

**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 September 30, 2011

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 000-19514

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**Gulfport Energy Corporation**

(Exact Name of Registrant As Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**73-1521290**  
(IRS Employer  
Identification Number)

**14313 North May Avenue, Suite 100**  
**Oklahoma City, Oklahoma**  
(Address of Principal Executive Offices)

**73134**  
(Zip Code)

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

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 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. (Check One):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

As of November 1, 2011, 50,944,254 shares of common stock were outstanding.

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[Table of Contents](#)

**GULFPORT ENERGY CORPORATION**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Consolidated Financial Statements (unaudited):	
<a href="#">Consolidated Balance Sheets at September 30, 2011 and December 31, 2010</a>	3
<a href="#">Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010</a>	4
<a href="#">Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Nine Months Ended September 30, 2011 and 2010</a>	5
<a href="#">Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010</a>	6
<a href="#">Notes to Consolidated Financial Statements</a>	7
Item 2. <a href="#">Management's Discussion and Analysis of Financial Conditions and Results of Operations</a>	19
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	29
Item 4. <a href="#">Controls and Procedures</a>	30
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	30
Item 1.A. <a href="#">Risk Factors</a>	31
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	31
Item 3. <a href="#">Defaults Upon Senior Securities</a>	31
Item 4. <a href="#">Removed and Reserved</a>	32
Item 5. <a href="#">Other Information</a>	32
Item 6. <a href="#">Exhibits</a>	32
<a href="#">Signatures</a>	S-1

[Table of Contents](#)

**GULFPORT ENERGY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 22,711,000	\$ 2,468,000
Accounts receivable - oil and gas	22,018,000	14,952,000
Accounts receivable - related parties	2,479,000	573,000
Prepaid expenses and other current assets	1,609,000	1,732,000
Short-term derivative instruments	6,752,000	—
<b>Total current assets</b>	<b>55,569,000</b>	<b>19,725,000</b>
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$108,678,000 and \$16,778,000 excluded from amortization in 2011 and 2010, respectively	957,752,000	747,344,000
Other property and equipment	7,746,000	7,609,000
Accumulated depletion, depreciation, amortization and impairment	(553,428,000)	(512,822,000)
<b>Property and equipment, net</b>	<b>412,070,000</b>	<b>242,131,000</b>
Other assets		
Equity investments	56,029,000	33,021,000
Note receivable - related party	22,220,000	20,006,000
Long-term derivative instruments	1,987,000	—
Other assets	4,989,000	4,182,000
<b>Total other assets</b>	<b>85,225,000</b>	<b>57,209,000</b>
Deferred tax asset	573,000	628,000
<b>Total assets</b>	<b>\$ 553,437,000</b>	<b>\$ 319,693,000</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 61,160,000	\$ 41,155,000
Asset retirement obligation - current	635,000	635,000
Short-term derivative instruments	—	4,720,000
Current maturities of long-term debt	139,000	2,417,000
<b>Total current liabilities</b>	<b>61,934,000</b>	<b>48,927,000</b>
Asset retirement obligation - long-term	11,640,000	10,210,000
Long-term debt, net of current maturities	2,178,000	49,500,000
<b>Total liabilities</b>	<b>75,752,000</b>	<b>108,637,000</b>
Commitments and contingencies (Note 12)		
Preferred stock, \$.01 par value; 5,000,000 authorized, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding		
	—	—
Stockholders' equity:		
Common stock - \$.01 par value, 100,000,000 authorized, 50,944,254 issued and outstanding in 2011 and 44,645,435 in 2010	509,000	446,000
Paid-in capital	475,703,000	296,253,000
Accumulated other comprehensive income (loss)	7,900,000	(1,768,000)
Retained earnings (accumulated deficit)	(6,427,000)	(83,875,000)
<b>Total stockholders' equity</b>	<b>477,685,000</b>	<b>211,056,000</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 553,437,000</b>	<b>\$ 319,693,000</b>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**GULFPORT ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>				
Oil and condensate sales	\$ 56,447,000	\$ 31,558,000	\$154,559,000	\$84,853,000
Gas sales	923,000	1,061,000	3,155,000	2,813,000
Natural gas liquids sales	653,000	654,000	2,346,000	1,995,000
Other income (expense)	58,000	124,000	248,000	236,000
	<u>58,081,000</u>	<u>33,397,000</u>	<u>160,308,000</u>	<u>89,897,000</u>
<b>Costs and expenses:</b>				
Lease operating expenses	5,744,000	4,063,000	15,103,000	12,212,000
Production taxes	6,281,000	3,657,000	18,520,000	10,390,000
Depreciation, depletion, and amortization	14,736,000	10,299,000	40,606,000	26,912,000
General and administrative	2,034,000	1,538,000	6,209,000	4,438,000
Accretion expense	168,000	156,000	491,000	461,000
	<u>28,963,000</u>	<u>19,713,000</u>	<u>80,929,000</u>	<u>54,413,000</u>
<b>INCOME FROM OPERATIONS:</b>	<u>29,118,000</u>	<u>13,684,000</u>	<u>79,379,000</u>	<u>35,484,000</u>
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense	225,000	823,000	1,163,000	2,154,000
Interest income	(64,000)	(33,000)	(139,000)	(244,000)
(Income) loss from equity method investments	(52,000)	216,000	906,000	486,000
	<u>109,000</u>	<u>1,006,000</u>	<u>1,930,000</u>	<u>2,396,000</u>
<b>INCOME BEFORE INCOME TAXES</b>	29,009,000	12,678,000	77,449,000	33,088,000
<b>INCOME TAX EXPENSE:</b>	<u>—</u>	<u>—</u>	<u>1,000</u>	<u>40,000</u>
<b>NET INCOME</b>	<u>\$ 29,009,000</u>	<u>\$ 12,678,000</u>	<u>\$ 77,448,000</u>	<u>\$33,048,000</u>
<b>NET INCOME PER COMMON SHARE:</b>				
Basic	<u>\$ 0.58</u>	<u>\$ 0.28</u>	<u>\$ 1.63</u>	<u>\$ 0.76</u>
Diluted	<u>\$ 0.57</u>	<u>\$ 0.28</u>	<u>\$ 1.61</u>	<u>\$ 0.75</u>
Weighted average common shares outstanding - Basic	50,407,240	44,571,478	47,549,672	43,612,468
Weighted average common shares outstanding - Diluted	50,905,962	44,873,106	48,008,368	43,977,265

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**GULFPORT ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at January 1, 2011</b>	44,645,435	\$446,000	\$296,253,000	\$ (1,768,000)	\$ (83,875,000)	\$211,056,000
Net income	—	—	—	—	77,448,000	77,448,000
Other Comprehensive Income:						
Foreign currency translation adjustment	—	—	—	(3,285,000)	—	(3,285,000)
Change in fair value of derivative instruments	—	—	—	9,611,000	—	9,611,000
Reclassification of settled contracts	—	—	—	3,342,000	—	<u>3,342,000</u>
Total Comprehensive Income						87,116,000
Stock Compensation	—	—	837,000	—	—	837,000
Issuance of Common Stock in public offering, net of related expenses	6,210,000	62,000	178,217,000	—	—	178,279,000
Issuance of Common Stock through exercise of options	41,000	1,000	396,000	—	—	397,000
Issuance of Restricted Stock	<u>47,819</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Balance at September 30, 2011</b>	<u>50,944,254</u>	<u>\$509,000</u>	<u>\$475,703,000</u>	<u>\$ 7,900,000</u>	<u>\$ (6,427,000)</u>	<u>\$477,685,000</u>
<b>Balance at January 1, 2010</b>	42,696,409	\$427,000	\$273,901,000	\$(18,039,000)	\$(131,238,000)	\$125,051,000
Net income	—	—	—	—	33,048,000	33,048,000
Other Comprehensive Income:						
Foreign currency translation adjustment	—	—	—	694,000	—	694,000
Change in fair value of derivative instruments	—	—	—	709,000	—	709,000
Reclassification of settled contracts	—	—	—	13,926,000	—	<u>13,926,000</u>
Total Comprehensive Income						48,377,000
Stock Compensation	—	—	338,000	—	—	338,000
Issuance of Common Stock in public offering, net of related expenses	1,668,503	17,000	21,346,000	—	—	21,363,000
Issuance of Common Stock through exercise of warrants	172,269	2,000	203,000	—	—	205,000
Issuance of Common Stock through exercise of options	12,000	—	27,000	—	—	27,000
Issuance of Restricted Stock	<u>41,888</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Balance at September 30, 2010</b>	<u>44,591,069</u>	<u>\$446,000</u>	<u>\$295,815,000</u>	<u>\$ (2,710,000)</u>	<u>\$ (98,190,000)</u>	<u>\$195,361,000</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

**GULFPORT ENERGY CORPORATION**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 77,448,000	\$ 33,048,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount - Asset Retirement Obligation	491,000	461,000
Depletion, depreciation and amortization	40,606,000	26,912,000
Stock-based compensation expense	502,000	203,000
Loss from equity investments	906,000	486,000
Interest income - note receivable	(117,000)	(232,000)
Unrealized gain on derivative instruments	(506,000)	—
Deferred income tax benefit	55,000	—
Amortization of loan commitment fees	383,000	—
Changes in operating assets and liabilities:		
Increase in accounts receivable	(7,066,000)	(3,024,000)
Increase in accounts receivable - related party	(1,906,000)	(176,000)
Decrease in prepaid expenses	123,000	207,000
Increase in other assets	—	(711,000)
Increase in accounts payable and accrued liabilities	11,127,000	2,313,000
Settlements of asset retirement obligation	—	(1,253,000)
Net cash provided by operating activities	<u>122,046,000</u>	<u>58,234,000</u>
<b>Cash flows from investing activities:</b>		
Deductions to cash held in escrow	8,000	8,000
Additions to other property, plant and equipment	(137,000)	(330,000)
Additions to oil and gas properties	(202,164,000)	(72,260,000)
Proceeds from sale of oil and gas properties	1,384,000	—
Advances on note receivable to related party	(3,182,000)	(2,957,000)
Contributions to investment in Grizzly Oil Sands ULC	(17,902,000)	—
Distribution from investment in Tatex Thailand II, LLC	750,000	565,000
Contribution to investment in Tatex Thailand III, LLC	(2,953,000)	(224,000)
Contribution to investment in Bison Drilling and Field Services LLC	(6,009,000)	—
Net cash used in investing activities	<u>(230,205,000)</u>	<u>(75,198,000)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on borrowings	(84,600,000)	(49,982,000)
Borrowings on line of credit	35,000,000	45,700,000
Loan commitment fees	(674,000)	—
Proceeds from issuance of common stock, net of offering costs, and exercise of stock options	<u>178,676,000</u>	<u>21,595,000</u>
Net cash provided by financing activities	<u>128,402,000</u>	<u>17,313,000</u>
Net increase in cash and cash equivalents	20,243,000	349,000
Cash and cash equivalents at beginning of period	<u>2,468,000</u>	<u>1,724,000</u>
Cash and cash equivalents at end of period	<u>\$ 22,711,000</u>	<u>\$ 2,073,000</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest payments	<u>\$ 912,000</u>	<u>\$ 1,564,000</u>
<b>Supplemental disclosure of non-cash transactions:</b>		
Capitalized stock based compensation	<u>\$ 335,000</u>	<u>\$ 135,000</u>
Asset retirement obligation capitalized	<u>\$ 939,000</u>	<u>\$ 1,195,000</u>
Foreign currency translation gain (loss) on investment in Grizzly Oil Sands ULC	<u>\$ (2,200,000)</u>	<u>\$ 433,000</u>
Foreign currency translation gain (loss) on note receivable - related party	<u>\$ (1,085,000)</u>	<u>\$ 261,000</u>

See accompanying notes to consolidated financial statements.

**GULFPORT ENERGY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

These consolidated financial statements have been prepared by Gulfport Energy Corporation (the “Company” or “Gulfport”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company’s most recent annual report on Form 10-K. Results for the three month and nine month periods ended September 30, 2011 are not necessarily indicative of the results expected for the full year.

**1. ACQUISITION**

Beginning in February 2011, the Company entered into agreements to acquire certain leasehold interests located in the Utica Shale in Ohio. Certain of the agreements also grant the Company an exclusive right of first refusal for a period of six months on certain additional tracts leased by the seller. Affiliates of Gulfport have agreed to participate with the Company on a 50/50 basis in the acquisition of all leases described above. Gulfport will be the operator on this acreage in the Utica Shale. As of September 30, 2011, the Company had acquired leasehold interests in approximately 75,000 gross (37,500 net) acres in the Utica Shale for approximately \$85.4 million. Gulfport funded these transactions with a portion of the proceeds from public offerings of an aggregate of 6.2 million shares of the Company’s common stock completed in March and July of 2011. The Company received aggregate net proceeds (before offering expenses) of approximately \$179.1 million from the equity offerings, as discussed below in Note 7. The Company also has commitments which could increase its acreage position in the Utica Shale to approximately 125,000 gross (62,500 net) leasehold acres. The Company intends to continue to pursue opportunities in this area.

**2. ACCOUNTS RECEIVABLE – RELATED PARTY**

Included in the accompanying September 30, 2011 and December 31, 2010 consolidated balance sheets are amounts receivable from related parties of the Company. These receivables represent amounts billed by the Company for general and administrative functions, such as accounting, human resources, legal, and technical support, performed by Gulfport’s personnel on behalf of these related parties. These services are solely administrative in nature and for entities in which the Company has no property interests. The amounts reimbursed to the Company for these services are for the purpose of Gulfport recovering costs associated with the services and do not include the assessment of any fees or other amounts beyond the estimated costs of performing such services. The receivables also include amounts billed by the Company to related parties as operator of the Company’s Colorado and Ohio oil and gas properties. At September 30, 2011 and December 31, 2010, these receivable amounts totaled \$2,479,000 and \$573,000, respectively. No amounts were reimbursed for general and administrative functions during the three months and nine months ended September 30, 2011 with the exception of \$467,000 and \$867,000, respectively, billed under the acquisition team agreement discussed below. No amounts were reimbursed for general and administrative functions during the three months and nine months ended September 30, 2010.

