the Time-Vested RSUs is measured based on the fair value on the date of grant using appropriate valuation techniques and is recognized on a straight-line basis over the requisite service period. Performance-Vested RSUs are accounted for as liability awards, whose ultimate settlement may be partially or fully offset by certain cash awards received prior to vesting. Such cash awards allow Plan participants to receive cash payments in future years based on us achieving certain financial metrics and, therefore, such payments are accrued when they become probable and determinable. Stock-based compensation related to the Performance-Vested RSUs is recognized once it becomes probable that the performance condition will be achieved. We account for forfeitures during the period in which they occur by reversing the expense previously recognized for such awards. Stock-based compensation cost for both the three and nine months ended September 30, 2020 was \$0.7 million.

8. Related Party Transactions

In the normal course of our business, we have entered into certain business relationships with entities in which EMG or First Reserve have control or significant influence through their equity investments. These relationships include agreements for the sale of our NGL production and the gathering, processing and transportation of our natural gas and NGL production. The NGL revenues recognized under such agreements were \$13.5 million, \$16.0 million, \$49.1 million and \$64.5 million during the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, we had accounts receivable – natural gas, oil and NGL sales of \$4.8 million and \$21.2 million, respectively, due from these purchasers. We also incurred gathering, processing and transportation expenses associated with these agreements of \$152.4 million, \$151.9 million, \$470.7 million and \$440.0 million during the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, we had \$91.6 million and \$96.1 million, respectively, due to companies associated with these agreements, which are presented as other current liabilities on the condensed consolidated balance sheets. For information regarding the credit support requirements due to certain related parties, see Note 9, *Pipeline Commitments*.

9. Commitments and Contingencies

Litigation Matters

We are periodically involved in litigation and regulatory proceedings, investigations and disputes, including matters relating to commercial transactions, operations, landowner disputes, royalty claims, property damage claims, contract actions and environmental, health and safety matters. We may also periodically be involved in disputes with our midstream counterparties, some of which are related parties as discussed in Note 8, including disputes arising due to the overlapping nature of dedication provisions, ownership and contractual interests in the Utica Shale. A liability is recognized for any contingency that is probable and reasonably estimable. We continually assess the likelihood of adverse judgments or outcomes in these matters, as well as potential ranges of possible losses, based on a careful analysis of each matter and, if necessary, with the assistance of outside legal counsel and other experts. We will continue to monitor the impact that litigation could have on us and will assess the impact of future events. Legal defense costs are accounted for in the period the costs are incurred.

We are defending against certain pending claims, have resolved a number of claims through negotiated settlements and have prevailed in various other lawsuits. Based on management’s current assessment, we believe no pending or threatened lawsuit or dispute relating to our business operations is likely to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

For all such claims, disputes and threatened or pending litigation, as of September 30, 2020, we have accrued \$15.0 million, which is presented as other current liabilities on the condensed consolidated balance sheet. The final resolution of such matters could differ materially from management’s estimates.

ASCENT RESOURCES UTICA HOLDINGS, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Environmental Matters

We are subject to existing federal, state and local laws and regulations governing environmental matters, such as the Comprehensive Environmental Response, Compensation and Liability Act and similar statutes. From time to time, we are party to various environmental and regulatory proceedings in the ordinary course of business. Management does not believe the results of these environmental proceedings, individually or in the aggregate, will have a material adverse effect on us.

Commitments

The following table presents our undiscounted commitments under unconditional purchase obligations, excluding any reimbursement from working interest and royalty interest owners, that have initial or remaining non-cancelable terms in excess of one year as of September 30, 2020:

<i>(\$ in thousands)</i>	<u>Pipeline Commitments</u>	<u>Operating Leases</u>	<u>Other Purchase Obligations</u>	<u>Total</u>
Remaining in 2020	\$ 162,700	\$ 677	\$ 339	\$ 163,716
2021	657,199	2,721	2,351	662,271
2022	661,360	2,307	2,172	665,839
2023	662,143	984	110	663,237
2024	654,034	51	—	654,085
Thereafter	6,119,142	—	—	6,119,142
Total	<u>\$ 8,916,578</u>	<u>\$ 6,740</u>	<u>\$ 4,972</u>	<u>\$ 8,928,290</u>

Pipeline Commitments

We have entered into certain pipeline capacity commitments with various counterparties in order to facilitate the delivery of our production to market and reduce the likelihood of possible production curtailments that may arise due to limited capacity. Through these contracts, we are committed to transport minimum daily natural gas or NGL volumes at negotiated rates or pay for any deficiencies. The amounts in the table above represent the gross amounts we are committed to pay; however, working interest owners and royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs. To satisfy credit support requirements for these commitments, \$155.5 million in letters of credit and \$311.7 million in surety bonds were issued by us or on our behalf to certain transportation providers as of September 30, 2020. Our credit support includes support provided to certain related parties, which, as of September 30, 2020, included \$121.3 million in letters of credit and \$184.0 million in surety bonds. For information regarding certain other transactions with related parties, see Note 8.

Operating Leases

We lease certain equipment, commercial vehicles and office space as part of our operations. See Note 1, *Adopted and Recently Issued Accounting Pronouncements*, for further discussion of our leases and the expected impact of Topic 842.

10. Other Current Liabilities

Our other current liabilities consisted of the following as of the dates indicated:

<i>(\$ in thousands)</i>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Gathering, processing and transportation expense accrual	\$ 123,159	\$ 131,524
Drilling and completion cost accrual	30,079	69,762
Production and ad valorem taxes accrual	23,912	26,494
Other	43,362	53,061
Total Other Current Liabilities	<u>\$ 220,512</u>	<u>\$ 280,841</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of our Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited consolidated financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2019, in addition to the unaudited condensed consolidated financial statements and related notes, included within this quarterly report. The following discussion and analysis contains forward-looking statements that involve known and unknown risks, uncertainties and assumptions. The forward-looking statements are not historical facts, but rather reflect our future plans, estimates, beliefs and expected performance. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Unless otherwise indicated or the context otherwise requires, references in this MD&A section to "we," "our" and "us" refer to Ascent Resources Utica Holdings, LLC together with its wholly-owned subsidiaries.

Overview

We are the eighth largest producer of natural gas in the United States in terms of daily production and are focused on acquiring, developing, producing and operating natural gas and oil properties in the Utica Shale. We are a wholly-owned subsidiary of Ascent Resources Operating, LLC (our "Member") and an indirect wholly-owned subsidiary of Ascent Resources, LLC (our "Parent"). We were formed in 2013 by our private equity sponsors, primarily The Energy & Minerals Group and First Reserve Corporation, to utilize our technical expertise to acquire and exploit assets in the Utica Shale. Our asset base is concentrated in southern Ohio, where we target primarily the Point Pleasant interval of the Utica Shale, one of the premier North American shale plays. Our largely contiguous footprint of approximately 350,000 acres lies within the core of the southern Utica Shale and, as supported by our drilling results and those of offset operators, offers development opportunities with predictable and repeatable production profiles, low breakeven costs and industry-leading rates of return. This includes royalty interests in approximately 78,000 fee mineral acres that provide enhanced value without additional capital costs or operating expenses.

