

NORTHERN OIL & GAS, INC.  
Form 10-Q  
May 09, 2014

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

Commission File No. 001-33999

NORTHERN OIL AND GAS, INC.  
(Exact name of Registrant as specified in its charter)

Minnesota  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-3848122  
(I.R.S. Employer Identification No.)

315 Manitoba Avenue – Suite 200  
Wayzata, Minnesota 55391  
(Address of Principal Executive Offices)

(952) 476-9800  
(Registrant's Telephone Number)

N/A  
(Former name, former address and former fiscal year,  
if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

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232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of May 1, 2014, there were 61,042,076 shares of our common stock, par value \$0.001, outstanding.

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## GLOSSARY OF TERMS

Unless otherwise indicated in this report, natural gas volumes are stated at the legal pressure base of the state or geographic area in which the reserves are located at 60 degrees Fahrenheit. Crude oil and natural gas equivalents are determined using the ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids.

The following definitions shall apply to the technical terms used in this report.

Terms used to describe quantities of crude oil and natural gas:

“Bbl.” One stock tank barrel of 42 U.S. gallons liquid volume used herein in reference to crude oil, condensate or NGLs.

“Boe.” A barrel of oil equivalent and is a standard convention used to express oil, NGL and natural gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of 6.0 Mcf of gas to 1.0 Bbl of oil or NGL.

“Boepd.” Boe per day.

“Btu or British Thermal Unit.” The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

“MBbl.” One thousand barrels of crude oil, condensate or NGLs.

“MBoe.” One thousand Boes.

“Mcf.” One thousand cubic feet of natural gas.

“MMBbl.” One million barrels of crude oil, condensate or NGLs.

“MMBoe.” One million Boes.

“MMBtu.” One million British Thermal Units.

“MMcf.” One million cubic feet of natural gas.

“NGLs.” Natural gas liquids. Hydrocarbons found in natural gas that may be extracted as liquefied petroleum gas and natural gasoline.

Terms used to describe our interests in wells and acreage:

“Basin.” A large natural depression on the earth’s surface in which sediments generally brought by water accumulate.

“Completion.” The process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil, NGLs, and/or natural gas.

“Conventional play.” An area that is believed to be capable of producing crude oil, NGLs, and natural gas occurring in discrete accumulations in structural and stratigraphic traps.

“Developed acreage.” Acreage consisting of leased acres spaced or assignable to productive wells. Acreage included in spacing units of infill wells is classified as developed acreage at the time production commences from the initial well in the spacing unit. As such, the addition of an infill well does not have any impact on a company’s amount of developed acreage.

“Development well.” A well drilled within the proved area of a crude oil, NGL, or natural gas reservoir to the depth of stratigraphic horizon (rock layer or formation) noted to be productive for the purpose of extracting proved crude oil, NGL, or natural gas reserves.

“Dry hole.” A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

“Exploratory well.” A well drilled to find and produce crude oil, NGLs, or natural gas in an unproved area, to find a new reservoir in a field previously found to be producing crude oil, NGLs, or natural gas in another reservoir, or to extend a known reservoir.

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

“Formation.” A layer of rock which has distinct characteristics that differs from nearby rock.

“Gross acres or Gross wells.” The total acres or wells, as the case may be, in which a working interest is owned.

“Held by operations.” A provision in an oil and gas lease that extends the stated term of the lease as long as drilling operations are ongoing on the property.

“Held by production.” A provision in an oil and gas lease that extends the stated term of the lease as long as the property produces a minimum quantity of crude oil, NGLs, and natural gas.

“Hydraulic fracturing.” The technique of improving a well’s production or injection rates by pumping a mixture of fluids into the formation and rupturing the rock, creating an artificial channel. As part of this technique, sand or other material may also be injected into the formation to keep the channel open, so that fluids or natural gases may more easily flow through the formation.

“Infill well.” A subsequent well drilled in an established spacing unit to the addition of an already established productive well in the spacing unit. Acreage on which infill wells are drilled is considered developed commencing with the initial productive well established in the spacing unit. As such, the addition of an infill well does not have any impact on a company’s amount of developed acreage.

“Net acres.” The percentage ownership of gross acres. Net acres are deemed to exist when the sum of fractional ownership working interests in gross acres equals one (e.g., a 10% working interest in a lease covering 640 gross acres is equivalent to 64 net acres).

“Net well.” A well that is deemed to exist when the sum of fractional ownership working interests in gross wells equals one.

“NYMEX.” The New York Mercantile Exchange.

“OPEC.” The Organization of Petroleum Exporting Countries.