The Company is a party to an administrative service agreement with Great White Energy Services LLC. Under the agreement, the Company’s services include accounting, human resources, legal and technical support. The services provided and the fees for such services can be amended by mutual agreement of the parties. The administrative service agreement had an initial three-year term, and upon expiration of that term the agreement has continued on a month-to-month basis. The administrative service agreement is terminable by either party at any time with at least 30 days prior written notice.

The Company is also a party to administrative service agreements with Stampede Farms LLC, Grizzly Oil Sands ULC (“Grizzly”), Everest Operations Management LLC and Tatex Thailand III, LLC. Under the agreements, the Company’s services include professional and technical support. The services provided and the fees for such services can be amended by mutual agreement of the parties. Each of these administrative service agreements had an initial two-year term, and has continued thereafter on a month-to-month basis. Each agreement may be cancelled by either party to such agreement with at least 60 days prior written notice and is also terminable (1) by the counterparty at any time with at least 30 days prior written notice to the Company and (2) by either party if the other party is in material breach and such breach has not been cured within 30 days of receipt of written notice of such breach. The Company’s administrative agreement with Grizzly was terminated effective December 31, 2010.

Wexford Capital LP (“Wexford”) controls and/or owns a greater than 10% interest in each of these entities. An affiliate of Wexford owns approximately 16.8% of Gulfport’s outstanding common stock.

## Table of Contents

Effective July 1, 2008, the Company entered into an acquisition team agreement with Everest Operations Management LLC (“Everest”) to identify and evaluate potential oil and gas properties in which the Company and Everest may wish to invest. Upon a successful closing of an acquisition or divestiture, the party identifying the acquisition or divestiture is entitled to receive a fee from the other party and its affiliates, if applicable, participating in such closing. The fee is equal to 1% of the party’s proportionate share of the acquisition or divestiture consideration. The agreement may be terminated by either party upon 30 days notice.

Effective April 1, 2010, the Company entered into an area of mutual interest agreement with Windsor Niobrara LLC (“Windsor Niobrara”), an entity controlled by Wexford, to jointly acquire oil and gas leases on certain lands located in Northwest Colorado for the purpose of exploring, exploiting and producing oil and gas from the Niobrara Shale. The agreement provides that each party must offer the other party the right to participate in such acquisitions on a 50%/50% basis. The parties also agreed, subject to certain exceptions, to share third-party costs and expenses in proportion to their respective participating interests and pay certain other fees as provided in the agreement. In connection with this agreement, Gulfport and Windsor Niobrara also entered into a development agreement, effective as of April 1, 2010, pursuant to which the Company and Windsor Niobrara agreed to jointly develop the contract area, and Gulfport agreed to act as the operator under the terms of a joint operating agreement.

### **3. PROPERTY AND EQUIPMENT**

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of September 30, 2011 and December 31, 2010 are as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Oil and natural gas properties	\$ 957,752,000	\$ 747,344,000
Office furniture and fixtures	3,414,000	3,277,000
Building	4,049,000	4,049,000
Land	<u>283,000</u>	<u>283,000</u>
Total property and equipment	965,498,000	754,953,000
Accumulated depletion, depreciation, amortization and impairment	<u>(553,428,000)</u>	<u>(512,822,000)</u>
Property and equipment, net	<u>\$ 412,070,000</u>	<u>\$ 242,131,000</u>

Included in oil and natural gas properties at September 30, 2011 is the cumulative capitalization of \$22,252,000 in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management’s estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized general and administrative costs were approximately \$1,338,000 and \$4,126,000 for the three months and nine months ended September 30, 2011, respectively, and \$1,044,000 and \$3,015,000 for the three months and nine months ended September 30, 2010, respectively.

At September 30, 2011, approximately \$5,708,000 of oil and gas properties related to the Company’s Belize properties is excluded from amortization as they relate to non-producing properties. In addition, approximately \$10,349,000 of non-producing leasehold costs resulting from the Company’s acquisition of West Texas Permian properties, \$302,000 of non-producing leasehold costs related to the Company’s Bakken properties and \$4,342,000 of non-producing leasehold costs related to the Company’s Colorado properties are excluded from amortization at September 30, 2011. Approximately \$1,088,000 of non-producing leasehold costs related to the Company’s Southern Louisiana assets, \$86,855,000 of non-producing leasehold costs related to the Company’s Ohio leasehold costs and \$34,000 of non-producing leasehold costs related to other projects are also excluded from amortization at September 30, 2011.

The Company evaluates the costs excluded from its amortization calculation at least annually. Subject to industry conditions and the level of the Company’s activities, the inclusion of most of the above referenced costs into the Company’s amortization calculation is expected to occur within three to five years.



## Table of Contents

A reconciliation of the asset retirement obligation for the nine months ended September 30, 2011 and 2010 is as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Asset retirement obligation, beginning of period	\$ 10,845,000	\$ 10,153,000
Liabilities incurred	939,000	1,195,000
Liabilities settled	—	(1,253,000)
Accretion expense	491,000	461,000
Asset retirement obligation as of end of period	12,275,000	10,556,000
Less current portion	635,000	635,000
Asset retirement obligation, long-term	<u>\$ 11,640,000</u>	<u>\$ 9,921,000</u>

## 4. EQUITY INVESTMENTS

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Investment in Tatex Thailand II, LLC	\$ 1,150,000	\$ 1,907,000
Investment in Tatex Thailand III, LLC	7,414,000	4,660,000
Investment in Grizzly Oil Sands ULC	41,161,000	26,454,000
Investment in Bison Drilling and Field Services LLC	6,304,000	—
	<u>\$ 56,029,000</u>	<u>\$ 33,021,000</u>

### *Tatex Thailand II, LLC*

During 2005, the Company purchased a 23.5% ownership interest in Tatex Thailand II, LLC (“Tatex”) at a cost of \$2,400,000. The remaining interests in Tatex are owned by entities controlled by Wexford. Tatex, a non-public entity, holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC (“APICO”), an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering two million acres which includes the Phu Horm Field. During the nine months ended September 30, 2011, Gulfport received \$750,000 in distributions, reducing its total net investment in Tatex to \$1,150,000. The loss on equity investment related to Tatex was immaterial for the nine months ended September 30, 2011 and 2010.

### *Tatex Thailand III, LLC*

During the first quarter of 2008, the Company purchased a 5% ownership interest in Tatex Thailand III, LLC (“Tatex III”) at a cost of \$850,000. In December 2009, the Company purchased an additional approximately 12.9% ownership interest at a cost of approximately \$3,385,000 bringing its total ownership interest to approximately 17.9%. Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. During the nine months ended September 30, 2011, Gulfport paid \$2,953,000 in cash calls, increasing its total net investment in Tatex III (including previous investments) to \$7,414,000. The Company recognized a loss on equity investment of \$199,000 and \$149,000 for the nine months ended September 30, 2011 and 2010, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

### *Grizzly Oil Sands ULC*

During the third quarter of 2006, the Company, through its wholly owned subsidiary Grizzly Holdings Inc., purchased a 24.9999% interest in Grizzly, a Canadian unlimited liability company, for approximately \$8,199,000. The remaining interests in Grizzly are owned by entities controlled by Wexford. During 2006 and 2007, Grizzly acquired leases in the Athabasca region located in the Alberta Province near Fort McMurray near other oil sands development projects. Grizzly has drilled core holes and water supply test wells in nine separate lease blocks for feasibility of oil production and conducted a seismic program. In March 2010, Grizzly filed an application in Alberta, Canada for the development of an 11,300 barrel per day SAGD facility at Algar Lake. In October 2011, the Alberta Energy Resources Conservation Board (ERCB) and Ministry of Environment completed their review of Grizzly’s Algar Lake Project and have prepared their approval documents. A request has been made to the Government of Alberta to provide an Order-in Council authorizing the ERCB to issue the formal approval to Grizzly. As of September 30, 2011, Gulfport’s net investment in Grizzly was \$41,161,000. During the nine months ended September 30, 2011, the Company paid \$17,902,000 in cash calls. Grizzly’s functional currency is the Canadian dollar. The Company’s investment in Grizzly was decreased by \$3,138,000 and \$2,200,000 as a result of a currency translation loss for the three months and nine months ended September 30, 2011, respectively. The Company recognized a loss on equity investment of \$182,000 and \$995,000 for the three months and nine months ended September 30, 2011, respectively, and \$171,000 and \$336,000 for the three months and nine months ended September 30, 2010, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

## [Table of Contents](#)

The Company, through its wholly owned subsidiary Grizzly Holdings Inc., entered into a loan agreement with Grizzly effective January 1, 2008, under which Grizzly may borrow funds from the Company. Borrowed funds initially bore interest at LIBOR plus 400 basis points and had an original maturity date of December 31, 2012. Effective April 1, 2010, the loan agreement was amended to modify the interest rate to 0.69% and change the maturity date to December 31, 2011. Effective October 15, 2010, the loan agreement was further amended to change the maturity date to December 31, 2012. Interest is paid on a paid-in-kind basis by increasing the outstanding balance of the loan. The Company loaned Grizzly approximately \$3,182,000 during the nine months ended September 30, 2011. The Company recognized interest income of approximately \$41,000 and \$117,000 for the three months and nine months ended September 30, 2011, respectively, and \$31,000 and \$232,000 for the three months and nine months ended September 30, 2010, respectively, which is included in interest income in the consolidated statements of operations. The note balance was decreased by approximately \$1,717,000 and \$1,085,000 as a result of a currency translation loss for the three months and nine months ended September 30, 2011, respectively. The total \$22,220,000 due from Grizzly at September 30, 2011 is included in note receivable – related party on the accompanying consolidated balance sheets.

### *Bison Drilling and Field Services LLC*

During the third quarter of 2011, the Company purchased a 25% ownership interest in Bison Drilling and Field Services LLC (“Bison”) at a cost of \$6,009,000, subject to adjustment. The remaining interests in Bison are owned by entities controlled by Wexford. Bison owns and operates four drilling rigs. The Company recognized income on equity investment of \$295,000 for the nine months ended September 30, 2011, which is included in (income) loss from equity method investments in the consolidated statements of operations.

## 5. OTHER ASSETS

Other assets consist of the following as of September 30, 2011 and December 31, 2010:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Plugging and abandonment escrow account on the WCBB properties (Note 12)	\$ 3,121,000	\$ 3,129,000
Certificates of deposit securing letter of credit	275,000	275,000
Prepaid drilling costs	244,000	7,000
Loan commitment fees	1,345,000	767,000
Deposits	4,000	4,000
	<u>\$ 4,989,000</u>	<u>\$ 4,182,000</u>

## 6. LONG-TERM DEBT

A breakdown of long-term debt as of September 30, 2011 and December 31, 2010 is as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Revolving credit agreement (1)	\$ —	\$ 49,500,000
Building loans (2)	2,317,000	2,417,000
Less: current maturities of long term debt	(139,000)	(2,417,000)
Debt reflected as long term	<u>\$ 2,178,000</u>	<u>\$ 49,500,000</u>

## Table of Contents

Maturities of long-term debt as of September 30, 2011 are as follows:

2012	\$ 139,000
2013	147,000
2014	156,000
2015	166,000
2016	1,709,000
Thereafter	—
Total	<u>\$2,317,000</u>

- (1) On September 30, 2010, the Company entered into a \$100.0 million senior secured revolving credit agreement with The Bank of Nova Scotia, as administrative agent and letter of credit issuer and lead arranger, and Amegy Bank National Association (“Amegy Bank”). This revolving credit facility initially matured on September 30, 2013 and had a borrowing base availability of \$50.0 million, which was increased to \$65.0 million effective December 24, 2010. The credit agreement is secured by substantially all of the Company’s assets. The Company’s wholly-owned subsidiaries guarantee the obligations of the Company under the credit agreement.

On May 3, 2011, the Company entered into a first amendment to the revolving credit agreement with The Bank of Nova Scotia, Amegy Bank, Key Bank National Association (“Key Bank”) and Société Générale. Pursuant to the terms of the first amendment, Key Bank and Société Générale were added as additional lenders, the maximum amount of the facility was increased to \$350.0 million, the borrowing base was increased to \$90.0 million, certain fees and rates payable by the Company under the credit agreement were decreased, and the maturity date was extended until May 3, 2015. On October 31, 2011, the Company entered into subsequent amendments to its revolving credit facility pursuant to which the borrowing base under this facility was increased to \$125.0 million. As of September 30, 2011, the Company had no balance outstanding under the credit agreement.

Advances under the credit agreement, as amended, may be in the form of either base rate loans or eurodollar loans. The interest rate for base rate loans is equal to (1) the applicable rate, which ranges from 1.00% to 2.50%, plus (2) the highest of: (a) the federal funds rate plus 0.5%, (b) the rate of interest in effect for such day as publicly announced from time to time by agent as its “prime rate,” and (c) the eurodollar rate for an interest period of one month plus 1.00%. The interest rate for eurodollar loans is equal to (1) the applicable rate, which ranges from 2.00% to 3.50%, plus (2) the London interbank offered rate that appears on Reuters Screen LIBOR01 Page for deposits in U.S. dollars, or, if such rate is not available, the offered rate on such other page or service that displays the average British Bankers Association Interest Settlement Rate for deposits in U.S. dollars, or, if such rate is not available, the average quotations for three major New York money center banks of whom the agent shall inquire as the “London Interbank Offered Rate” for deposits in U.S. dollars. At July 20, 2011 (the latest date during the nine months ended September 30, 2011 on which the Company had borrowings outstanding), amounts borrowed under the credit agreement bore interest at the Eurodollar rate (2.44%).