We are continuously focused on enhancing our drilling and completion techniques, minimizing costs and maximizing the ultimate recovery of natural gas, oil and natural gas liquids ("NGL") from our assets, with the goal of generating top-tier corporate-level returns and sustainable free cash flow in a capital efficient and financially disciplined manner.

2020 Highlights

In October 2020, we closed an exchange (the "Exchange") of \$856.7 million of the aggregate principal amount of our senior notes due 2022 ("2022 Notes") for \$537.8 million in aggregate principal amount of second lien term loans due November 1, 2025 ("2025 Term Loans") and \$339.7 million in aggregate principal amount of 9.00% senior unsecured notes due November 1, 2027 ("2027 Notes"). Upon completion of the Exchange, approximately \$68.0 million of aggregate principal under the 2022 Notes remained outstanding.

Significant financial and operating results for the three months ended September 30, 2020 include:

- Capital expenditures incurred decreased 65% to \$121.7 million from \$348.2 million during the three months ended September 30, 2019.
- Our net daily production for the three months ended September 30, 2020 averaged 2.0 bcfe per day and was comprised of approximately 90% natural gas, 4% oil and 6% NGL.
- We spud 14 wells, hydraulically fractured 11 wells and turned-in-line 18 new wells.
- Realized hedging settlement gains were \$114.2 million during the three months ended September 30, 2020, which improved our average realized sales price during the quarter by \$0.63 per thousand cubic feet equivalent ("mcf").

Significant financial and operating results for the nine months ended September 30, 2020 include:

- Capital expenditures incurred decreased 52% to \$524.0 million from \$1.1 billion during the nine months ended September 30, 2019.
- Net production increased 9% to 555.1 bcfe for the nine months ended September 30, 2020 from 510.1 bcfe for the nine months ended September 30, 2019 as a result of our consistently successful drilling and completion activity. Our net daily production for the nine months ended September 30, 2020 averaged 2.0 bcfe per day and was comprised of approximately 88% natural gas, 4% oil and 8% NGL.

- We spud 49 wells, hydraulically fractured 61 wells and turned-in-line 65 new wells.
- Realized hedging settlement gains were \$429.6 million during the nine months ended September 30, 2020, which improved our average realized sales price by \$0.77 per mcf.
- Through multiple transactions, we have reduced the outstanding principal of our debt by \$81.2 million.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency due to the spread of a novel coronavirus (“COVID-19”), which was classified as a pandemic in March 2020 based on the rapid increase in global exposure. Under the guidance of the WHO and the Centers for Disease Control and Prevention (“CDC”) and in an effort to slow the spread of the virus, many local, state and national governments implemented new laws and regulations which led to a steep decline in the global demand for oil and, to a lesser extent, natural gas. Actions by OPEC+ and other producers to curtail oil production and reduce supply have failed to keep pace with lessened demand, resulting in oil production stressing storage limits. The high storage levels along with the COVID-19 related decreases in natural gas and oil demand have resulted in a significant decline in natural gas and oil prices and an increasingly volatile market. Due to recent decreases in commodity prices, we have curtailed certain wells in an effort to optimize revenue in future periods.

We maintain a robust hedging program to mitigate natural gas and oil price volatility. As of September 30, 2020, approximately 1,453,000 million British thermal units (“mmbtu”) per day of our projected natural gas production for the remainder of 2020 were hedged at a weighted average floor price of \$2.68 per mmbtu, and approximately 1,515,000 mmbtu per day of our projected natural gas production for 2021 were hedged at a weighted average floor price of \$2.52 per mmbtu, excluding the sold puts on our three-way collars. Additionally, as of September 30, 2020, approximately 2,500 barrels (“bbl”) per day of our projected oil production for the remainder of 2020 were hedged at a weighted average floor price of \$48.18 per bbl, and approximately 3,200 bbl per day of our projected oil production for 2021 were hedged at a weighted average floor price of \$51.07 per bbl, excluding the sold puts on our three-way collars.

Our reserves consist predominantly of natural gas, and although we have hedged a substantial portion of our projected natural gas production for 2020 and 2021, if the pricing environment for natural gas continues to decline over an extended period, it may in the future lead to (i) a reduction in reserves, including the possible removal of proved undeveloped reserves, (ii) an impairment of proved and/or unproved natural gas and oil properties, (iii) curtailment of production and/or (iv) a reduction in the borrowing base of our Credit Facility (as defined below).

In order to safeguard the health of our employees, contractors and the community, while continuing to operate responsibly during the COVID-19 pandemic, we have implemented several precautionary steps which follow the guidance of the WHO, the CDC, and certain state and local governments across our operations. These steps include allowing a portion of our office staff to work remotely and providing personnel in the field with guidelines designed to decrease the probability of transmission of COVID-19 while maintaining essential operations. We continue to proactively monitor our response to COVID-19 and may have to take further actions in the future if we determine such actions are required by government authorities or are in the best interest of our employees, contractors and the community. Our desire is to do everything possible to protect the health of our people, their families and the community while continuing to operate responsibly and maintain our resiliency.

As the full impact of COVID-19 and the volatility in commodity prices continues to evolve, and, although we are monitoring both closely, we cannot be certain as to the full magnitude that they will have on our future financial condition, liquidity and results of operations.

Liquidity and Capital Resources

Liquidity Overview

The drilling, completion and production of our natural gas and oil properties are capital intensive activities that require access to significant capital. We continually evaluate our capital needs and compare them to our capital resources. Historically, our primary sources of funds have been through equity contributions from our Parent, cash flows from operations, draws on our senior secured revolving credit facility (“Credit Facility”) and proceeds from the issuance of debt. Based on existing market conditions and our expected liquidity needs, among other factors, we intend to use a portion of our cash flows from operations and any proceeds from divestitures to repay borrowings on our Credit Facility. Additionally, we may use securities offerings to repay debt prior to scheduled maturities, and we may seek opportunities to refinance all or a portion of our indebtedness, including through cash purchases, exchanges, open market purchases, privately negotiated transactions or otherwise, as demonstrated through our October 2020 debt exchange. See Note 4, *Senior Notes*, of the notes to our condensed consolidated financial statements included in this report for further discussion of our recent debt transaction which significantly improved our near-term debt maturity profile.