“Productive well.” A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

“Recompletion.” The process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil, NGLs or natural gas or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.

ii

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“Reservoir.” A porous and permeable underground formation containing a natural accumulation of producible crude oil, NGLs and/or natural gas that is confined by impermeable rock or water barriers and is separate from other reservoirs.

“Spacing.” The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies.

“Unconventional play.” An area believed to be capable of producing crude oil, NGLs, and/or natural gas occurring in accumulations that are regionally extensive but require recently developed technologies to achieve profitability. These areas tend to have low permeability and may be closely associated with source rock as this is the case with crude oil and natural gas shale, tight crude oil and natural gas sands and coal bed methane.

“Undeveloped acreage.” Leased acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of crude oil, NGLs, and natural gas, regardless of whether such acreage contains proved reserves. Undeveloped acreage includes net acres held by operations until a productive well is established in the spacing unit.

“Unit.” The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement.

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

“West Texas Intermediate or WTI.” A light, sweet blend of oil produced from the fields in West Texas.

“Working interest.” The right granted to the lessee of a property to explore for and to produce and own crude oil, NGLs, natural gas or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

Terms used to assign a present value to or to classify our reserves:

“Possible reserves.” The additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves.

“Pre-tax PV-10% or PV-10.” The estimated future net revenue, discounted at a rate of 10% per annum, before income taxes and with no price or cost escalation or de-escalation in accordance with guidelines promulgated by the SEC.

“Probable reserves.” The additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but which together with proved reserves, are as likely as not to be recovered.

“Proved developed producing reserves (PDP’s).” Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional crude oil, NGLs, and natural gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

“Proved developed non-producing reserves (PDNP’s).” Proved crude oil, NGLs, and natural gas reserves that are developed behind pipe, shut-in or that can be recovered through improved recovery only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells that were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells that will require additional completion work or future recompletion prior to the start of production.



“Proved reserves.” The quantities of crude oil, NGLs and natural gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible, from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

“Proved undeveloped drilling location.” A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

“Proved undeveloped reserves” or “PUDs.” Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for development. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves will not be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

- (i) The area of the reservoir considered as proved includes: (A) the area identified by drilling and limited by fluid contacts, if any, and (B) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible crude oil, NGLs or natural gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (“LKH”) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil (“HKO”) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) the project has been approved for development by all necessary parties and entities, including governmental entities.
- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based on future conditions.

“Standardized measure.” The estimated future net revenue, discounted at a rate of 10% per annum, after income taxes and with no price or cost escalation, calculated in accordance with Accounting Standards Codification (“ASC”) 932, formerly Statement of Financial Accounting Standards No. 69 “Disclosures About Oil and Gas Producing Activities.”

NORTHERN OIL AND GAS, INC.  
FORM 10-Q

March 31, 2014

C O N T E N T S

	Page
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	2
Balance Sheets	2
Statements of Comprehensive Income	3
Statements of Cash Flows	4
Notes to Unaudited Condensed Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	35
<b>PART II OTHER INFORMATION</b>	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 6. Exhibits	36
Signatures	37

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

NORTHERN OIL AND GAS, INC.  
BALANCE SHEETS  
MARCH 31, 2014 AND DECEMBER 31, 2013

	March 31, 2014 (unaudited)	December 31, 2013
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$8,108,950	\$5,687,166
Trade Receivables	82,201,632	86,816,981
Advances to Operators	608,471	618,786
Prepaid and Other Expenses	1,063,734	770,740
Derivative Instruments	-	62,890
Deferred Tax Asset	12,702,000	10,431,000
Total Current Assets	104,684,787	104,387,563
<b>PROPERTY AND EQUIPMENT</b>		
Oil and Natural Gas Properties, Full Cost Method of Accounting		
Proved	1,728,444,854	1,611,073,747
Unproved	68,880,470	70,148,348
Other Property and Equipment	1,715,418	1,701,366
Total Property and Equipment	1,799,040,742	1,682,923,461
Less – Accumulated Depreciation and Depletion	(321,596,322 )	(285,616,752 )
Total Property and Equipment, Net	1,477,444,420	1,397,306,709
<b>DERIVATIVE INSTRUMENTS</b>	167,302	1,745,405
<b>DEBT ISSUANCE COSTS</b>	15,750,691	16,160,283
<b>TOTAL ASSETS</b>	<b>\$1,598,047,200</b>	<b>\$1,519,599,960</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$168,619,872	\$168,936,785
Accrued Expenses	2,479,401	2,645,178
Accrued Interest	13,488,970	3,386,409
Derivative Instruments	24,970,433	19,119,646
Total Current Liabilities	209,558,676	194,088,018
<b>LONG-TERM LIABILITIES</b>		
Revolving Credit Facility	138,000,000	75,000,000
8% Senior Notes	509,168,142	509,539,823
Derivative Instruments	1,005,111	637,208
Other Noncurrent Liabilities	4,042,107	3,832,550
Deferred Tax Liability	123,045,000	116,674,000
Total Long-Term Liabilities	775,260,360	705,683,581
<b>TOTAL LIABILITIES</b>	<b>984,819,036</b>	<b>899,771,599</b>