The credit agreement contains customary negative covenants including, but not limited to, restrictions on the Company’s and its subsidiaries’ ability to: incur indebtedness; grant liens; pay dividends and make other restricted payments; make investments; make fundamental changes; enter into swap contracts and forward sales contracts; dispose of assets; change the nature of their business; and enter into transactions with their affiliates. The negative covenants are subject to certain exceptions as specified in the credit agreement. The credit agreement also contains certain affirmative covenants, including, but not limited to the following financial covenants: (1) the ratio of funded debt to EBITDAX (net income, excluding any non-cash revenue or expense associated with swap contracts resulting from ASC 815, plus without duplication and to the extent deducted from revenues in determining net income, the sum of (a) the aggregate amount of consolidated interest expense for such period, (b) the aggregate amount of income, franchise, capital or similar tax expense (other than ad valorem taxes) for such period, (c) all amounts attributable to depletion, depreciation, amortization and asset or goodwill impairment or writedown for such period, (d) all other non-cash charges, (e) non-cash losses from minority investments, (f) actual cash distributions received from minority investments, (g) to the extent actually reimbursed by insurance, expenses with respect to liability on casualty events or business interruption, and (h) all reasonable transaction expenses related to dispositions and acquisitions of assets, investments and debt and equity offering, and less non-cash income attributable to equity income from minority investments) for a twelve-month period may not be greater than 2.00 to 1.00; and (2) the ratio of EBITDAX to interest expense for a twelve-month period may not be less than 3.00 to 1.00. The Company was in compliance with all covenants at September 30, 2011.

(2) In June 2004, the Company purchased the office building it occupies in Oklahoma City, Oklahoma, for \$3.7 million. One loan associated with this building matured in March 2006 and bore interest at the rate of 6% per annum, while a second loan was scheduled to mature in June 2011. The Company entered into a new building loan agreement in March 2011 to refinance the \$2.4 million outstanding at that time. The new agreement extends the maturity date of the building loan to February 2016 and reduces the interest rate from 6.5% per annum to 5.82% per annum. The new building loan requires monthly interest and principal payments of approximately \$22,000 and is collateralized by the Oklahoma City office building and associated land.

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## [Table of Contents](#)

### **7. COMMON STOCK OPTIONS, RESTRICTED STOCK, WARRANTS AND CHANGES IN CAPITALIZATION**

#### *Restricted Stock*

On May 3, 2011, the Company granted 106,666 shares of restricted common stock of the Company to employees of the Company at a fair value of approximately \$3,234,000. The shares vest annually over five years beginning on June 17, 2011. All shares of restricted common stock of the Company were granted under the Amended and Restated 2005 Stock Incentive Plan.

On August 3, 2011, the Company granted 30,000 shares of restricted common stock of the Company to employees of the Company at a fair value of approximately \$1,024,000. The shares vest annually over five years beginning on September 17, 2011. All shares of restricted common stock of the Company were granted under the Amended and Restated 2005 Stock Incentive Plan.

#### *Sale of Common Stock*

On March 30, 2011, the Company completed the sale of an aggregate of 2,760,000 shares of its common stock in an underwritten public offering at a public offering price of \$32.00 per share less the underwriting discount. The Company received aggregate net proceeds of approximately \$84.3 million from the sale of these shares after deducting the underwriting discount and before offering expenses. The Company used the net proceeds from the equity offering to fund the Company's Utica Shale acquisition as discussed in Note 1 and for general corporate purposes. Pending the application of the Company's net proceeds for such purposes, the Company repaid all of its outstanding indebtedness under its revolving credit agreement.

On July 15, 2011, the Company completed the sale of an aggregate of 3,450,000 shares of its common stock in an underwritten public offering at a public offering price of \$28.75 per share less the underwriting discount. The Company received aggregate net proceeds of approximately \$94.7 million from the sale of these shares after deducting the underwriting discount and before offering expenses. The Company used a portion of the net proceeds from the equity offering to fund the Company's acquisition of leases in the Utica Shale as discussed in Note 1 and intends to use the remaining proceeds for additional Utica Shale lease acquisitions and for general corporate purposes, which may include expenditures associated with the Company's 2011 drilling programs. Pending the application of the Company's net proceeds for such purposes, the Company repaid all of its outstanding indebtedness under its revolving credit agreement.

### **8. STOCK-BASED COMPENSATION**

During the three months and nine months ended September 30, 2011, the Company's stock-based compensation expense was \$384,000 and \$837,000, respectively, of which the Company capitalized \$154,000 and \$335,000, respectively, relating to its exploration and development efforts. During the three months and nine months ended September 30, 2010, the Company's stock based compensation expense was \$105,000 and \$338,000, respectively, of which the Company capitalized \$42,000 and \$135,000, respectively, relating to its exploration and development efforts. Stock based compensation included in general and administrative expense reduced basic and diluted earnings per share by \$0.00 and \$0.01 each for the three months and nine months ended September 30, 2011, and \$0.00 and \$0.00 each for the three months and nine months ended September, 30, 2010, respectively. Options and restricted common stock are reported as share based payments and their fair value is amortized to expense using the straight-line method over the vesting period. The shares of stock issued once the options are exercised will be from authorized but unissued common stock.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses certain assumptions. Expected volatilities are based on the historical volatility of the market price of Gulfport's common stock over a period of time ending on the grant date. Based upon historical experience of the Company, the expected term of options granted is equal to the vesting period plus one year. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The 2005 Stock Incentive Plan provides that all options must have an exercise price not less than the fair value of the Company's common stock on the date of the grant.

No stock options were issued during the nine months ended September 30, 2011 and 2010.

The Company has not declared dividends and does not intend to do so in the foreseeable future, and thus did not use a dividend yield. In each case, the actual value that will be realized, if any, depends on the future performance of the common stock and overall stock market conditions. There is no assurance that the value an optionee actually realizes will be at or near the value estimated using the Black-Scholes model.

## Table of Contents

A summary of the status of stock options and related activity for the nine months ended September 30, 2011 is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price per Share</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at December 31, 2010	458,241	\$ 7.23	4.48	\$6,621,000
Granted	—	—		
Exercised	(41,000)	9.67		710,000
Forfeited/expired	—	—		
Options outstanding at September 30, 2011	417,241	\$ 6.99	3.71	\$7,172,000
Options exercisable at September 30, 2011	417,241	\$ 6.99	3.71	\$7,172,000

Unrecognized compensation expense as of September 30, 2011 related to outstanding stock options and restricted shares was \$4,750,000. The expense is expected to be recognized over a weighted average period of 2.23 years.

The following table summarizes information about the stock options outstanding at September 30, 2011:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life (in years)</u>	<u>Number Exercisable</u>
\$3.36	217,241	3.31	217,241
\$9.07	25,000	3.94	25,000
\$11.20	175,000	4.17	175,000
	417,241		417,241

The following table summarizes restricted stock activity for the nine months ended September 30, 2011:

	<u>Number of Unvested Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested shares as of December 31, 2010	113,386	\$ 11.72
Granted	136,666	31.15
Vested	(47,819)	11.65
Forfeited	—	—
Unvested shares as of September 30, 2011	202,233	\$ 24.87

[Table of Contents](#)

**9. EARNINGS PER SHARE**

	For the Three Months Ended September 30,					
	2011			2010		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net income	\$29,009,000	50,407,240	\$0.58	\$12,678,000	44,571,478	\$0.28
Effect of dilutive securities:						
Stock options and awards	—	498,722		—	301,628	
Diluted:						
Net income	\$29,009,000	50,905,962	\$0.57	\$12,678,000	44,873,106	\$0.28
	For the Nine Months Ended September 30,					
	2011			2010		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net income	\$77,448,000	47,549,672	\$1.63	\$33,048,000	43,612,468	\$0.76
Effect of dilutive securities:						
Stock options and awards	—	458,696		—	364,797	
Diluted:						
Net income	\$77,448,000	48,008,368	\$1.61	\$33,048,000	43,977,265	\$0.75

There were no potential shares of common stock that were considered anti-dilutive during the three month and nine month periods ended September 30, 2011 and 2010.

**10. OTHER COMPREHENSIVE INCOME**

Other comprehensive income for the three months and nine months ended September 30, 2011 and 2010 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 29,009,000	\$ 12,678,000	\$ 77,448,000	\$ 33,048,000
Other comprehensive income (loss):				
Change in fair value of derivative instruments	10,333,000	(2,251,000)	9,611,000	709,000
Reclassification of settled contracts	1,331,000	4,548,000	3,342,000	13,926,000
Foreign currency translation adjustment	(4,855,000)	1,235,000	(3,285,000)	694,000
Total comprehensive income	\$ 35,818,000	\$ 16,210,000	\$ 87,116,000	\$ 48,377,000

**11. NEW ACCOUNTING STANDARDS**

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, “Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,” which provides amendments to FASB ASC Topic 820, “Fair Value Measurements and Disclosure” (“FASB ASC 820”). The purpose of the amendments in this update is to create common fair value measurement and disclosure requirements between GAAP and IFRS. The amendments change certain fair value measurement principles and enhance the disclosure requirements. The amendments to FASB ASC 820 are effective for interim and annual periods beginning after December 15, 2011.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “Comprehensive Income: Presentation of Comprehensive Income,” which provides amendments to FASB ASC Topic 220, “Comprehensive Income” (“FASB ASC 220”). The purpose of the amendments in this update is to provide a more consistent method of presenting non-owner transactions that affect an entity’s equity. The amendments eliminate the option to report other comprehensive income and its components in the statement of



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## [Table of Contents](#)

changes in stockholders' equity and require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The amendments to FASB ASC 220 are effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively.

## 12. COMMITMENTS AND CONTINGENCIES

### *Plugging and Abandonment Funds*

In connection with the acquisition in 1997 of the remaining 50% interest in the WCBB properties, the Company assumed the seller's (Chevron) obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Chevron retained a security interest in production from these properties until abandonment obligations to Chevron have been fulfilled. Beginning in 2009, the Company could access the trust for use in plugging and abandonment charges associated with the property, although it has not yet done so. As of September 30, 2011, the plugging and abandonment trust totaled approximately \$3,121,000. At September 30, 2011, the Company had plugged 311 wells at WCBB since it began its plugging program in 1997, which management believes fulfills its current minimum plugging obligation.

### *Litigation*

The Louisiana Department of Revenue ("LDR") is disputing Gulfport's severance tax payments to the State of Louisiana from the sale of oil under fixed price contracts during the years 2005 to 2007. The LDR maintains that Gulfport paid approximately \$1,800,000 less in severance taxes under fixed price terms than the severance taxes Gulfport would have had to pay had it paid severance taxes on the oil at the contracted market rates only. Gulfport has denied any liability to the LDR for underpayment of severance taxes and has maintained that it was entitled to enter into the fixed price contracts with unrelated third parties and pay severance taxes based upon the proceeds received under those contracts. Gulfport has maintained its right to contest any final assessment or suit for collection if brought by the State. On April 20, 2009, the LDR filed a lawsuit in the 15<sup>th</sup> Judicial District Court, Lafayette Parish, in Louisiana against Gulfport seeking \$2,275,729 in severance taxes, plus interest and court costs. Gulfport filed a response denying any liability to the LDR for underpayment of severance taxes and is defending itself in the lawsuit. The LDR had taken no further action on this lawsuit since filing its petition two years ago until recently when it propounded discovery requests to which Gulfport has responded.

In December 2010, the LDR filed two identical lawsuits against Gulfport in different venues to recover allegedly underpaid severance taxes on crude oil for the period January 1, 2007 through December 31, 2010, together with a claim for attorney's fees. The petitions do not make any specific claim for damages or unpaid taxes. As with the first lawsuit filed by the LDR in 2009, Gulfport denies all liability and will vigorously defend the lawsuit. The cases are in the early stages, and Gulfport has not yet filed a response to the recent lawsuits. Recently, the LDR filed motions to stay the lawsuits before Gulfport filed any responsive pleadings. The LDR has advised Gulfport that it intends to pursue settlement discussions with Gulfport and other similarly situated defendants in separate proceedings.

In November 2006, Cudd Pressure Control, Inc. ("Cudd") filed a lawsuit against Gulfport, Great White Pressure Control LLC ("Great White") and six former Cudd employees in the 129th Judicial District Harris County, Texas. The lawsuit was subsequently removed to the United States District Court for the Southern District of Texas (Houston Division). The lawsuit alleged RICO violations and several other causes of action relating to Great White's employment of the former Cudd employees and sought unspecified monetary damages and injunctive relief. On stipulation by the parties, the plaintiff's RICO claim was dismissed without prejudice by order of the court on February 14, 2007. Gulfport filed a motion for summary judgment on October 5, 2007. The court entered a final interlocutory judgment in favor of all defendants, including Gulfport, on April 8, 2008. On November 3, 2008, Cudd filed its appeal with the U.S. Court of Appeals for the Fifth Circuit. The Fifth Circuit vacated the district court decision finding, among other things, that the district court should not have entered summary judgment without first allowing more discovery. The case was remanded to the district court, and Cudd filed a motion to remand the case to the original state court, which motion was granted. On February 3, 2010, Cudd filed its second amended petition with the state court (a) alleging that Gulfport conspired with the other defendants to misappropriate, and misappropriated Cudd's trade secrets and caused its employees to breach their fiduciary duties, and (b) seeking unspecified monetary damages. On April 13, 2010, Gulfport's motion to be dismissed from the proceeding for lack of personal jurisdiction was denied. This state court proceeding is in its initial stages. In 2011, the parties have continued with written discovery and production of documents. On February 15, 2011, Cudd filed a third amended petition seeking \$26.5 million (based on a report prepared by its expert) plus disgorgement of \$6 million in payments by Great White to the individual defendants and punitive damages. Gulfport denies these claims with respect to itself. Recently, the parties began the process of scheduling and taking additional depositions and it is anticipated that the case will remain in the discovery phase for at least the next several months.