As of September 30, 2020, we had a cash balance of \$5.0 million and availability under our Credit Facility of \$526.5 million. In November 2020, the Credit Facility was reviewed, and the borrowing base was reaffirmed at \$1.85 billion. Based on our expected operating cash flows, Credit Facility availability and cash on hand, we anticipate being able to satisfy all of our financial obligations and commitments for the next twelve months.

Sources and Uses of Funds

The following table presents the sources of cash and cash equivalents:

<i>(\$ in thousands)</i>	Nine Months Ended	
	September 30,	
	2020	2019
Cash provided by operating activities	\$ 654,547	\$ 919,210
Proceeds from Credit Facility borrowings, net of repayments	—	157,000
Proceeds from divestitures of natural gas and oil properties	—	14,541
Other	1,557	—
Total Sources of Cash and Cash Equivalents	\$ 656,104	\$ 1,090,751

The following table presents the uses of cash and cash equivalents:

<i>(\$ in thousands)</i>	Nine Months Ended	
	September 30,	
	2020	2019
Natural Gas and Oil Expenditures:		
Drilling and completion costs	\$ 460,373	\$ 866,655
Acquisitions of natural gas and oil properties	59,240	126,468
Interest capitalized ^(a)	64,119	98,896
Total Natural Gas and Oil Expenditures	583,732	1,092,019
Other Uses of Cash and Cash Equivalents:		
Repayment of long-term debt	50,995	—
Repayment of Credit Facility, net of borrowings	20,000	—
Additions to other property and equipment	1,461	2,964
Cash paid for debt issuance costs	2,294	—
Total Other	74,750	2,964
Total Uses of Cash and Cash Equivalents	\$ 658,482	\$ 1,094,983

^(a) Interest is capitalized on significant investments in active unproved properties and wells in process.

Our primary source of funds is net cash flow provided by operating activities, which was approximately \$654.5 million and \$919.2 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in operating cash flow in 2020 was primarily the result of decreases in the average realized sales price of natural gas, oil and NGL, which were partially offset by increases in the volumes produced and the settlement of commodity derivatives.

Our cash drilling and completion costs were \$460.4 million and \$866.7 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in drilling and completion costs in 2020 was due to drilling and completing fewer wells and reduced costs per lateral foot due to increased completion stages per day and improved drilling cycle times. We operated an average of three rigs during the nine months ended September 30, 2020 compared to an average of five rigs during the same period in 2019. Additionally, we spud 49 wells, hydraulically fractured 61 wells and turned-in-line 65 new wells during the nine months ended September 30, 2020 compared to the same period in 2019 during which we spud 77 wells, hydraulically fractured 82 wells and turned-in-line 96 new wells.

We spent cash of \$59.2 million and \$126.5 million during the nine months ended September 30, 2020 and 2019, respectively, primarily related to the acquisition of leases arising in the ordinary course of business. We spent cash of \$51.0 million during the nine months ended September 30, 2020 to repurchase \$50.3 million of principal of our 2022 Notes, plus accrued and unpaid interest, and \$10.9 million of principal of our Convertible Notes, plus accrued and unpaid interest.

Certain Indebtedness

Credit Facility

The amount available to be borrowed under the Credit Facility is subject to a borrowing base that is required to be redetermined semiannually on or about May 1 and November 1 of each year primarily based on the estimated value and future net cash flows of our proved natural gas, oil and NGL reserves and our commodity derivative positions as determined by lenders under the Credit Facility at their discretion. Our Credit Facility matures on April 1, 2024. As of September 30, 2020, the borrowing base was a fully committed \$1.85 billion, and we had \$1.2 billion of borrowings outstanding and \$155.5 million of letters of credit issued under the Credit Facility. In November 2020, the Credit Facility was reviewed, and the borrowing base was reaffirmed at \$1.85 billion.

Under the Credit Facility agreement, we may borrow either base rate loans or Eurodollar loans, and as of September 30, 2020, all of the borrowings under the Credit Facility were Eurodollar loans. Principal amounts borrowed are payable on the maturity date and may be repaid prior to the maturity date without any premium or penalty. Interest is payable at the end of the applicable interest period. Eurodollar loans bear interest at a rate per annum equal to the London Interbank Offered Rate (“LIBOR”) plus an applicable margin ranging from 2.00% to 3.00% per annum based on Credit Facility utilization. Due to the weighted average 1-month LIBOR being 0.16% for the applicable interest periods on the most recent election dates, we were subject to a weighted average rate of 2.66% per annum as of September 30, 2020. The Credit Facility is secured by liens on substantially all of our assets, including our natural gas and oil properties, and guarantees from our subsidiaries other than any subsidiary that we have designated as an unrestricted subsidiary. As of September 30, 2020, we were in compliance with all applicable financial covenants under the Credit Facility. See Note 4, *Credit Facility*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of the Credit Facility.

Senior Notes

In April 2017, we issued \$1.5 billion in aggregate principal amount of 2022 Notes in a private placement to eligible purchasers under Rule 144A and Regulation S of the Securities Act of 1933 (the “Securities Act”). The 2022 Notes are due on April 1, 2022, and interest is payable at an annual rate of 10.00% on April 1 and October 1 of each year. During the nine months ended September 30, 2020, we repurchased approximately \$50.3 million of outstanding principal amount of the 2022 Notes for \$35.4 million, plus accrued and unpaid interest, and recorded a \$14.3 million gain, including the write-off of unamortized debt issuance costs and discounts. As of September 30, 2020, we had \$924.7 million in aggregate principal amount of the 2022 Notes outstanding.

In October 2020, we closed the Exchange of \$856.7 million of the aggregate principal amount of the 2022 Notes for \$537.8 million in aggregate principal amount of 2025 Term Loans and \$339.7 million in aggregate principal amount of 2027 Notes. The 2025 Term Loans bear interest at an annual rate of 9.00% plus 3-month LIBOR, with a 1.00% LIBOR floor, and interest is payable quarterly beginning on February 1, 2021. The 2027 Notes bear interest at an annual rate of 9.00%, and interest is payable on May 1 and November 1 of each year, beginning on May 1, 2021. The 2027 Notes also have a contingent payment associated with them if certain triggering events occur prior to maturity. As of September 30, 2020, we have accrued \$3.6 million of fees related to the Exchange, which are presented as a loss on purchases or exchanges of debt on the condensed consolidated statements of operations. Immediately prior to the close of the Exchange, we entered into a supplemental indenture to the 2022 Notes Indenture which eliminated certain restrictive covenants and events of default from the 2022 Notes Indenture. Upon completion of the Exchange, approximately \$68.0 million of aggregate principal under the 2022 Notes remained outstanding.

Additionally, in connection with the Exchange, we also issued \$12.0 million in aggregate principal amount of 2025 Term Loans, \$8.6 million in aggregate principal amount of 2027 Notes and additional equity to certain equity holders of our Parent for \$20.0 million in cash from such holders, the proceeds of which were used to pay fees for the Exchange and to repay a portion of the borrowings outstanding under the Credit Facility.