## COMMITMENTS AND CONTINGENCIES (NOTE 8)

## STOCKHOLDERS' EQUITY

Preferred Stock, Par Value \$.001; 5,000,000 Authorized, No Shares Outstanding	-	-
Common Stock, Par Value \$.001; 95,000,000 Authorized, (3/31/2014 – 60,983,706 Shares Outstanding and 12/31/2013 – 61,858,199 Shares Outstanding)	60,984	61,858
Additional Paid-In Capital	432,855,073	446,044,159
Retained Earnings	180,312,107	173,722,344
Total Stockholders' Equity	613,228,164	619,828,361
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,598,047,200</b>	<b>\$ 1,519,599,960</b>

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

NORTHERN OIL AND GAS, INC.  
 STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013  
 (UNAUDITED)

	Three Months Ended March 31,	
	2014	2013
<b>REVENUES</b>		
Oil and Gas Sales	\$96,802,970	\$83,171,661
Loss on Settled Derivatives	(6,817,980 )	(371,283 )
Losses on the Mark-to-Market of Derivative Instruments	(7,859,683 )	(14,910,655)
Other Revenue	-	8,359
Total Revenues	82,125,307	67,898,082
<b>OPERATING EXPENSES</b>		
Production Expenses	11,677,429	8,641,210
Production Taxes	9,791,201	7,811,304
General and Administrative Expense	3,997,690	3,988,806
Depletion, Depreciation, Amortization and Accretion	36,100,921	26,792,693
Total Expenses	61,567,241	47,234,013
<b>INCOME FROM OPERATIONS</b>	<b>20,558,066</b>	<b>20,664,069</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest Expense, Net of Capitalization	(9,898,968 )	(6,108,000 )
Other Income (Expense)	30,665	64
Total Other Income (Expense)	(9,868,303 )	(6,107,936 )
<b>INCOME BEFORE INCOME TAXES</b>	<b>10,689,763</b>	<b>14,556,133</b>
<b>INCOME TAX PROVISION</b>	<b>4,100,000</b>	<b>5,604,614</b>
<b>NET INCOME</b>	<b>\$6,589,763</b>	<b>\$8,951,519</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$6,589,763</b>	<b>\$8,951,519</b>
Net Income Per Common Share – Basic	\$0.11	\$0.14
Net Income Per Common Share – Diluted	\$0.11	\$0.14
Weighted Average Shares Outstanding – Basic	61,203,725	62,857,322
Weighted Average Shares Outstanding – Diluted	61,446,274	63,316,301

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

NORTHERN OIL AND GAS, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013  
 (UNAUDITED)

	Three Months Ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$6,589,763	\$8,951,519
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depletion, Depreciation, Amortization and Accretion	36,100,921	26,792,693
Amortization of Debt Issuance Costs	634,592	506,187
Amortization of Senior Unsecured Notes Premium	(371,681 )	-
Deferred Income Taxes	4,100,000	5,600,000
Loss on the Mark-to-Market of Derivative Instruments	7,859,683	14,910,655
Amortization of Deferred Rent	(3,664 )	(3,663 )
Share - Based Compensation Expense	557,865	1,122,274
Changes in Working Capital and Other Items:		
Trade Receivables	4,615,349	(5,670,822 )
Prepaid Expenses and Other	(292,994 )	(192,286 )
Accounts Payable	4,139,303	(287,231 )
Accrued Interest	8,984,260	6,018,914
Accrued Expenses	(165,777 )	(1,391,307 )
Net Cash Provided By Operating Activities	72,747,620	56,356,933
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Oil and Natural Gas Properties and Development Capital Expenditures	(119,186,402)	(76,884,714)
Proceeds from Sale, Net of Oil and Natural Gas Properties	-	908,000
Purchases of Other Property and Equipment	(14,052 )	(74,100 )
Net Cash Used For Investing Activities	(119,200,454)	(76,050,814)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Revolving Credit Facility	63,000,000	22,000,000
Repayments on Revolving Credit Facility	-	(7,000,000 )
Debt Issuance Costs Paid	(225,000 )	(184,084 )
Repurchases of Common Stock	(13,900,382 )	(27,867 )
Net Cash Provided by Financing Activities	48,874,618	14,788,049