On July 30, 2010, six individuals and one limited liability company sued 15 oil and gas companies in Cameron Parish Louisiana for contamination across the surface of where the defendants operated in an action entitled *Reeds et al. v. BP American Production Company et al.*, 38th Judicial District. No. 10-18714. The plaintiffs' original petition for damages, which did not name Gulfport as a defendant, alleges that the plaintiffs' property located in Cameron Parish, Louisiana within the Hackberry oil field is contaminated as

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## Table of Contents

a result of historic oil and gas exploration and production activities. Plaintiffs allege that the defendants conducted, directed and participated in various oil and gas exploration and production activities on their property which allegedly have contaminated or otherwise caused damage to the property, and have sued the defendants for alleged breaches of oil, gas and mineral leases, as well as for alleged negligence, trespass, failure to warn, strict liability, punitive damages, lease liability, contract liability, unjust enrichment, restoration damages, assessment and response costs and stigma damages. On December 7, 2010, Gulfport was served with a copy of the plaintiffs' first supplemental and amending petition which added four additional plaintiffs and six additional defendants, including Gulfport, bringing the total number of defendants to 21. It also increased the total acreage at issue in this litigation from 240 acres to approximately 1,700 acres. In addition to the damages sought in the original petition, the plaintiffs now also seek: damages sufficient to cover the cost of conducting a comprehensive environmental assessment of all present and yet unidentified pollution and contamination of their property; the cost to restore the property to its pre-polluted original condition; damages for mental anguish and annoyance, discomfort and inconvenience caused by the nuisance created by defendants; land loss and subsidence damages and the cost of backfilling canals and other excavations; damages for loss of use of land and lost profits and income; attorney fees and expenses and damages for evaluation and remediation of any contamination that threatens groundwater. In addition to Gulfport, current defendants include ExxonMobil Oil Corporation, Mobil Exploration & Producing North America Inc., Chevron U.S.A. Inc., The Superior Oil Company, Union Oil Company of California, BP America Production Company, Tempest Oil Company, Inc., ConocoPhillips Company, Continental Oil Company, WM. T. Burton Industries, Inc., Freeport Sulphur Company, Eagle Petroleum Company, U.S. Oil of Louisiana, M&S Oil Company, and Empire Land Corporation, Inc. of Delaware. On January 21, 2011, Gulfport filed a pleading challenging the legal sufficiency of the petitions on several grounds and requesting that they either be dismissed or that plaintiffs be required to amend such petitions. In response to the pleadings filed by Gulfport and similar pleadings filed by other defendants, the plaintiffs filed a third amending petition with exhibits which expands the description of the property at issue, attaches numerous aerial photos and identifies the mineral leases at issue. In response, Gulfport and numerous defendants re-urged their pleadings challenging the legal sufficiency of the petitions. Some of the defendants' grounds for challenging the plaintiffs' petitions were heard by the court on May 25, 2011 and were denied. As of October 28, 2011, the court had not entered a judgment regarding its ruling. Once it does, the defendants will have 30 days to file a supervisory writ with the appellate court seeking to overturn the lower court's ruling. Many of the defendants' other grounds for challenging the plaintiffs' petitions have yet to be heard by the court. It is anticipated that the discovery phase of this case will become more active in the upcoming months.

Due to the current stages of the above litigation, the outcomes are uncertain and management cannot determine the amount of loss, if any, that may result. Litigation is inherently uncertain. Adverse decisions in one or more of the above matters could have a material adverse effect on the Company's financial condition or results of operations.

The Company has been named as a defendant in various other litigation matters. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the consolidated financial statements.

### **13. HEDGING ACTIVITIES**

The Company seeks to reduce its exposure to unfavorable changes in oil prices, which are subject to significant and often volatile fluctuation, by entering into fixed price swaps. These contracts allow the Company to predict with greater certainty the effective oil prices to be received for hedged production and benefit operating cash flows and earnings when market prices are less than the fixed prices provided in the contracts. However, the Company will not benefit from market prices that are higher than the fixed prices in the contracts for hedged production.

The Company accounts for its oil derivative instruments as cash flow hedges for accounting purposes under FASB ASC 815 and related pronouncements. All derivative contracts are marked to market each quarter end and are included in the accompanying consolidated balance sheets as derivative assets and liabilities.

During the fourth quarter of 2010, the Company entered into fixed price swap contracts for 2011 with the purchaser of the Company's WCBB oil and with a financial institution. The Company's 2011 fixed price swap contracts are tied to the commodity prices on the New York Mercantile Exchange ("NYMEX"). The Company will receive the fixed price amount stated in the contract and pay to its counterparty the current market price for oil as listed on the NYMEX West Texas Index ("WTI"). During the third quarter of 2011, the Company entered into fixed price swap contracts for 2012 with the purchaser of the Company's WCBB oil. The Company's 2012 fixed price swap contracts are tied to the commodity prices on the International Petroleum Exchange ("IPE"). The Company will receive the fixed price amount stated in the contract and pay to its counterparty the current market price for oil as listed on the IPE Brent Crude. However, due to the geographic location of the Company's assets and the cost of transporting oil to another market, the amount that the Company receives when it actually sells its oil differs from the index price. At September 30, 2011, the Company had the following fixed price swaps in place:



## [Table of Contents](#)

	Daily Volume (Bbls/day)	Weighted Average Price
October - December 2011	2,000	\$ 86.96
January - December 2012	2,000	\$ 108.00

At September 30, 2011, the fair value of derivative assets related to the fixed price swaps is as follows:

	September 30, 2011
Short-term derivative instruments - asset	\$ 6,752,000
Long-term derivative instruments - asset	\$ 1,987,000

All fixed price swaps have been executed in connection with the Company's oil price hedging program. For fixed price swaps qualifying as cash flow hedges pursuant to FASB ASC 815, the realized contract price is included in oil sales in the period for which the underlying production was hedged.

For derivatives designated as cash flow hedges and meeting the effectiveness guidelines of FASB ASC 815, changes in fair value are recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. Amounts reclassified out of accumulated other comprehensive income into earnings as a component of oil and condensate sales for the nine months ended September 30, 2011 and 2010 are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(Reduction) addition to oil and condensate sales	\$ (1,331,000)	\$ (4,548,000)	\$ (3,342,000)	\$ (13,926,000)

The Company expects to reclassify \$1,437,000 out of accumulated other comprehensive income into earnings as a component of oil and condensate sales during the remainder of the year ended December 31, 2011 related to fixed price swaps.

Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. The Company recognized a gain of \$506,000 related to hedge ineffectiveness for the three months and nine months ended September 30, 2011, which is included in oil and condensate sales in the consolidated statements of operations. No amounts were recognized into earnings for the three months and nine months ended September 30, 2010.

## 14. FAIR VALUE MEASUREMENTS

The Company follows FASB ASC 820 for all financial and non-financial assets and liabilities. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

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

Level 3 – Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes the Company's financial assets and liabilities by FASB ASC 820 valuation level as of September 30, 2011:

	Level 1	Level 2	Level 3
<b>Assets:</b>			
Fixed price swaps	\$ —	\$8,739,000	\$ —
<b>Liabilities:</b>			
Fixed price swaps	\$ —	\$ —	\$ —

The estimated fair value of the Company's fixed price swaps was based upon forward commodity prices based on quoted market prices, adjusted for differentials.

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## [Table of Contents](#)

The Company estimates asset retirement obligations pursuant to the provisions of FASB ASC Topic 410, “*Asset Retirement and Environmental Obligations*” (“FASB ASC 410”). The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs. See Note 3 for further discussion of the Company’s asset retirement obligations. Asset retirement obligations incurred during the nine months ended September 30, 2011 were approximately \$939,000.

The carrying amounts on the accompanying consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and current and long-term debt are carried at cost, which approximates market value.

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## [Table of Contents](#)

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K and with the unaudited consolidated financial statements and related notes thereto presented in this Quarterly Report on Form 10-Q.

#### **Disclosure Regarding Forward-Looking Statements**

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts included in this report that address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strength, goals, expansion and growth of our business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by us; competitive actions by other oil and natural gas companies; changes in laws or regulations; hurricanes and other natural disasters and other factors, including those listed in the "Risk Factors" section of our most recent Annual Report on Form 10-K, many of which are beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and we cannot assure you that the actual results or developments anticipated by us will be realized or, even if realized, that they will have the expected consequences to or effects on us, our business or operations. We have no intention, and disclaim any obligation, to update or revise any forward-looking statements, whether as a result of new information, future results or otherwise.

#### **Overview**

We are an independent oil and natural gas exploration and production company with our principal producing properties located along the Louisiana Gulf Coast in the West Cote Blanche Bay, or WCBB, and Hackberry fields, and in West Texas in the Permian Basin. During 2010, we acquired an acreage position in the Niobrara Formation of Western Colorado, and in May 2011, we acquired our initial acreage position in the Utica Shale in Eastern Ohio and have commitments to acquire additional acreage there. We also hold a significant acreage position in the Alberta oil sands in Canada through our interest in Grizzly Oil Sands ULC, and have interests in entities that operate in Southeast Asia, including the Phu Horm gas field in Thailand. We seek to achieve reserve growth and increase our cash flow through our annual drilling programs.

#### **Third Quarter 2011 Operational Highlights**

- Oil and natural gas revenues increased 74% to \$58.0 million for the three months ended September 30, 2011 from \$33.3 million for the three months ended September 30, 2010.
- Net income increased 129% to \$29.0 million for the three months ended September 30, 2011 from \$12.7 million for the three months ended September 30, 2010.
- Production increased 12% to approximately 590,000 barrels of oil equivalent, or BOE, for the three months ended September 30, 2011 from approximately 527,000 BOE for the three months ended September 30, 2010.
- During the three months ended September 30, 2011, we drilled 27 gross wells and recompleted 23 gross wells.
- As of September 30, 2011, we had acquired leasehold interests in approximately 75,000 gross (37,500 net) acres in the Utica Shale in Eastern Ohio. As of October 31, 2011, we had closed on additional acquisitions bringing our leasehold interests to approximately 85,000 gross (42,500 net) acres. We intend to continue to pursue opportunities in this area and have commitments which could increase our acreage position in the Utica Shale to an aggregate of approximately 125,000 gross (62,500 net) leasehold acres. We currently plan to begin drilling our Utica Shale acreage in January 2012. In addition, we are also evaluating other potential alternatives with regard to our Utica Shale position, including a joint venture and/or sale.

#### **2011 Production and Drilling Activity**

During the three months ended September 30, 2011, our total net production was 545,000 barrels of oil, 196,000 thousand cubic feet of gas, or Mcf, and 505,000 gallons of liquids, for a total of 590,000 BOE as compared to 468,000 barrels of oil, 243,000 Mcf of gas, and 768,000 gallons of liquids, or 527,000 BOE, for the three months ended September 30, 2010. Our total net production averaged approximately 6,414 BOE per day during the three months ended September 30, 2011 as compared to 5,728 BOE per day during the same period in 2010. The 12% increase in production is primarily related to the 2011 drilling and recompletion activities in our fields.

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## Table of Contents

*WCBB.* From January 1, 2011 through October 31, 2011, we recompleted 54 existing wells. We also drilled 17 wells, of which 15 were completed as producers, one was non-productive and one was being drilled. During 2011, we currently intend to recomplete approximately 60 existing wells and drill 20 wells.

Aggregate net production from the WCBB field during the three months ended September 30, 2011 was 358,680 BOE, or 3,899 BOE per day, 97% of which was from oil and 3% of which was from natural gas. During October 2011, our average daily net production at WCBB was approximately 3,951 BOE, 99% of which was from oil and 1% of which was from natural gas. The increase in October 2011 production was the result of our 2011 drilling and recompletion program.

*East Hackberry Field.* From January 1, 2011 through October 31, 2011, we recompleted 20 existing wells. We also drilled 18 wells, of which 13 were completed as producers, two were non-productive, one was waiting on completion and two were being drilled. During 2009, we entered into a two year exploration agreement with an active gulf coast operator covering approximately 2,868 net acres adjacent to our field. We are the designated operator under the agreement and will participate in proposed wells with at least a 70% working interest. One of the two wells currently being drilled in East Hackberry is in this joint development area. We have licensed approximately 54 square miles of 3-D seismic data covering a portion of the area and are reprocessing the data.

Aggregate net production from the East Hackberry field during the three months ended September 30, 2011 was approximately 143,964 BOE, or 1,565 BOE per day, 91% of which was from oil and 9% of which was from natural gas. During October 2011, our average daily net production at East Hackberry was approximately 1,844 BOE, 96% of which was from oil and 4% of which was from natural gas. The increase in October 2011 production was the result of our 2011 drilling and recompletion program.

*West Hackberry Field.* Aggregate net production from the West Hackberry field during the three months ended September 30, 2011 was approximately 3,317 BOE, or 36 BOE per day. During October 2011, our average daily net production at West Hackberry was approximately 42 BOE, 100% of which was from oil.

*Permian Basin.* On December 20, 2007, we completed the acquisition of approximately 4,100 net acres and 32 producing wells in West Texas in the Permian Basin, with an effective date of November 1, 2007. Subsequently, we have acquired approximately 11,200 additional net acres, bringing our total acreage position to approximately 15,300 net acres.

From January 1, 2011 to October 31, 2011, 35 gross (15.2 net) wells were drilled on this acreage, of which 27 were completed as producers, four were waiting on completion and four wells were being drilled. We currently anticipate that five additional gross (2.5 net) wells will be drilled on this acreage during 2011.

Aggregate net production from the Permian field during the three months ended September 30, 2011 was approximately 72,719 BOE, or 790 BOE per day. During October 2011, average daily net production at Permian was approximately 966 BOE, of which approximately 70% was oil, 18% was natural gas liquids and 12% was natural gas. The increase in October 2011 production was the result of our 2011 drilling program.

*Niobrara Formation.* Effective as of April 1, 2010, we acquired leasehold interests in the Niobrara formation in Colorado and held leases for approximately 17,600 acres as of September 30, 2011. We recently completed a 60 square mile 3-D seismic survey and expect to complete data processing by year-end. From January 1, 2011 to October 31, 2011, we drilled three wells, two of which are waiting on completion and one of which is being drilled.

Aggregate net production from the Niobrara play during the three months ended September 30, 2011 was approximately 3,619 BOE, or 39 BOE per day. During October 2011, average daily net production in Niobrara was approximately 38 BOE.

*Bakken.* During 2009, we sold approximately 18,000 net acres and approximately 190 net BOEPD of production for approximately \$18.8 million. As of September 30, 2011, we held approximately 900 net acres, interests in six wells and an overriding royalty interest in wells drilled prior to our sale, wells drilled subsequent to our sale and wells that might be drilled in the future.

Aggregate net production from the Bakken formation during the three months ended September 30, 2011 was approximately 7,325 BOE, or 80 BOE per day. During October 2011, average daily net production in Bakken was approximately 65 BOE.