In October 2018, we issued \$600.0 million in aggregate principal amount of senior secured notes (the “2026 Notes”) in a private placement to eligible purchasers under Rule 144A and Regulation S of the Securities Act. The 2026 Notes are due on November 1, 2026, and interest is payable at an annual rate of 7.00% on May 1 and November 1 of each year. We used the proceeds primarily to redeem \$525.0 million of outstanding principal of the 2022 Notes and pay accrued and unpaid interest up to, but excluding, the date of the redemption. The remaining net proceeds were used to repay borrowings under the Credit Facility. As of September 30, 2020, we had \$600.0 million in aggregate principal amount of the 2026 Notes outstanding.

At any time prior to November 1, 2021, we may redeem up to 40% of the aggregate principal amount of the 2026 Notes at a price equal to 107% of the principal amount, plus accrued and unpaid interest up to, but excluding, the redemption date, with an amount of cash not greater than the net cash proceeds of one or more equity offerings, subject to certain conditions. Additionally, at any time prior to November 1, 2021, we may redeem some or all of the 2026 Notes subject to a make-whole premium plus accrued and unpaid interest to, but excluding, the redemption date. We may redeem some or all of the 2022 Notes or the 2026 Notes (together,

the “Senior Notes”) at the applicable redemption prices (expressed as percentages of the principal amount for the periods noted) set forth in the table below:

Senior Notes	Redemption Period	Redemption Price
2022 Notes	April 1, 2020 through March 31, 2021	107.500%
2022 Notes	April 1, 2021 through September 30, 2021	105.000%
2022 Notes	October 1, 2021 and thereafter	100.000%
2026 Notes	November 1, 2021 through October 31, 2022	103.500%
2026 Notes	November 1, 2022 through October 31, 2023	102.333%
2026 Notes	November 1, 2023 through October 31, 2024	101.167%
2026 Notes	November 1, 2024 and thereafter	100.000%

We are not prohibited from acquiring the Senior Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not violate the terms of the applicable indenture. Upon the occurrence of a qualifying change of control, we are required to offer to repurchase all or any part of the Senior Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest.

The Senior Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured debt, and will rank senior in right of payment to all our future subordinated debt. The Senior Notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the collateral securing such indebtedness.

As of September 30, 2020, we were in compliance with all applicable covenants of the 2022 Notes and 2026 Notes indentures. See Note 4, *Senior Notes*, of the notes to our condensed consolidated financial statements included in this report for further discussion of the terms of the Senior Notes.

Convertible Notes

In 2014, we issued \$1.0 billion of convertible notes due 2021 (“Convertible Notes”). Through multiple transactions from 2015 through 2017, we repurchased or otherwise retired \$950.3 million in aggregate principal and accrued and unpaid interest of the Convertible Notes. During the nine months ended September 30, 2020, we repurchased an additional \$10.9 million of outstanding principal amount of the Convertible Notes for \$15.6 million in cash, plus accrued and unpaid interest, and recorded a \$1.0 million loss, including the write-off of debt issuance costs, discounts and premiums.

As of September 30, 2020, we had \$66.4 million in aggregate principal of the Convertible Notes outstanding. The Convertible Notes mature on March 1, 2021 and are subordinate to the Senior Notes, which rank senior in right of payment. Interest may be paid in cash or in kind semi-annually in arrears on March 1 and September 1 of each year and is currently payable at an annual rate of 6.50%. We elected to pay interest in kind on each interest payment date from September 2015 through September 2019. Upon maturity, unless earlier repurchased or converted, we will be required to redeem the Convertible Notes at 153.8% of the outstanding principal value, plus accrued and unpaid interest up to, but not including, the maturity date. We accrete the 53.8% premium to interest expense through the maturity date using the effective interest method. As of September 30, 2020, the carrying value of the Convertible Notes, including the portion of the premium that has been accreted, was \$96.5 million.

Contractual Obligations and Off-Balance Sheet Arrangements

We occasionally enter into arrangements that can give rise to contractual obligations and off-balance sheet commitments, such as pipeline transportation commitments, drilling rig commitments, and various other commitments in the ordinary course of business. See Note 9 of the notes to our condensed consolidated financial statements included in this report for further details of our commitments.

New Accounting Pronouncements

See Note 1, *Adopted and Recently Issued Accounting Pronouncements*, of the notes to our condensed consolidated financial statements included in this report for a description of recent accounting pronouncements.

Results of Operations

The following table sets forth certain information for the periods indicated regarding our net production volumes; revenues; average sales prices received; and certain of our operating expenses:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net Production Volumes:				
Natural gas (mmcf)	164,208	168,570	490,108	455,330
Oil (mbbls)	1,121	1,447	3,404	3,446
NGL (mbbls)	1,900	2,365	7,423	5,682
Natural Gas Equivalent (mmcfe)	182,333	191,443	555,068	510,097
Revenues (\$ in thousands):				
Natural gas	\$ 300,643	\$ 352,867	\$ 868,249	\$ 1,173,381
Oil	37,177	72,173	107,736	174,928
NGL	27,243	29,379	80,590	90,971
Settlements of commodity derivatives	114,155	107,613	429,581	111,143
Change in fair value of commodity derivatives	(500,175)	67,418	(677,647)	246,380
Total	\$ (20,957)	\$ 629,450	\$ 808,509	\$ 1,796,803
Average Daily Net Production Volumes:				
Natural gas (mmcf/d)	1,785	1,832	1,789	1,668
Oil (mbbls/d)	12	16	12	13
NGL (mbbls/d)	21	26	27	21
Natural Gas Equivalent (mmcfe/d)	1,982	2,081	2,026	1,869
Average Sales Prices:				
Natural gas (\$/mcf)	\$ 1.83	\$ 2.09	\$ 1.77	\$ 2.58
Oil (\$/bbl)	\$ 33.16	\$ 49.87	\$ 31.65	\$ 50.76
NGL (\$/bbl)	\$ 14.34	\$ 12.42	\$ 10.86	\$ 16.01
Natural Gas Equivalent (\$/mcfe)	\$ 2.00	\$ 2.37	\$ 1.90	\$ 2.82
Settlements of commodity derivatives (\$/mcfe)	0.63	0.56	0.77	0.22
Average sales price, after effects of settled derivatives (\$/mcfe)	\$ 2.63	\$ 2.93	\$ 2.67	\$ 3.04
Operating Expenses (\$/mcfe):				
Lease operating expenses	\$ 0.11	\$ 0.09	\$ 0.10	\$ 0.10
Gathering, processing and transportation expenses	\$ 1.25	\$ 1.15	\$ 1.24	\$ 1.22
Production and ad valorem taxes	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05
General and administrative expenses	\$ 0.08	\$ 0.08	\$ 0.09	\$ 0.09
Natural gas and oil depreciation, depletion and amortization	\$ 1.07	\$ 0.96	\$ 1.03	\$ 0.98
Depreciation and amortization of other assets	\$ 0.01	\$ —	\$ 0.01	\$ —