*Grizzly.* During the third quarter of 2006, we, through our wholly owned subsidiary Grizzly Holdings Inc., purchased a 24.9999% interest in Grizzly Oil Sands ULC, or Grizzly. The remaining interests in Grizzly are owned by entities controlled by Wexford Capital LP, or Wexford. During 2006 and 2007, Grizzly acquired leases in the Athabasca region located in the Alberta Province near Fort McMurray and other oil sands development projects. Grizzly had approximately 712,000 acres under lease and our net investment in Grizzly was \$41.2 million at September 30, 2011. In addition, we had loaned Grizzly \$22,220,000 including interest and net of foreign currency adjustments, as of September 30, 2011. As of September 30, 2011, Grizzly had drilled an aggregate of 203

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## Table of Contents

core holes and three water supply test wells, tested nine separate lease blocks and conducted a seismic program. In March 2010, Grizzly filed an application for the development of an 11,300 barrel per day oil sand project at Algar Lake. In October 2011, the Alberta Energy Resources Conservation Board (ERCB) and Ministry of Environment completed their review of Grizzly's Algar Lake Project and have prepared their approval documents. A request has been made to the Government of Alberta to provide an Order-in Council authorizing the ERCB to issue the formal approval to Grizzly. Construction on the first phase of the facility is expected to begin in the fourth quarter of 2011. The engineering and procurement contract for Grizzly's proposed steam assisted gravity drainage facility at Algar Lake has been awarded to SNC-Lavin.

*Thailand.* We own a 23.5% ownership interest in Tatex Thailand II, LLC, or Tatex. The remaining interests in Tatex are owned by entities controlled by Wexford. Tatex, a privately held entity, holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC, or APICO, an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering two million acres which include the Phu Horm Field. As of September 30, 2011, our net investment in Tatex was \$1.2 million. Our investment is accounted for on the equity method. Tatex accounts for its investment in APICO using the cost method. In December 2006, first gas sales were achieved at the Phu Horm field located in northeast Thailand. Phu Horm's initial gross production was approximately 60 million cubic feet, or MMcf, per day. Gross production during the third quarter of 2011 was approximately 86 MMcf and 392 Bbls of oil per day. Hess Corporation operates the field with a 35% interest. Other interest owners include APICO (35% interest), PTTEP (20% interest) and ExxonMobil (10% interest). Our gross working interest (through Tatex as a member of APICO) in the Phu Horm field is 0.7%. Since our ownership in the Phu Horm field is indirect and Tatex's investment in APICO is accounted for by the cost method, these reserves are not included in our year-end reserve information.

We also own a 17.9% ownership interest in Tatex Thailand III, LLC, or Tatex III. Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. Affiliates of Wexford own approximately 17% of our outstanding common stock. Tatex III owns a concession covering one million acres. In 2009, Tatex III completed a 3-D seismic survey on this concession. The first well was drilled on our concession in 2010 and was temporarily abandoned pending further scientific evaluation. Drilling of the second well concluded in March 2011. The second well was drilled to a depth of 15,026 feet and logged approximately 5,000 feet of apparent possible gas saturated column. The well experienced gas shows and carried a flare measuring up to 25 feet throughout drilling below the intermediate casing point of 9,695 feet. Tatex III attempted to test the well but encountered a debris blockage in the open-hole portion of the wellbore that prevented the completion of the testing. Tatex III conducted a coil tubing operation to remove compacted debris blockage but was not successful. A drilling rig is on site and Tatex III has commenced operations to remove the debris and test the well. During the nine months ended September 30, 2011, we paid \$3.0 million in cash calls bringing our total investment in Tatex III to \$7.4 million.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We have identified certain of these policies as being of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by our management. We analyze our estimates including those related to oil and natural gas properties, revenue recognition, income taxes and commitments and contingencies, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Oil and Natural Gas Properties.* We use the full cost method of accounting for oil and natural gas operations. Accordingly, all costs, including non-productive costs and certain general and administrative costs directly associated with acquisition, exploration and development of oil and natural gas properties, are capitalized. Companies that use the full cost method of accounting for oil and gas properties are required to perform a ceiling test each quarter. The test determines a limit, or ceiling, on the book value of the oil and gas properties. Net capitalized costs are limited to the lower of unamortized cost net of deferred income taxes or the cost center ceiling. The cost center ceiling is defined as the sum of (a) estimated future net revenues, discounted at 10% per annum, from proved reserves, based on the 12-month unweighted average of the first-day-of-the-month price for the period 2010 and 2009, and prior to 2009, unescalated year-end prices and costs, adjusted for any contract provisions or financial derivatives, if any, that hedge our oil and natural gas revenue, and excluding the estimated abandonment costs for properties with asset retirement obligations recorded on the balance sheet, (b) the cost of properties not being amortized, if any, and (c) the lower of cost or market value of unproved properties included in the cost being amortized, including related deferred taxes for differences between the book and tax basis of the oil and natural gas properties. If the net book value, including related deferred taxes, exceeds the ceiling, an impairment or noncash writedown is required. Such capitalized costs, including the estimated future development costs and site remediation costs, if any, are depleted by an equivalent units-of-production method, converting gas to barrels at the ratio of six Mcf of gas to one barrel of oil. No gain or loss is recognized upon the disposal of oil and natural gas properties, unless such dispositions significantly alter the relationship between capitalized costs and proven oil and natural gas reserves. Oil and natural gas properties not subject to

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## Table of Contents

amortization consist of the cost of undeveloped leaseholds and totaled \$108.7 million at September 30, 2011 and \$16.8 million at December 31, 2010. These costs are reviewed quarterly by management for impairment, with the impairment provision included in the cost of oil and natural gas properties subject to amortization. Factors considered by management in its impairment assessment include our drilling results and those of other operators, the terms of oil and natural gas leases not held by production and available funds for exploration and development.

*Ceiling Test.* Companies that use the full cost method of accounting for oil and gas properties are required to perform a ceiling test each quarter. The test determines a limit, or ceiling, on the book value of the oil and gas properties. Net capitalized costs are limited to the lower of unamortized cost net of deferred income taxes or the cost center ceiling. The cost center ceiling is defined as the sum of (a) estimated future net revenues, discounted at 10% per annum, from proved reserves, based on the 12-month unweighted average of the first-day-of-the-month price for the period January – December of the applicable year beginning with 2009, and prior to 2009, unescalated year-end prices and costs, adjusted for any contract provisions or financial derivatives, if any, that hedge our oil and natural gas revenue, and excluding the estimated abandonment costs for properties with asset retirement obligations recorded on the balance sheet, (b) the cost of properties not being amortized, if any, and (c) the lower of cost or market value of unproved properties included in the cost being amortized, including related deferred taxes for differences between the book and tax basis of the oil and natural gas properties. If the net book value, including related deferred taxes, exceeds the ceiling, an impairment or noncash writedown is required. Ceiling test impairment can give us a significant loss for a particular period; however, future depletion expense would be reduced. A decline in oil and gas prices may result in an impairment of oil and gas properties. For instance, as a result of the drop in commodity prices on December 31, 2008 and subsequent reduction in our proved reserves, we recognized a ceiling test impairment of \$272.7 million for the year ended December 31, 2008. If prices of oil, natural gas and natural gas liquids decline, we may be required to further write down the value of our oil and gas properties, which could negatively affect our results of operations. No ceiling test impairment was required for the quarter ended September 30, 2011.

*Asset Retirement Obligations.* We have obligations to remove equipment and restore land at the end of oil and gas production operations. Our removal and restoration obligations are primarily associated with plugging and abandoning wells and associated production facilities.

We account for abandonment and restoration liabilities under FASB ASC 410 which requires us to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed into service. When the liability is initially recorded, we increase the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related long-lived asset. Upon settlement of the liability or the sale of the well, the liability is reversed. These liability amounts may change because of changes in asset lives, estimated costs of abandonment or legal or statutory remediation requirements.

The fair value of the liability associated with these retirement obligations is determined using significant assumptions, including current estimates of the plugging and abandonment or retirement, annual inflations of these costs, the productive life of the asset and our risk adjusted cost to settle such obligations discounted using our credit adjustment risk free interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. Revisions to the asset retirement obligation are recorded with an offsetting change to the carrying amount of the related long-lived asset, resulting in prospective changes to depreciation, depletion and amortization expense and accretion of discount. Because of the subjectivity of assumptions and the relatively long life of most of our oil and natural gas assets, the costs to ultimately retire these assets may vary significantly from previous estimates.

*Oil and Gas Reserve Quantities.* Our estimate of proved reserves is based on the quantities of oil and natural gas that engineering and geological analysis demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters. Netherland, Sewell & Associates, Inc., Pinnacle Energy Services, LLC and to a lesser extent our personnel have prepared reserve reports of our reserve estimates at December 31, 2010 on a well-by-well basis for our properties.

Reserves and their relation to estimated future net cash flows impact our depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserve estimates. Our reserve estimates and the projected cash flows derived from these reserve estimates have been prepared in accordance with SEC guidelines. The accuracy of our reserve estimates is a function of many factors including the following:

- the quality and quantity of available data;
- the interpretation of that data;
- the accuracy of various mandated economic assumptions; and
- the judgments of the individuals preparing the estimates.



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## Table of Contents

Our proved reserve estimates are a function of many assumptions, all of which could deviate significantly from actual results. As such, reserve estimates may materially vary from the ultimate quantities of oil and natural gas eventually recovered.

*Income Taxes.* We use the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (a) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (b) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income during the period the rate change is enacted. Deferred tax assets are recognized in the year in which realization becomes determinable. Periodically, management performs a forecast of its taxable income to determine whether it is more likely than not that a valuation allowance is needed, looking at both positive and negative factors. A valuation allowance for our deferred tax assets is established, if in management's opinion, it is more likely than not that some portion will not be realized. At September 30, 2011, a valuation allowance of \$54.4 million had been provided for deferred tax assets based on the uncertainty of future taxable income.

*Revenue Recognition.* We derive almost all of our revenue from the sale of crude oil and natural gas produced from our oil and gas properties. Revenue is recorded in the month the product is delivered to the purchaser. We receive payment on substantially all of these sales from one to three months after delivery. At the end of each month, we estimate the amount of production delivered to purchasers that month and the price we will receive. Variances between our estimated revenue and actual payment received for all prior months are recorded at the end of the quarter after payment is received. Historically, our actual payments have not significantly deviated from our accruals.

*Commitments and Contingencies.* Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. We are involved in certain litigation for which the outcome is uncertain. Changes in the certainty and the ability to reasonably estimate a loss amount, if any, may result in the recognition and subsequent payment of legal liabilities.

*Derivative Instruments and Hedging Activities.* We seek to reduce our exposure to unfavorable changes in oil prices by utilizing energy swaps and collars, or fixed-price contracts. We follow the provisions of FASB ASC 815, "Derivatives and Hedging." It requires that all derivative instruments be recognized as assets or liabilities in the balance sheet, measured at fair value. We estimate the fair value of all derivative instruments using established index prices and other sources. These values are based upon, among other things, futures prices, correlation between index prices and our realized prices, time to maturity and credit risk. The values reported in the financial statements change as these estimates are revised to reflect actual results, changes in market conditions or other factors.

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Designation is established at the inception of a derivative, but re-designation is permitted. For derivatives designated as cash flow hedges and meeting the effectiveness guidelines of FASB ASC 815, changes in fair value are recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. We recognize any change in fair value resulting from ineffectiveness immediately in earnings. We currently have fixed price swaps in place for the remainder of 2011 and 2012 that are accounted for as cash flow hedges and recorded at fair value pursuant to FASB ASC 815 and related pronouncements.

## **RESULTS OF OPERATIONS**

### **Comparison of the Three Months Ended September 30, 2011 and 2010**

We reported net income of \$29,009,000 for the three months ended September 30, 2011 as compared to \$12,678,000 for the three months ended September 30, 2010. This 129% increase in period-to-period net income was due primarily to a 12% increase in net production to 590,000 BOE, a 56% increase in realized BOE prices to \$98.32 and a 73% reduction in interest expense, partially offset by a 41% increase in lease operating expenses, a 32% increase in general and administrative expenses and a 72% increase in production taxes.

*Oil and Gas Revenues.* For the three months ended September 30, 2011, we reported oil and natural gas revenues of \$58,023,000 as compared to oil and natural gas revenues of \$33,273,000 during the same period in 2010. This \$24,750,000, or 74%, increase in revenues was primarily attributable to a 12% increase in net production to 590,000 BOE from 527,000 BOE and a 56% increase in realized BOE prices to \$98.32 from \$63.14, in each case for the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010.

## Table of Contents

The following table summarizes our oil and natural gas production and related pricing for the three months ended September 30, 2011 as compared to such data for the three months ended September 30, 2010:

	Three Months Ended September 30,	
	2011	2010
Oil production volumes (MBbls)	545	468
Gas production volumes (MMcf)	196	243
Liquid production volumes (MGal)	505	768
Oil equivalents (Mboe)	590	527
Average oil price (per Bbl)	\$103.50	\$67.39
Average gas price (per Mcf)	\$ 4.70	\$ 4.37
Average liquids price (per gallon)	\$ 1.29	\$ 0.85
Oil equivalents (per Boe)	\$ 98.32	\$63.14

*Lease Operating Expenses.* Lease operating expenses, or LOE, not including production taxes increased to \$5,744,000 for the three months ended September 30, 2011 from \$4,063,000 for the same period in 2010. This increase was mainly the result of an increase in expenses related to chemicals and fuel, equipment repairs, rentals and well workovers.

*Production Taxes.* Production taxes increased to \$6,281,000 for the three months ended September 30, 2011 from \$3,657,000 for the same period in 2010. This increase was primarily related to a 12% increase in production and a 56% increase in the average realized BOE price received, resulting in a 74% increase in oil and gas revenues.

*Depreciation, Depletion and Amortization.* Depreciation, depletion and amortization, or DD&A, expense increased to \$14,736,000 for the three months ended September 30, 2011, and consisted of \$14,646,000 in depletion of oil and natural gas properties and \$90,000 in depreciation of other property and equipment, as compared to total DD&A expense of \$10,299,000 for the three months ended September 30, 2010. This increase was due to an increase in our full cost pool as a result of our capital activities and an increase in our production used to calculate our total DD&A expense.

*General and Administrative Expenses.* Net general and administrative expenses increased to \$2,034,000 for the three months ended September 30, 2011 from \$1,538,000 for the same period in 2010. This \$496,000 increase was due to an increase in salaries, stock compensation expenses and benefits resulting from an increased number of employees, increases in legal expenses and bank fees, partially offset by an increase in administrative services reimbursements and an increase in general and administrative overhead related to exploration and development activity capitalized to the full cost pool.

*Accretion Expense.* Accretion expense increased slightly to \$168,000 for the three months ended September 30, 2011 from \$156,000 for the same period in 2010.

*Interest Expense.* Interest expense decreased to \$225,000 for the three months ended September 30, 2011 from \$823,000 for the same period in 2010 due to a decrease in the interest rate paid and the repayment of all of our outstanding debt under our revolving credit facility during the third quarter of 2011 so that no balance was outstanding as of September 30, 2011, as compared to \$45.7 million outstanding as of the same date in 2010. Total weighted debt outstanding under our facility was \$6.5 million for the three months ended September 30, 2011 and \$44.9 million for the same period in 2010. As of July 20, 2011 (the latest date on which we had borrowings outstanding during the third quarter), amounts borrowed under our revolving credit facility bore interest at the Eurodollar rate of 2.44%.

*Income Taxes.* As of September 30, 2011, we had a net operating loss carry forward of approximately \$52.4 million, in addition to numerous temporary differences, which gave rise to a deferred tax asset. Periodically, management performs a forecast of our taxable income to determine whether it is more likely than not that a valuation allowance is needed, looking at both positive and negative factors. A valuation allowance for our deferred tax assets is established if, in management's opinion, it is more likely than not that some portion will not be realized. At September 30, 2011, a valuation allowance of \$54.4 million had been provided for deferred tax assets, with the exception of \$573,000 related to alternative minimum taxes.

### **Comparison of the Nine Months Ended September 30, 2011 and 2010**

We reported net income of \$77,448,000 for the nine months ended September 30, 2011 as compared to \$33,048,000 for the nine months ended September 30, 2010. This 134% increase in period-to-period net income was due primarily to a 16% increase in net production to 1,671,000 BOE and a 54% increase in realized BOE prices to \$95.76 for the nine months ended September 30, 2011, partially offset by a 24% increase in lease operating expenses, a 40% increase in general and administrative expenses and a 78% increase in production taxes.

*Oil and Gas Revenues.* For the nine months ended September 30, 2011, we reported oil and natural gas revenues of \$160,060,000 as compared to oil and natural gas revenues of \$89,661,000 during the same period in 2010. This \$70,399,000, or 79%, increase in revenues was primarily attributable to a 16% increase in net production to 1,671,000 BOE from 1,439,000 BOE and a 54% increase in realized BOE prices to \$95.76 from \$62.31, in each case for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.



## Table of Contents

The following table summarizes our oil and natural gas production and related pricing for the nine months ended September 30, 2011 as compared to such data for the nine months ended September 30, 2010:

	Nine Months Ended September 30,	
	2011	2010
Oil production volumes (MBbls)	1,510	1,286
Gas production volumes (MMcf)	692	624
Liquid production volumes (MGal)	1,933	2,053
Oil equivalents (Mboe)	1,671	1,439
Average oil price (per Bbl)	\$102.35	\$65.98
Average gas price (per Mcf)	\$ 4.56	\$ 4.51
Average liquids price (per gallon)	\$ 1.21	\$ 0.97
Oil equivalents (per Boe)	\$ 95.76	\$62.31

*Lease Operating Expenses.* Lease operating expenses, or LOE, not including production taxes increased to \$15,103,000 for the nine months ended September 30, 2011 from \$12,212,000 for the same period in 2010. This increase was mainly the result of an increase in expenses related to chemicals and fuel, equipment repairs and maintenance, field supervision, overhead, property taxes, rentals, salt water disposal and well workovers.

*Production Taxes.* Production taxes increased to \$18,520,000 for the nine months ended September 30, 2011 from \$10,390,000 for the same period in 2010. This increase was primarily related to a 16% increase in production and a 54% increase in the average realized BOE price received resulting in a 79% increase in oil and gas revenues.

*Depreciation, Depletion and Amortization.* Depreciation, depletion and amortization, or DD&A, expense increased to \$40,606,000 for the nine months ended September 30, 2011, and consisted of \$40,345,000 in depletion of oil and natural gas properties and \$261,000 in depreciation of other property and equipment, as compared to total DD&A expense of \$26,912,000 for the nine months ended September 30, 2010. This increase was due to an increase in our full cost pool as a result of our capital activities and an increase in our production used to calculate our total DD&A expense.

*General and Administrative Expenses.* Net general and administrative expenses increased to \$6,209,000 for the nine months ended September 30, 2011 from \$4,438,000 for the same period in 2010. This \$1,771,000 increase was due to an increase in salaries, stock compensation expenses and benefits resulting from an increased number of employees, increases in legal expenses, franchise taxes and bank fees, partially offset by an increase in administrative services reimbursements and an increase in general and administrative overhead related to exploration and development activity capitalized to the full cost pool.

*Accretion Expense.* Accretion expense increased slightly to \$491,000 for the nine months ended September 30, 2011 from \$461,000 for the same period in 2010.

*Interest Expense.* Interest expense decreased to \$1,163,000 for the nine months ended September 30, 2011 from \$2,154,000 for the same period in 2010 due to a decrease in the interest rate paid and the repayment of all of our outstanding debt under our revolving credit facility during the third quarter of 2011 so that no balance was outstanding as of September 30, 2011, as compared to \$45.7 million outstanding as of the same date in 2010. Total weighted debt outstanding under our facility was \$25.9 million for the nine months ended September 30, 2011 and \$47.0 million for the same period in 2010. As of July 20, 2011 (the latest date on which we had borrowings outstanding during the third quarter), amounts borrowed under our revolving credit facility bore interest at the Eurodollar rate of 2.44%.

*Income Taxes.* As of September 30, 2011, we had a net operating loss carry forward of approximately \$52.4 million, in addition to numerous temporary differences, which gave rise to a deferred tax asset. Periodically, management performs a forecast of our taxable income to determine whether it is more likely than not that a valuation allowance is needed, looking at both positive and negative factors. A valuation allowance for our deferred tax assets is established if, in management's opinion, it is more likely than not that some portion will not be realized. At September 30, 2011, a valuation allowance of \$54.4 million had been provided for deferred tax assets, with the exception of \$573,000 related to alternative minimum taxes. We paid \$1,000 in state taxes for the nine months ended September 30, 2011.

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## [Table of Contents](#)

### **Liquidity and Capital Resources**

*Overview.* Historically, our primary sources of funds have been cash flow from our producing oil and natural gas properties, borrowings under our bank and other credit facilities and the issuance of equity securities. Our ability to access any of these sources of funds can be significantly impacted by decreases in oil and natural gas prices or oil and natural gas production. During 2010, we received net proceeds (before offering expenses) of approximately \$21.6 million from the sale of our common stock. In the first quarter of 2011, we received net proceeds (before offering expenses) of approximately \$84.3 million from the sale of our common stock. In July 2011, we received net proceeds (before offering expenses) of approximately \$94.7 million from the sale of our common stock.

Net cash flow provided by operating activities was \$122,046,000 for the nine months ended September 30, 2011 as compared to net cash flow provided by operating activities of \$58,234,000 for the same period in 2010. This increase was primarily the result of an increase in cash receipts from our oil and natural gas purchasers due to a 54% increase in net realized BOE prices and a 16% increase in our net BOE production.

Net cash used in investing activities for the nine months ended September 30, 2011 was \$230,205,000 as compared to \$75,198,000 for the same period in 2010. During the nine months ended September 30, 2011, we spent \$202,164,000 in additions to oil and natural gas properties, of which \$62,441,000 was spent on our 2011 drilling and recompletion programs, \$32,092,000 was spent on expenses attributable to the wells drilled and recompleted during 2010, \$6,362,000 was spent on compressors and other facility enhancements, \$153,000 was spent on plugging costs, \$89,732,000 was spent on lease related costs, primarily the acquisition of leases in the Utica Shale, and \$2,634,000 was spent on tubulars, with the remainder attributable mainly to capitalized general and administrative expenses. In addition, \$3,182,000 was loaned to and \$17,902,000 was invested in Grizzly during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, we used cash from operations and proceeds from our equity offering for our investing activities.

Net cash provided by financing activities for the nine months ended September 30, 2011 was \$128,402,000 as compared to \$17,313,000 for the same period in 2010. The 2011 amount provided by financing activities was primarily attributable to the net proceeds of \$178,676,000 from our equity offerings and exercise of stock options, partially offset by net principal payments of \$49,500,000 on borrowings under our credit facility. The 2010 amount provided by financing activities was primarily attributable to the net proceeds from our equity offerings of \$21,595,000.

*Credit Facility.* On September 30, 2010, we entered into a \$100.0 million senior secured revolving credit agreement with The Bank of Nova Scotia, as administrative agent and letter of credit issuer and lead arranger, and Amegy Bank National Association, or Amegy Bank, which revolving credit facility initially matured on September 30, 2013 and had a borrowing base availability of \$50.0 million, which was increased to \$65.0 million effective December 24, 2010. On July 21, 2011, we repaid all outstanding borrowings with a portion of the net proceeds of our equity offering completed on July 15, 2011 pending the application of such proceeds to fund our additional Utica Shale lease acquisitions and for general corporate purposes. Our revolving credit agreement is secured by substantially all of our assets. Our wholly-owned subsidiaries guaranteed our obligations under the credit agreement.

On May 3, 2011, we entered into a first amendment to the revolving credit agreement with the Bank of Nova Scotia, Amegy Bank, Key Bank National Association, or Key Bank, and Société Générale. Pursuant to the terms of the first amendment, Key Bank and Société Générale were added as additional lenders, the maximum amount of the revolving credit facility was increased to \$350.0 million, the borrowing base was increased to \$90.0 million, certain fees and rates payable by us under the credit agreement were decreased, and the maturity date was extended until May 3, 2015. On October 31, 2011, we entered into additional amendments to our revolving credit facility pursuant to which, among other things, the borrowing base under this facility was increased to \$125.0 million.

Advances under our revolving credit agreement, as amended, may be in the form of either base rate loans or Eurodollar loans. The interest rate for base rate loans is equal to (1) the applicable rate, which ranges from 1.00% to 2.50%, plus (2) the highest of: (a) the federal funds rate plus 0.5%, (b) the rate of interest in effect for such day as publicly announced from time to time by agent as its "prime rate," and (c) the eurodollar rate for an interest period of one month plus 1.00%. The interest rate for eurodollar loans is equal to (1) the applicable rate, which ranges from 2.00% to 3.50%, plus (2) the London interbank offered rate that appears on Reuters Screen LIBOR01 Page for deposits in U.S. dollars, or, if such rate is not available, the offered rate on such other page or service that displays the average British Bankers Association Interest Settlement Rate for deposits in U.S. dollars, or, if such rate is not available, the average quotations for three major New York money center banks of whom the agent shall inquire as the "London Interbank Offered Rate" for deposits in U.S. dollars. As of July 20, 2011 (the latest date during the third quarter on which we had borrowings outstanding), amounts borrowed under our revolving credit agreement bore interest at the Eurodollar rate (2.44%).

Our revolving credit agreement contains customary negative covenants including, but not limited to, restrictions on our and our subsidiaries' ability to: incur indebtedness; grant liens; pay dividends and make other restricted payments; make investments; make fundamental changes; enter into swap contracts and forward sales contracts; dispose of assets; change the nature of their business; and enter into transactions with their affiliates. The negative covenants are subject to certain exceptions as specified in the credit agreement. The credit agreement also contains certain affirmative covenants, including, but not limited to the following financial

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## Table of Contents

covenants: (1) the ratio of funded debt to EBITDAX (net income, excluding any non-cash revenue or expense associated with swap contracts resulting from ASC 815, plus without duplication and to the extent deducted from revenues in determining net income, the sum of (a) the aggregate amount of consolidated interest expense for such period, (b) the aggregate amount of income, franchise, capital or similar tax expense (other than ad valorem taxes) for such period, (c) all amounts attributable to depletion, depreciation, amortization and asset or goodwill impairment or writedown for such period, (d) all other non-cash charges, (e) non-cash losses from minority investments, (f) actual cash distributions received from minority investments, (g) to the extent actually reimbursed by insurance, expenses with respect to liability on casualty events or business interruption, and (h) all reasonable transaction expenses related to dispositions and acquisitions of assets, investments and debt and equity offering, and less non-cash income attributable to equity income from minority investments) for a twelve-month period may not be greater than 2.00 to 1.00; and (2) the ratio of EBITDAX to interest expense for a twelve-month period may not be less than 3.00 to 1.00. We were in compliance with all covenants at September 30, 2011.

*Building Loans.* In June 2004, we purchased the office building we occupy in Oklahoma City, Oklahoma, for \$3.7 million. One loan associated with this building matured in March 2006 and bore interest at the rate of 6% per annum, while a second loan was scheduled to mature in June 2011. We entered into a new building loan in March 2011 to refinance the \$2.4 million outstanding at that time. The new agreement extends the maturity date of the building loan to February 2016 and reduces the interest rate from 6.5% per annum to 5.82% per annum. The new building loan requires monthly interest and principal payments of approximately \$22,000 and is collateralized by the Oklahoma City office building and associated land. As of September 30, 2011, approximately \$2.3 million was outstanding on this loan.

*Capital Expenditures.* Our recent capital commitments have been primarily for the execution of our drilling programs, to fund Grizzly's delineation drilling program and initial preparation of the Algar Lake facility and for acquisitions, primarily in the Permian Basin, the Niobrara Formation and Utica Shale. Our strategy is to continue to (1) increase cash flow generated from our operations by undertaking new drilling, workover, sidetrack and recompletion projects to exploit our existing properties, subject to economic and industry conditions, and (2) explore acquisition and disposition opportunities. We have upgraded our infrastructure and our existing facilities in Southern Louisiana with the goal of increasing operating efficiencies and volume capacities and lowering lease operating expenses. These upgrades were also intended to better enable our facilities to withstand future hurricanes with less damage. Additionally, we completed the reprocessing of 3-D seismic data in one of our principal properties, WCBB, and shot 3-D seismic for the first time in our Hackberry field. The new and reprocessed data enables our geophysicists to continue to generate new prospects and enhance existing prospects in the intermediate zones in the fields, thus creating a portfolio of new drilling opportunities.