Comparison of Three Months Ended September 30, 2020 and 2019

Natural Gas Revenues. During the three months ended September 30, 2020 and 2019, natural gas sales (excluding the effects of derivatives) were \$300.6 million and \$352.9 million, respectively. During the three months ended September 30, 2020 and 2019, we sold 164.2 billion cubic feet (“bcf”) and 168.6 bcf of natural gas, at weighted average prices of \$1.83 and \$2.09 per thousand cubic foot (“mcf”), respectively (excluding the effects of derivatives). The \$52.2 million decrease in natural gas sales (excluding the effects of derivatives) for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was driven by a 3% decrease in natural gas production and a \$0.26 per mcf decrease in the average sales price received for natural gas.

We recognized a \$382.7 million loss on natural gas derivatives during the three months ended September 30, 2020 comprised of a \$493.8 million decrease in the fair value, partially offset by \$111.1 million of net settlement gains. We recognized a \$147.5 million gain on natural gas derivatives during the three months ended September 30, 2019 comprised of a \$48.7 million increase in the fair value and \$98.8 million of net settlement gains.

A change in natural gas prices has a significant impact on our sales and cash flows. Assuming our production levels for the three months ended September 30, 2020 remained constant and without considering the effect of derivatives, an increase or decrease of \$0.10 per mcf of natural gas sold would have resulted in an increase or decrease in sales and cash flows of approximately \$16.4 million.

Oil Revenues. During the three months ended September 30, 2020 and 2019, oil sales (excluding the effects of derivatives) were \$37.2 million and \$72.2 million, respectively. During the three months ended September 30, 2020 and 2019, we sold 1.1 million barrels (“mmbbls”) and 1.4 mmbbls at weighted average prices of \$33.16 and \$49.87 per bbl, respectively, (excluding the effects of derivatives). The \$35.0 million decrease in oil sales (excluding the effects of derivatives) for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was driven by a 23% decrease in oil production and a \$16.71 per bbl decrease in the average sales price received for oil.

We recognized a \$2.6 million loss on oil derivatives during the three months ended September 30, 2020 comprised of a \$4.5 million decrease in the fair value, partially offset by \$1.9 million of net settlement gains. We recognized a \$19.5 million gain on oil derivatives during the three months ended September 30, 2019 comprised of a \$19.0 million increase in fair value and \$0.5 million of net settlement gains.

A change in oil prices has a direct impact on our sales and cash flows. Assuming our production levels for the three months ended September 30, 2020 remained constant and without considering the effects of derivatives, an increase or decrease of \$1.00 per bbl of oil sold would have resulted in an increase or decrease in sales and cash flows of approximately \$1.1 million.

NGL Revenues. During the three months ended September 30, 2020 and 2019, NGL sales (excluding the effects of derivatives) were \$27.2 million and \$29.4 million, respectively. During the three months ended September 30, 2020 and 2019, we sold 1.9 mmbbls and 2.4 mmbbls, at weighted average prices of \$14.34 and \$12.42 per bbl, respectively, (excluding the effects of derivatives). The \$2.1 million decrease in NGL sales (excluding the effects of derivatives) for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was driven by a 20% decrease in NGL production, partially offset by a \$1.92 per bbl increase in the average sales price received for NGL.

We recognized a \$0.7 million loss on NGL derivatives during the three months ended September 30, 2020 comprised of a \$1.8 million decrease in the fair value, partially offset by \$1.1 million of net settlement gains. We recognized an \$8.0 million gain on NGL derivatives during the three months ended September 30, 2019 comprised of \$8.2 million of net settlement gains, partially offset by a \$0.2 million decrease in the fair value.

A change in NGL prices has a direct impact on our sales and cash flows. Assuming our production levels for the three months ended September 30, 2020 remained constant, an increase or decrease of \$1.00 per bbl of NGL sold would have resulted in an increase or decrease in sales and cash flows of approximately \$1.9 million.

Lease Operating Expenses. Lease operating expenses were \$19.2 million and \$18.1 million for the three months ended September 30, 2020 and 2019, respectively. On a per unit basis, lease operating expenses were \$0.11 and \$0.09 per mcf for the three months ended September 30, 2020 and 2019, respectively. Total lease operating expenses increased as a result of an increase in producing wells during the three months ended September 30, 2020 compared to the same period in 2019.

Gathering, Processing and Transportation Expenses. Gathering, processing and transportation expenses were \$227.2 million and \$219.7 million for the three months ended September 30, 2020 and 2019, respectively. On a per unit basis, gathering, processing and transportation expenses were \$1.25 and \$1.15 per mcf during the three months ended September 30, 2020 and 2019, respectively. The increase per mcf was primarily a result of decreased production during the three months ended September 30, 2020 compared to the same period in 2019 and an increase in firm transportation brought on at the end of 2019.

Production and Ad Valorem Taxes. Production and ad valorem taxes were \$9.3 million and \$9.5 million for the three months ended September 30, 2020 and 2019, respectively. Production taxes have decreased as production volumes have decreased and were \$5.3 million and \$5.6 million during the three months ended September 30, 2020 and 2019, respectively. Production taxes are calculated using volume-based formulas that produce lower absolute costs as production decreases. On a per unit basis, production taxes remained flat and were \$0.03 per mcf during the three months ended September 30, 2020 and 2019, respectively.

Ad valorem taxes were \$4.0 million and \$3.9 million during the three months ended September 30, 2020 and 2019, respectively. Ad valorem taxes are assessed annually based on wells producing at the end of the previous year. The amount of tax is based on an appraised value of each well including various factors such as historical production, valuation factors set by the state and tax rates determined by the various counties. As such, total ad valorem taxes have increased due to an increase in producing wells in 2019; however, this was largely offset by lower appraised values as determined by the state due to a decrease in natural gas and oil prices.

Exploration Expenses. Exploration expenses were \$28.1 million and \$25.2 million for the three months ended September 30, 2020 and 2019, respectively. During the three months ended September 30, 2020 and 2019, we impaired \$26.3 million and \$24.2 million, respectively, of unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments may be recorded.

General and Administrative Expenses. General and administrative expenses were \$15.1 million and \$14.9 million for the three months ended September 30, 2020 and 2019, respectively. On a per unit basis, general and administrative expenses were \$0.08 per mcf during both the three months ended September 30, 2020 and 2019. Total general and administrative expenses increased during the three months ended September 30, 2020 compared to the same period in 2019 primarily due to \$0.7 million of stock-based compensation, which was partially offset by achieving corporate efficiencies.