Of our net reserves at December 31, 2010, 63% were categorized as proved undeveloped. Our proved reserves will generally decline as reserves are depleted, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved developed reserves, or both. To realize reserves and increase production, we must continue our exploratory drilling, undertake other replacement activities or use third parties to accomplish those activities.

At December 31, 2010, our booked inventory of prospects included approximately 29 drilling locations at WCBB. The drilling schedule used in our December 31, 2010 reserve report anticipates that all of those wells will be drilled by 2013. From January 1, 2011 through October 31, 2011, we recompleted 54 wells. We also drilled 17 wells, of which 15 were completed as producers, one was non-productive and one was being drilled. We currently intend to recomplete an additional six wells and drill an additional three new wells during 2011. Our aggregate drilling and recompletion expenditures are currently estimated to be approximately \$38.0 million to \$40.0 million to drill 20 wells and recomplete approximately 60 existing wells in our WCBB field during 2011.

In our East Hackberry field, from January 1, 2011 through October 31, 2011, we recompleted 20 existing wells. We also drilled 18 wells, of which 13 were completed as producers, two were non-productive, one was waiting on completion and two wells were drilling. We may drill two additional wells during 2011. Total capital expenditures for our East Hackberry field during 2011 are estimated at \$53.0 million to \$55.0 million to drill 20 wells and recomplete 20 wells during 2011.

In the Permian Basin, our booked inventory of prospects at December 31, 2010 included 226 gross (113 net) future development drilling locations. From January 1, 2011 through October 31, 2011, 35 gross (15.2 net) wells were drilled on this acreage, of which 27 were completed as producers, four were waiting on completion and four wells were being drilled. We currently anticipate drilling five additional gross (2.5 net) wells during 2011. We currently anticipate that our capital requirements to drill 40 gross (20 net) wells in the Permian Basin in West Texas will be approximately \$38.0 million to \$40.0 million, including recompletion activity. To date, we have recompleted eight gross (four net) wells in the Permian Basin. To help facilitate the drilling of these and future wells, we acquired a 25% equity interest in Bison Drilling and Field Services LLC, or Bison, from Windsor Energy Group LLC, or Windsor. Windsor is the operator of our Permian properties and an entity controlled by Wexford. Bison owns and operates four drilling rigs. Our purchase price for this interest was approximately \$6.0 million, subject to adjustment. The remaining 75% equity interest is owned by entities controlled by Wexford. We have also agreed to purchase up to a 25% interest in Muskie Holdings LLC, or Muskie, which holds certain rights in a lease covering land in Wisconsin that is prospective for mining oil and natural gas fracture grade sand. Muskie is controlled by Wexford. We currently estimate that our expenditures in connection with our investment in Muskie during the next twelve months will be approximately \$8.0 million.

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## Table of Contents

In the Niobrara formation in Western Colorado, we have completed a 60 square mile 3-D seismic survey and expect to complete data processing by year-end. We have drilled two wells in the Niobrara and are drilling on our third well. We currently anticipate that our total capital expenditures in the Niobrara formation will be approximately \$4.0 million in 2011 relating to the seismic survey and drilling of three to four gross wells.

During the third quarter of 2006, we purchased a 24.9999% interest in Grizzly. As of September 30, 2011, our net investment in Grizzly was approximately \$41.2 million. In addition, we have loaned Grizzly \$22.2 million including interest and net of foreign currency adjustments as of September 30, 2011. Our capital requirements in 2011 for this project are estimated to be approximately \$26.0 million, primarily for the expenses associated with the initial preparations of the Algar Lake facility and drilling activity during the 2010-2011 winter drilling season.

Capital expenditures in 2011 relating to our interests in Thailand are expected to be approximately \$2.5 million, which we believe will be mostly funded from our share of production from the Phu Horm field.

Our total capital expenditures for 2011 are currently estimated to be in the range of \$162.0 million to \$168.0 million, excluding the cost of our Utica Shale and any other potential acquisitions. This is up significantly from the \$85.8 million spent in 2010 due to improved commodity pricing and cost environment. We intend to continue to monitor pricing and cost developments and make adjustments to our future capital expenditure programs as warranted.

We believe that our cash on hand, cash flow from operations and borrowings under our revolving credit agreement will be sufficient to meet our normal recurring operating needs and our WCBB, Hackberry, Permian Basin, Niobrara and Grizzly capital requirements for the next twelve months and fund our investment in Muskie and our pending acquisitions of acreage in the Utica Shale. In the event we elect to further expand or accelerate our drilling programs, pursue additional acquisitions or accelerate our Canadian oil sands project, we would be required to obtain additional funds which we would seek to do through traditional borrowings, offerings of debt or equity securities or other means, including the sale of assets. Needed capital may not be available to us on acceptable terms or at all. If we are unable to obtain funds when needed or on acceptable terms, we may be required to delay or curtail implementation of our business plan or not be able to complete acquisitions that may be favorable to us.

### **Commodity Price Risk**

For the period January 2010 through February 2010, we entered into forward sales contracts for the sale of 3,000 barrels of WCBB production per day at a weighted average daily price of \$54.81 per barrel, before transportation costs and differentials. For the period March 2010 through December 2010, we entered into forward sales contracts for the sale of 2,300 barrels of WCBB production per day at a weighted average daily price of \$58.24 per barrel, before transportation costs and differentials. In November 2010, we entered into fixed price swaps for 2,000 barrels of oil per day at a weighted average price of \$86.96 per barrel, before transportation costs and differentials, for the period from January 2011 through December 2011. In September 2011, we entered into fixed price swaps for 2,000 barrels of oil per day at a weighted average price of \$108.00 per barrel, before transportation costs and differentials, for the period from January 2012 through December 2012. Under the 2010 contracts, we delivered approximately 45% of our 2010 production. Under the 2011 contracts, we have committed to deliver approximately 30% to 33% of our estimated 2011 production. Under the 2012 contracts, we have committed to deliver approximately 23% to 24% of our estimated 2012 production. Such arrangements may expose us to risk of financial loss in certain circumstances, including instances where production is less than expected or oil prices increase. These forward sales contracts and fixed price swaps are accounted for as cash flow hedges and recorded at fair value pursuant to FASB ASC 815 and related pronouncements.

### **Commitments**

In connection with the acquisition in 1997 of the remaining 50% interest in the WCBB properties, we assumed the seller's (Chevron) obligation to contribute approximately \$18,000 per month through March 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Chevron retained a security interest in production from these properties until abandonment obligations to Chevron have been fulfilled. Beginning in 2009, we could access the trust for use in plugging and abandonment charges associated with the property, although we have not yet done so. As of September 30, 2011, the plugging and abandonment trust totaled approximately \$3,121,000. At September 30, 2011, we had plugged 311 wells at WCBB since we began our plugging program in 1997, which management believes fulfills our current minimum plugging obligation.

### **New Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "*Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*," which provides amendments to FASB ASC Topic 820, "*Fair Value Measurements and Disclosure*", or FASB ASC 820. The purpose of the amendments in this update is to create common fair value measurement and disclosure requirements between GAAP and IFRS. The amendments change certain fair value measurement principles and enhance the disclosure requirements. The amendments to FASB ASC 820 are effective for interim and annual periods beginning after December 15, 2011.

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## [Table of Contents](#)

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “*Comprehensive Income: Presentation of Comprehensive Income*,” which provides amendments to FASB ASC Topic 220, “*Comprehensive Income*”, or FASB ASC 220. The purpose of the amendments in this update is to provide a more consistent method of presenting non-owner transactions that affect an entity’s equity. The amendments eliminate the option to report other comprehensive income and its components in the statement of changes in stockholders’ equity and require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The amendments to FASB ASC 220 are effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively.

### **ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our revenues, operating results, profitability, future rate of growth and the carrying value of our oil and natural gas properties depend primarily upon the prevailing prices for oil and natural gas. Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors, including: worldwide and domestic supplies of oil and natural gas; the level of prices, and expectations about future prices, of oil and natural gas; the cost of exploring for, developing, producing and delivering oil and natural gas; the expected rates of declining current production; weather conditions, including hurricanes, that can affect oil and natural gas operations over a wide area; the level of consumer demand; the price and availability of alternative fuels; technical advances affecting energy consumption; risks associated with operating drilling rigs; the availability of pipeline capacity; the price and level of foreign imports; domestic and foreign governmental regulations and taxes; the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls; political instability or armed conflict in oil and natural gas producing regions; and the overall economic environment. These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. For example, the West Texas Intermediate posted price for crude oil has ranged from a low of \$30.28 per barrel, or bbl, in December 2008 to a high of \$145.31 per bbl in July 2008. The Henry Hub spot market price of natural gas has ranged from a low of \$1.83 per million British thermal units, or MMBtu, in September 2009 to a high of \$15.52 per MMBtu in January 2006. On September 30, 2011, the West Texas Intermediate posted price for crude oil was \$79.20 per bbl and the Henry Hub spot market price of natural gas was \$3.67 per MMBtu. Any substantial decline in the price of oil and natural gas will likely have a material adverse effect on our operations, financial condition and level of expenditures for the development of our oil and natural gas reserves, and may result in write downs of oil and natural gas properties due to ceiling test limitations.

For the period January 2010 through February 2010, we entered into forward sales contracts for the sale of 3,000 barrels of WCBB production per day at a weighted average daily price of \$54.81 per barrel, before transportation costs and differentials. For the period March 2010 through December 2010, we entered into forward sales contracts for the sale of 2,300 barrels of WCBB production per day at a weighted average daily price of \$58.24 per barrel, before transportation costs and differentials. In November 2010, we entered into fixed price swaps for 2,000 barrels of oil per day at a weighted average price of \$86.96 per barrel, before transportation costs and differentials, for the period from January 2011 through December 2011. In September 2011, we entered into fixed price swaps for 2,000 barrels of oil per day at a weighted average price of \$108.00 per barrel, before transportation costs and differentials, for the period from January 2012 through December 2012. Under the 2010 contracts, we delivered approximately 45% of our 2010 production. Under the 2011 contracts, we have committed to deliver approximately 30% to 33% of our estimated 2011 production. Under the 2012 contracts, we have committed to deliver approximately 23% to 24% of our estimated 2012 production. Such arrangements may expose us to risk of financial loss in certain circumstances, including instances where production is less than expected or oil prices increase. These forward sales contracts and fixed price swaps are accounted for as cash flow hedges and recorded at fair value pursuant to FASB ASC 815 and related pronouncements.

At September 30, 2011, we had a net asset derivative position of \$8.7 million related to our fixed price swaps. Utilizing actual derivative contractual volumes, a 10% increase in underlying commodity prices would have reduced the fair value of these instruments by approximately \$8.6 million, while a 10% decrease in underlying commodity prices would have increased the fair value of these instruments by \$8.6 million. However, any realized derivative gain or loss would be substantially offset by a decrease or increase, respectively, in the actual sales value of production covered by the derivative instrument.

Our revolving credit facility is structured under floating rate terms, as advances under this facility may be in the form of either base rate loans or Eurodollar loans. As such, our interest expense is sensitive to fluctuations in the prime rates in the U.S. or, if the Eurodollar rates are elected, the Eurodollar rates. On July 20, 2011 (the latest date during the third quarter on which we had borrowings outstanding), amounts borrowed under our revolving credit agreement bore interest at the Eurodollar rate of 2.44%. Based on the current debt structure, a 1% increase in interest rates would increase interest expense by approximately \$300,000 per year, based on \$30.0 million outstanding under our credit facility as of June 30, 2011. As of September 30, 2011, we had no amounts outstanding under our revolving credit facility. As of September 30, 2011, we did not have any interest rate swaps to hedge our interest risks.



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## [Table of Contents](#)

### **ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Control and Procedures.* Under the direction of our Chief Executive Officer and Vice President and Chief Financial Officer, we have established disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of September 30, 2011, an evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. Based upon our evaluation, our Chief Executive Officer and Vice President and Chief Financial Officer have concluded that as of September 30, 2011, our disclosure controls and procedures are effective.

*Changes in Internal Control over Financial Reporting.* There have not been any changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Louisiana Department of Revenue, or LDR, is disputing our severance tax payments to the State of Louisiana from the sale of oil under fixed price contracts during the years 2005 through 2007. The LDR maintains that we paid approximately \$1.8 million less in severance taxes under fixed price terms than the severance taxes we would have had to pay had we paid severance taxes on the oil at the contracted market rates only. We have denied any liability to the LDR for underpayment of severance taxes and have maintained that we were entitled to enter into the fixed price contracts with unrelated third parties and pay severance taxes based upon the proceeds received under those contracts. We have maintained our right to contest any final assessment or suit for collection if brought by the State. On April 20, 2009, the LDR filed a lawsuit in the 15<sup>th</sup> Judicial District Court, Lafayette Parish, in Louisiana against our company seeking \$2,275,729 in severance taxes, plus interest and court costs. We filed a response denying any liability to the LDR for underpayment of severance taxes and are defending our company in the lawsuit. The LDR had taken no further action on this lawsuit since filing its petition two years ago until recently when it propounded discovery requests to which we have responded.

In December 2010, the LDR filed two identical lawsuits against us in different venues to recover allegedly underpaid severance taxes on crude oil for the period January 1, 2007 through December 31, 2010, together with a claim for attorney's fees. The petitions do not make any specific claim for damages or unpaid taxes. As with the first lawsuit filed by the LDR in 2009, we have denied all liability and will vigorously defend the lawsuit. The cases are in the very early stages, and we have not yet filed a response to these lawsuits. Recently, the LDR filed motions to stay the lawsuits before we filed any responsive pleadings. The LDR has advised us that it intends to pursue settlement discussions with us and other similarly situated defendants in separate proceedings.