Natural Gas and Oil Depreciation, Depletion and Amortization. Depreciation, depletion and amortization (“DD&A”) of natural gas and oil properties was \$195.1 million and \$183.8 million for the three months ended September 30, 2020 and 2019, respectively. The average DD&A rate per mcf, which is a function of capitalized costs and the related underlying reserves, was \$1.07 and \$0.96 per mcf during the three months ended September 30, 2020 and 2019, respectively. The per unit increase from September 30, 2019 was the result of a 22% decrease in total proved reserves as of September 30, 2020, which declined due to a decrease in the average first-day-of-the-month prices for the prior 12 months used to calculate our reserves in accordance with the United States Securities and Exchange Commission (“SEC”) guidance.

Interest Expense. Interest expense was \$33.3 million and \$28.9 million for the three months ended September 30, 2020 and 2019, respectively, detailed as follows along with our weighted average debt outstanding:

	Three Months Ended	
	September 30,	
<i>(\$ in thousands)</i>	2020	2019
Interest expense on Credit Facility	\$ 10,537	\$ 14,734
Interest expense on 2022 Notes	23,121	24,375
Interest expense on 2026 Notes	10,503	10,500
Interest expense on Convertible Notes	1,080	1,231
Amortization of debt discounts, premium and issuance costs	6,048	5,903
Loss on interest rate derivatives	118	—
Other	1,355	847
Capitalized interest	(19,483)	(28,736)
Total Interest Expense, net	\$ 33,279	\$ 28,854
Weighted Average Debt Outstanding:		
Credit Facility	\$ 1,227,783	\$ 1,132,228
2022 Notes	924,713	975,000
2026 Notes	600,000	600,000
Convertible Notes	66,421	75,695
Weighted Average Debt Outstanding	\$ 2,818,917	\$ 2,782,923

The increase in interest expense during the three months ended September 30, 2020 compared to the same period in 2019 was primarily due to reduced capitalized interest caused by a decrease in our development activity and a decrease in the weighted average borrowing rate, which was primarily due to a decrease in the 1-month LIBOR during the three months ended September 30, 2020 compared to the same period in 2019. However, this was partially offset by a decrease in interest expense on the Credit Facility due to the decrease in 1-month LIBOR.

Comparison of Nine Months Ended September 30, 2020 and 2019

Natural Gas Revenues. During the nine months ended September 30, 2020 and 2019, natural gas sales (excluding the effects of derivatives) were \$868.2 million and \$1.2 billion, respectively. During the nine months ended September 30, 2020 and 2019, we sold 490.1 bcf and 455.3 bcf of natural gas, at weighted average prices of \$1.77 and \$2.58 per mcf, respectively (excluding the effects of derivatives). The \$305.1 million decrease in natural gas sales (excluding the effects of derivatives) for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 was driven by a \$0.81 per mcf decrease in the average sales price received for natural gas, which was partially offset by an 8% increase in natural gas production.

We recognized a \$306.2 million loss on natural gas derivatives during the nine months ended September 30, 2020 comprised of a \$686.7 million decrease in the fair value, partially offset by \$380.5 million of net settlement gains. We recognized a \$364.3 million gain on natural gas derivatives during the nine months ended September 30, 2019 comprised of a \$268.3 million increase in the fair value and \$96.0 million of net settlement gains.

A change in natural gas prices has a significant impact on our sales and cash flows. Assuming our production levels for the nine months ended September 30, 2020 remained constant and without considering the effect of derivatives, an increase or decrease of \$0.10 per mcf of natural gas sold would have resulted in an increase or decrease in sales and cash flows of approximately \$49.0 million.

Oil Revenues. During the nine months ended September 30, 2020 and 2019, oil sales (excluding the effects of derivatives) were \$107.7 million and \$174.9 million, respectively. During both the nine months ended September 30, 2020 and 2019, we sold 3.4 mmbbls at weighted average prices of \$31.65 and \$50.76 per bbl, respectively, (excluding the effects of derivatives). The \$67.2 million decrease in oil sales (excluding the effects of derivatives) for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 was driven by a \$19.11 per bbl decrease in the average sales price received for oil.

We recognized a \$58.3 million gain on oil derivatives during the nine months ended September 30, 2020 comprised of \$44.2 million of net settlement gains and a \$14.1 million increase in the fair value. We recognized a \$24.3 million loss on oil derivatives during the nine months ended September 30, 2019 comprised of a \$25.1 million decrease in fair value, partially offset by \$0.8 million of net settlement gains.

A change in oil prices has a direct impact on our sales and cash flows. Assuming our production levels for the nine months ended September 30, 2020 remained constant and without considering the effects of derivatives, an increase or decrease of \$1.00 per bbl of oil sold would have resulted in an increase or decrease in sales and cash flows of approximately \$3.4 million.

NGL Revenues. During the nine months ended September 30, 2020 and 2019, NGL sales (excluding the effects of derivatives) were \$80.6 million and \$91.0 million, respectively. During the nine months ended September 30, 2020 and 2019, we sold 7.4 mmbbls and 5.7 mmbbls, at weighted average prices of \$10.86 and \$16.01 per bbl, respectively, (excluding the effects of derivatives). The \$10.4 million decrease in NGL sales (excluding the effects of derivatives) for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 was driven by a \$5.15 per bbl decrease in the average sales price received for NGL, partially offset by a 31% increase in NGL production.

We recognized a \$0.2 million loss on NGL derivatives during the nine months ended September 30, 2020 comprised of a \$5.0 million decrease in the fair value, partially offset by \$4.8 million of net settlement gains. We recognized a \$17.5 million gain on NGL derivatives during the nine months ended September 30, 2019 comprised of a \$3.1 million increase in the fair value and \$14.4 million of net settlement gains.

A change in NGL prices has a direct impact on our sales and cash flows. Assuming our production levels for the nine months ended September 30, 2020 remained constant, an increase or decrease of \$1.00 per bbl of NGL sold would have resulted in an increase or decrease in sales and cash flows of approximately \$7.4 million.

Lease Operating Expenses. Lease operating expenses were \$57.8 million and \$52.3 million for the nine months ended September 30, 2020 and 2019, respectively. On a per unit basis, lease operating expenses were \$0.10 per mcfe during both the nine months ended September 30, 2020 and 2019. Total lease operating expenses increased as a result of an increase in producing wells during the nine months ended September 30, 2020 compared to the same period in 2019.

Gathering, Processing and Transportation Expenses. Gathering, processing and transportation expenses were \$689.9 million and \$620.0 million for the nine months ended September 30, 2020 and 2019, respectively. On a per unit basis, gathering, processing and transportation expenses were \$1.24 and \$1.22 per mcfe during the nine months ended September 30, 2020 and 2019, respectively. The increase per mcfe is primarily the result of increased NGL production and an increase in NGL fees during the nine months ended September 30, 2020 compared to the same period in 2019.

Production and Ad Valorem Taxes. Production and ad valorem taxes were \$28.3 million and \$26.0 million for the nine months ended September 30, 2020 and 2019, respectively. Production taxes have increased as production volumes have increased and were \$16.0 million and \$15.0 million during the nine months ended September 30, 2020 and 2019, respectively. Production taxes are calculated using volume-based formulas that produce higher absolute costs as production increases. On a per unit basis, production taxes remained flat and were \$0.03 per mcf during both the nine months ended September 30, 2020 and 2019.

Ad valorem taxes were \$12.3 million and \$11.0 million during the nine months ended September 30, 2020 and 2019, respectively. Ad valorem taxes are assessed annually based on wells producing at the end of the previous year. The amount of tax is based on an appraised value of each well including various factors such as historical production, valuation factors set by the state and tax rates determined by the various counties. As such, total ad valorem taxes have increased due to an increase in producing wells in 2019; however, this was largely offset by lower appraised values as determined by the state due to a decrease in natural gas and oil prices.

Exploration Expenses. Exploration expenses were \$77.9 million and \$82.9 million for the nine months ended September 30, 2020 and 2019, respectively. During the nine months ended September 30, 2020 and 2019, we impaired \$75.0 million and \$79.4 million, respectively, of unproved natural gas and oil properties for which the leases are expected to expire. As we continue to review our acreage position and high grade our drilling inventory, focusing on our core type curve areas, additional leasehold impairments may be recorded.

General and Administrative Expenses. General and administrative expenses were \$50.1 million and \$45.7 million for the nine months ended September 30, 2020 and 2019, respectively. On a per unit basis, general and administrative expenses were \$0.09 per mcf during both the nine months ended September 30, 2020 and 2019. The increase in total general and administrative expenses is the result of \$5.6 million of non-recurring legal expenses during the nine months ended September 30, 2020 which were partially offset by achieving corporate efficiencies.

Natural Gas and Oil Depreciation, Depletion and Amortization. DD&A of natural gas and oil properties was \$572.0 million and \$499.3 million for the nine months ended September 30, 2020 and 2019, respectively. The average DD&A rate per mcf, which is a function of capitalized costs and the related underlying reserves, was \$1.03 and \$0.98 per mcf during the nine months ended September 30, 2020 and 2019, respectively. The per unit increase from September 30, 2019 was the result of a 22% decrease in total proved reserves as of September 30, 2020, which declined due to a decrease in the average first-day-of-the-month prices for the prior 12 months used to calculate our reserves in accordance with SEC guidance.

Interest Expense. Interest expense was \$98.4 million and \$74.9 million for the nine months ended September 30, 2020 and 2019, respectively, detailed as follows along with our weighted average debt outstanding:

	Nine Months Ended	
	September 30,	
<i>(\$ in thousands)</i>	2020	2019
Interest expense on Credit Facility	\$ 35,242	\$ 46,019
Interest expense on 2022 Notes	70,321	73,125
Interest expense on 2026 Notes	31,509	31,500
Interest expense on Convertible Notes	3,357	3,649
Amortization of debt discounts, premium and issuance costs	19,273	17,014
Loss on interest rate derivatives	620	—
Other	2,229	2,454
Capitalized interest	(64,119)	(98,896)
Total Interest Expense, net	\$ 98,432	\$ 74,865
Weighted Average Debt Outstanding:		
Credit Facility	\$ 1,224,204	\$ 1,072,751
2022 Notes	936,869	975,000
2026 Notes	600,000	600,000
Convertible Notes	68,646	74,660
Weighted Average Debt Outstanding	\$ 2,829,719	\$ 2,722,411

The increase in interest expense during the nine months ended September 30, 2020 compared to the same period in 2019 was primarily due to reduced capitalized interest caused by a decrease in our development activity and a decrease in the weighted average borrowing rate, which was primarily due to a decrease in the 1-month LIBOR during the nine months ended September 30, 2020

compared to the same period in 2019. However, this was partially offset by a decrease in interest expense on the Credit Facility due to the decrease in 1-month LIBOR.

Gains on Purchases or Exchanges of Debt. We recognized a net gain on purchases or exchanges of debt of \$9.7 million during the nine months ended September 30, 2020 primarily due to us repurchasing a portion of our 2022 Notes, which resulted in a \$14.3 million gain. This was partially offset by \$3.6 million of fees related to the Exchange of 2022 Notes and a \$1.0 million loss on the repurchase of a portion of our Convertible Notes. See Note 4, *Senior Notes* and *Convertible Notes*, of the notes to our condensed consolidated financial statements included in this report for further discussion of our repurchases and exchanges of debt.

Quantitative and Qualitative Disclosure About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk as well as how we view and manage our exposure to such risk. The term “market risk” refers to the risk of loss arising from adverse changes in natural gas, oil and NGL prices, customer credit and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses.

Commodity Demand and Price Risk

Our primary market risk exposure is in the prices we receive for our natural gas, oil and NGL production. Realized pricing is primarily driven by spot regional market prices applicable to our natural gas, oil and NGL production. Pricing for natural gas, oil and NGL production is volatile and unpredictable, and we expect this volatility to continue in the future. The prices we expect to receive for our natural gas, oil and NGL production will depend on many factors outside of our control, including the supply of, and demand for, natural gas, oil and NGL, the level of economic activity in the United States and globally, the performance of specific industries and the volatility of natural gas, oil and NGL prices at various delivery points. During the nine months ended September 30, 2020 and 2019, the average daily Henry Hub spot market price of natural gas was \$1.82 per mmbtu and \$2.57 per mmbtu, respectively, and the average daily West Texas Intermediate oil price was \$38.21 per bbl and \$57.10 per bbl, respectively. Approximately 90% of our September 30, 2020 proved reserves were natural gas; therefore, changes in realized natural gas pricing will affect us more than changes in realized oil or NGL pricing.

We use derivative instruments to mitigate our exposure to fluctuations in future commodity prices in order to protect our anticipated operating cash flow against significant market movements or volatility. We do not use derivative instruments for speculative or trading purposes. As of September 30, 2020, we had a net liability commodity derivative position of \$358.8 million, and our commodity derivative instruments consisted of the following types of instruments:

- *Swaps.* We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.
- *Call Options.* We sell call options in exchange for a premium, which establish the maximum price we will receive for contracted commodity volumes. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the difference to the counterparty. From time to time, we may sell future call options to obtain more favorable strike prices on swap or collar contracts.
- *Collars.* These instruments contain a fixed floor price (“put”) and ceiling price (“call”). If the market price exceeds the call strike price, we pay the difference between the market price and the strike price of the sold call to the counterparty. If the market price falls below the put strike price, we receive the difference between the market price and the strike price of the purchased put from the counterparty. If the market price is between the put and the call strike prices, no payments are due to or from either party.
- *Three-Way Collars.* Three-way collars consist of a traditional collar and our sale of an additional put option in exchange for more favorable strike prices on purchased put or sold call options.
- *Basis Swaps.* Our natural gas production is sold at various delivery points that at times may have material spreads or volatility relative to NYMEX. Therefore, we periodically use basis swaps to fix the differential between product prices at the following market locations relative to NYMEX: Chicago (Citygate), Dawn (Ontario), MichCon, Rex Zone 3, Dominion South, TCO and Tetco M-2. Under these instruments, we receive the fixed price differential and pay the floating market price differential to the counterparty for the contracted volumes.

The following table sets forth the average volumes per day associated with our outstanding natural gas derivative instruments as of September 30, 2020, the contracted weighted average natural gas prices, the contracted weighted average basis swap spreads and the estimated fair values:

	Average Volume (mmbtu/d)	Weighted Average Prices (\$/mmbtu)			Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	Purchased Put Strike Price	
Natural gas:					
Swaps:					\$ (188,172)
Remaining in 2020	1,313,000	\$ 2.69			
2021	1,065,000	\$ 2.53			
2022	1,010,000	\$ 2.51			
2023	550,000	\$ 2.45			
2024	165,000	\$ 2.46			
Collars:					(7,804)
Remaining in 2020	140,000		\$ 3.09	\$ 2.59	
2021	180,000		\$ 3.05	\$ 2.50	
Three-way collars:					(28,738)
2021	270,000		\$ 2.91	\$ 2.50	\$ 2.00
2022	160,000		\$ 3.00	\$ 2.50	\$ 2.01
Call options:					(148,354)
Remaining in 2020	250,000		\$ 3.00		
2021	335,000		\$ 3.02		
2022	360,000		\$ 2.99		
2023	370,000		\$ 2.89		
2024	400,000		\$ 2.84		
Basis swaps:					2,379
Remaining in 2020	702,000	\$ (0.28)			
2021	534,000	\$ (0.27)			
2022	349,000	\$ (0.18)			
Total Estimated Fair Value					<u>\$ (370,689)</u>

The following table sets forth the average volumes per day associated with our outstanding oil derivative instruments as of September 30, 2020, the contracted weighted average oil prices and the estimated fair values:

	Average Volume (bbl/d)	Weighted Average Prices (\$/bbl)			Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	Purchased Put Strike Price	
Oil:					
Swaps:					\$ 9,571
Remaining in 2020	1,800	\$ 57.33			
2021	2,200	\$ 50.44			
Collars:					(220)
Remaining in 2020	700		\$ 37.00	\$ 23.00	
Three-way collars:					2,019
2021	1,000		\$ 65.30	\$ 52.50	\$ 42.50
Call options:					(389)
Remaining in 2020	6,000		\$ 70.00		
2021	3,500		\$ 70.00		
Total Estimated Fair Value					<u>\$ 10,981</u>

The following table sets forth the average volumes per day associated with our outstanding NGL derivative instruments as of September 30, 2020, the contracted weighted average NGL prices and the estimated fair values:

	Average Volume (bbl/d)	Weighted Average Prices (\$/bbl)		Fair Value (\$ in thousands)
		Swap Strike Price	Sold Call Strike Price	
NGL:				
Swaps - Propane:				\$ 964
Remaining in 2020	2,500	\$ 25.68		
Call options - Propane:				(9)
Remaining in 2020	3,150		\$ 33.60	
Swaps - Ethane:				3
Remaining 2020	1,000	\$ 8.40		
Total Estimated Fair Value				<u>\$ 958</u>

The fair value of our commodity derivative instruments is largely influenced by the future prices of natural gas, oil and NGL. The following table sets forth the changes in the fair value of our commodity derivative instruments due to a hypothetical 10% change in future prices as of September 30, 2020. However, any realized derivative gain or loss would be substantially offset by a decrease or increase, respectively, in the actual revenue received from the sale of our production associated with the derivative instrument.

<i>(\$ in thousands)</i>	Hypothetical 10% Increase in Future Prices	Hypothetical 10% Decrease in Future Prices
Natural gas	\$ (408,036)	\$ 389,021
Oil	\$ (5,549)	\$ 5,141
NGL	\$ (589)	\$ 578

Counterparty Credit Risk

Our derivative instruments expose us to counterparty credit risk. Credit risk is the risk of loss from counterparties not performing under the terms of the derivative contract. Adverse moves within the financial or commodities markets could negatively impact our counterparties' ability to fulfill obligations to us. To minimize such risk, our derivative contracts are with multiple counterparties, reducing our exposure to any individual counterparty. We only enter into derivative contracts with counterparties that we determine are creditworthy, and such creditworthiness is subject to periodic review.

Customer Credit Risk

We are subject to credit risk resulting from the concentration of our natural gas, oil and NGL receivables. If our largest customers stopped purchasing natural gas, oil or NGL from us, our revenues could decline and our operating results and financial condition could be harmed; however, we do not believe the loss of any single customer would materially impact our operating results, as natural gas, oil and NGL are fungible products with well-established markets and numerous customers. We historically have not incurred losses on our natural gas, oil and NGL receivables.

We also have joint interest receivables, which arise from billings to entities that own working interests in the wells we operate. These entities participate in our wells primarily based on their ownership in leases. We have little ability to control whether these entities will participate in our wells but can require these entities to prepay drilling costs. We historically have not incurred losses on our joint interest receivables.

Interest Rate Risk

Borrowings under the Credit Facility bear interest at a floating tiered rate based on facility usage plus the 1-month LIBOR, resulting in a weighted average interest rate of 2.66% as of September 30, 2020. The LIBOR component of our interest related to borrowings under the Credit Facility exposes us to interest rate risk. However, we have entered into interest rate swaps to mitigate a significant portion of our exposure to volatility in the 1-month LIBOR. See Note 5 of the notes to our condensed consolidated financial statements included in this report for further discussion of our interest rate derivatives. As of September 30, 2020, the Convertible Notes, 2022 Notes and 2026 Notes bore interest at fixed rates of 6.50%, 10.00% and 7.00%, respectively, resulting in no interest rate risk on such instruments.

Inflation

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations during 2019 or the nine months ended September 30, 2020. Although the impact of inflation has been insignificant recently, it is still a factor in the United States economy, and we tend to experience inflationary pressure on the cost of oilfield services and equipment as natural gas, oil and NGL prices and drilling activity increase.