In November 2006, Cudd Pressure Control, Inc., or Cudd, filed a lawsuit against us, Great White Pressure Control LLC, or Great White, and six former Cudd employees in the 129<sup>th</sup> Judicial District Harris County, Texas. The lawsuit was subsequently removed to the United States District Court for the Southern District of Texas (Houston Division). The lawsuit alleged RICO violations and several other causes of action relating to Great White's employment of the former Cudd employees and sought unspecified monetary damages and injunctive relief. On stipulation by the parties, the plaintiff's RICO claim was dismissed without prejudice by order of the court on February 14, 2007. We filed a motion for summary judgment on October 5, 2007. The Court entered a final interlocutory judgment in favor of all defendants, including us, on April 8, 2008. On November 3, 2008, Cudd filed its appeal with the U.S. Court of Appeals for the Fifth Circuit. The Fifth Circuit vacated the district court decision finding, among other things, that the district court should not have entered summary judgment without first allowing more discovery. The case was remanded to the district court, and Cudd filed a motion to remand the case to the original state court, which motion was granted. On February 3, 2010, Cudd filed its second amended petition with the state court (a) alleging that we conspired with the other defendants to misappropriate, and misappropriated Cudd's trade secrets and caused its employees to breach their fiduciary duties, and (b) seeking unspecified monetary damages. On April 13, 2010, our motion to be dismissed from the proceeding for lack of personal jurisdiction was denied. This state court proceeding is in its initial stages. In 2011, the parties have continued with written discovery and production of documents. On February 15, 2011, Cudd filed a third amended petition seeking \$26.5 million (based on a report prepared by its expert) plus disgorgement of \$6.0 million in payments by Great White to the individual defendants and punitive damages. Gulfport denies these claims with respect to itself. Recently, the parties began the process of scheduling and taking depositions and it is anticipated that the case will remain in the discovery phase for at least the next several months.

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## Table of Contents

On July 30, 2010, six individuals and one limited liability company sued 15 oil and gas companies in Cameron Parish Louisiana for contamination across the surface of where the defendants operated in an action entitled *Reeds et al. v. BP American Production Company et al.*, 38th Judicial District. No. 10-18714. The plaintiffs' original petition for damages, which did not name us as a defendant, alleges that the plaintiffs' property located in Cameron Parish, Louisiana within the Hackberry oil field is contaminated as a result of historic oil and gas exploration and production activities. Plaintiffs allege that the defendants conducted, directed and participated in various oil and gas exploration and production activities on their property which allegedly have contaminated or otherwise caused damage to the property, and have sued the defendants for alleged breaches of oil, gas and mineral leases, as well as for alleged negligence, trespass, failure to warn, strict liability, punitive damages, lease liability, contract liability, unjust enrichment, restoration damages, assessment and response costs and stigma damages. On December 7, 2010, we were served with a copy of the plaintiffs' first supplemental and amending petition which added four additional plaintiffs and six additional defendants, including us, bringing the total number of defendants to 21. It also increased the total acreage at issue in this litigation from 240 acres to approximately 1,700 acres. In addition to the damages sought in the original petition, the plaintiffs now also seek: damages sufficient to cover the cost of conducting a comprehensive environmental assessment of all present and yet unidentified pollution and contamination of their property; the cost to restore the property to its pre-polluted original condition; damages for mental anguish and annoyance, discomfort and inconvenience caused by the nuisance created by defendants; land loss and subsidence damages and the cost of backfilling canals and other excavations; damages for loss of use of land and lost profits and income; attorney fees and expenses; and damages for evaluation and remediation of any contamination that threatens groundwater. In addition to us, current defendants include ExxonMobil Oil Corporation, Mobil Exploration & Producing North America Inc., Chevron U.S.A. Inc., The Superior Oil Company, Union Oil Company of California, BP America Production Company, Tempest Oil Company, Inc., ConocoPhillips Company, Continental Oil Company, WM. T. Burton Industries, Inc., Freeport Sulphur Company, Eagle Petroleum Company, U.S. Oil of Louisiana, M&S Oil Company, and Empire Land Corporation, Inc. of Delaware. On January 21, 2011, we filed a pleading challenging the legal sufficiency of the petitions on several grounds and requesting that they either be dismissed or that plaintiffs be required to amend such petitions. In response to the pleadings filed by us and similar pleadings filed by other defendants, the plaintiffs filed a third amending petition with exhibits which expands the description of the property at issue, attaches numerous aerial photos and identifies the mineral leases at issue. In response, we and numerous defendants re-urged their pleadings challenging the legal sufficiency of the petitions. Some of the defendants' grounds for challenging the plaintiffs' petitions were heard by the court on May 25, 2011 and were denied. As of October 28, 2011, the court had not entered a judgment regarding its ruling. Once it does, the defendants will have 30 days to file a supervisory writ with the appellate court seeking to overturn the lower court's ruling. Many of the defendants' other grounds for challenging the plaintiffs' petitions have yet to be heard by the court. It is anticipated that the discovery phase of this case will become more active in the upcoming months.

Due to the current stages of the above litigation, the outcomes are uncertain and management cannot determine the amount of loss, if any, that may result. Litigation is inherently uncertain. Adverse decisions in one or more of the above matters could have a material adverse effect on our financial condition or results of operations.

In addition to the above, we have been named as a defendant in various other lawsuits related to our business. The ultimate resolution of such other matters is not expected to have a material adverse effect on our financial condition or results of operations.

### **ITEM 1A. RISK FACTORS.**

See risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

- (a) None
- (b) Not Applicable.
- (c) We do not have a share repurchase program, and during the three months ended September 30, 2011, we did not purchase any shares of our common stock.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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## [Table of Contents](#)

### ITEM 4. REMOVED AND RESERVED

### ITEM 5. OTHER INFORMATION

- (a) On October 31, 2011, we entered into a second amendment to our senior revolving credit agreement, dated as of September 30, 2010, as amended on May 3, 2011, with The Bank of Nova Scotia, as administrative agent and letter of credit issuer and lead arranger, Amegy Bank National Association, as syndication agent, and KeyBank National Association and Société Générale, as co-documentation agents. In the second amendment, certain changes were made to the terms of our revolving credit facility to conform the provisions relating to the administrative agent and other lenders to the model provisions promulgated by the Loan Syndications and Trading Association.

On October 31, 2011, we also entered into a third amendment to our revolving credit which (1) increased the borrowing base from \$90.0 million to \$125.0 million, (2) increased the highest applicable rate for base rate loans and eurodollar loans in certain circumstances to 2.50% and 3.50%, respectively and (3) adjusted the commitment percentage of each of the lenders. Other material terms of the revolving credit agreement remained unchanged.

The preceding summary of the amendments is qualified in its entirety by reference to the full text of such amendments, copies of which are filed as Exhibit 10.1 and 10.2 to this report.

- (b) None.

### ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K, File No. 000-19514, filed by the Company with the SEC on April 26, 2006).
3.2	Certificate of Amendment No. 1 to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to Form 10-Q, File No. 000-19514, filed by the Company with the SEC on November 6, 2009).
3.3	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K, File No. 000-19514, filed by the Company with the SEC on July 12, 2006).
4.1	Form of Common Stock certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).
4.2	Form of Warrant Agreement (incorporated by reference to Exhibit 10.4 to Amendment No. 2 to the Registration Statement on Form SB-2, File No. 333-115396, filed by the Company with the SEC on July 22, 2004).
4.3	Registration Rights Agreement, dated as of February 23, 2005, by and among the Company, Southpoint Fund LP, a Delaware limited partnership, Southpoint Qualified Fund LP, a Delaware limited partnership and Southpoint Offshore Operating Fund, LP, a Cayman Islands exempted limited partnership (incorporated by reference to Exhibit 10.7 of Form 10-KSB, File No. 000-19514, filed by the Company with the SEC on March 31, 2005).
4.4	Registration Rights Agreement, dated as of March 29, 2002, by and among Gulfport Energy Corporation, Gulfport Funding LLC, certain other affiliates of Wexford and the other Investors Party thereto (incorporated by reference to Exhibit 10.3 of Form 10-QSB, File No. 000-19514, filed by the Company with the SEC on November 11, 2005).
4.5	Amendment No. 1, dated February 14, 2006, to the Registration Rights Agreement, dated as of March 29, 2002, by and among Gulfport Energy Corporation, Gulfport Funding LLC, certain other affiliates of Wexford and the other Investors Party thereto (incorporated by reference to Exhibit 10.15 of Form 10-KSB, File No. 000-19514, filed by the Company with the SEC on March 31, 2006).
10.1*	Second Amendment to Credit Agreement, dated as of October 31, 2011, by and among the Company, as borrower, The Bank of Nova Scotia, as administrative agent, letter of credit issuer and lead arranger, Amegy Bank National Association, as syndication agent, KeyBank National Association, as co-documentation agent, and the other lenders party thereto.
10.2*	Third Amendment to Credit Agreement, dated as of October 31, 2011, by and among the Company, as borrower, The Bank of Nova Scotia, as administrative agent, letter of credit issuer and lead arranger, Amegy Bank National Association, as syndication agent, KeyBank National Association and Société Générale, as co-documentation agents, and the other lenders party thereto.
31.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.



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## Table of Contents

31.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\*Furnished herewith, not filed.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULFPORT ENERGY CORPORATION

Date: November 4, 2011

/s/ James D. Palm

James D. Palm  
Chief Executive Officer

/s/ Michael G. Moore

Michael G. Moore  
Chief Financial Officer

**SECOND AMENDMENT TO CREDIT AGREEMENT**

Dated as of 10:00 A.M. CST, October 31, 2011  
among

**GULFPORT ENERGY CORPORATION,**  
as Borrower,

**THE BANK OF NOVA SCOTIA,**  
as Administrative Agent

and

L/C Issuer and Lead Arranger,

and

**AMEGY BANK NATIONAL ASSOCIATION,**  
as Syndication Agent

and

**KEYBANK NATIONAL ASSOCIATION and SOCIÉTÉ GÉNÉRALE,**  
as Co-Documentation Agents

and

The Other Lenders Party Hereto

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## SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (the “*Second Amendment to Credit Agreement*,” or this “*Amendment*”) is entered into effective as of the Effective Date as defined below, among GULFPORT ENERGY CORPORATION, a Delaware corporation (“*Borrower*”), THE BANK OF NOVA SCOTIA, as Administrative Agent and L/C Issuer (the “*Administrative Agent*”), and the financial institutions executing this Amendment as Lenders.

### RECITALS

A. Borrower, the financial institutions signing as Lenders thereto and Administrative Agent are parties to a Credit Agreement dated as of September 30, 2010, and as amended by a First Amendment to Credit Agreement among Borrower, the financial institutions signing as Lenders thereto and Administrative Agent dated as of May 3, 2011 (collectively, the “*Original Credit Agreement*”).

B. Borrower has requested certain amendments to the Original Credit Agreement. Accordingly, the parties desire to amend the Original Credit Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Same Terms.** All terms used herein that are defined in the Original Credit Agreement shall have the same meanings when used herein, unless the context hereof otherwise requires or provides. In addition, (i) all references in the Oil and Gas Mortgages, Affidavit of Payment of Trade Bills, Property Certificate, Reconciliation Schedule and Title Indemnity Agreement to the “Credit Agreement” and in the Credit Agreement and the other Loan Documents to the “Agreement” shall mean the Original Credit Agreement, as amended by this Amendment, as the same may hereafter be amended from time to time, and (ii) all references in the Loan Documents to the “Loan Documents” shall mean the Loan Documents, as amended by the Modification Papers, as the same may hereafter be amended from time to time. In addition, the following terms have the meanings set forth below:

“*Agent-Related Person*”: See Section 7(a)(iii).

“*Credit Agreement*” means the Original Credit Agreement, as amended by this Amendment.

“*Effective Date*” means 10:00 A.M. CST on October 31, 2011.

“*Modification Papers*” means this Amendment and all of the other documents and agreements executed in connection with the transactions contemplated by this Amendment.

2. **Conditions Precedent.** The obligations and agreements of Lenders as set forth in this Amendment are subject to the satisfaction, unless waived in writing by Administrative Agent, of each of the following conditions (and upon such satisfaction, this Amendment shall be deemed to be effective as of the Effective Date):

A. **Second Amendment to Credit Agreement.** This Amendment to Credit Agreement shall be in full force and effect.

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B. **Fees and Expenses.** Administrative Agent shall have received payment of all out-of-pocket fees and expenses (including reasonable attorneys' fees and expenses) incurred by Administrative Agent in connection with the preparation, negotiation and execution of the Modification Papers.

C. **Representations and Warranties.** All representations and warranties contained herein or in the other Modification Papers or otherwise made in writing in connection herewith or therewith shall be true and correct in all material respects with the same force and effect as though such representations and warranties have been made on and as of the Effective Date, or if made as of a specific date, as of such date.

3. **Amendments to Original Credit Agreement.** On the Effective Date, the Original Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Original Credit Agreement is hereby amended by adding the following definitions in appropriate alphabetical order to read in their entirety as follows:

“**Fronting Exposure**” means, at any time there is a Defaulting Lender, with respect to the L/C Issuer, such Defaulting Lender’s Applicable Percentage of the outstanding L/C Obligations with respect to Letters of Credit issued by the L/C Issuer other than L/C Obligations as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.”

“**Minimum Collateral Amount**” means, at any time, with respect to Cash Collateral consisting of cash or deposit account balances, an amount equal to 100% of the Fronting Exposure of the L/C Issuer with respect to Letters of Credit issued and outstanding at such time.”

“**Non-Defaulting Lender**” means, at any time, each Lender that is not a Defaulting Lender at such time.”

“**Proved Reserves**” means ‘Proved Reserves’ as defined in the Reserve Definitions.”

“**Reserve Definitions**” means, at any time, the Definitions for Oil and Gas Reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at such time and acceptable to the Agent.”

(b) Section 1.01 of the Original Credit Agreement is hereby amended by deleting each of the definitions of “**Cash Collateral**” and “**Cash Collateralize**”, “**Change in Law**”, “**Defaulting Lender**” and “**Projected Oil and Gas Production**” and replacing each such definition with the following definitions to read in their entirety as follows:

“**Cash Collateralize**” means to pledge and deposit with or deliver to Agent, for the benefit of the L/C Issuer and the Lenders, as collateral for the L/C Obligations or obligations of Lenders to fund participations in respect of L/C Obligations, cash or deposit account balances, or, if the Administrative Agent and the L/C Issuer shall agree in their sole discretion, other credit support, in each case pursuant to documentation in form and substance satisfactory to Administrative Agent and the L/C Issuer (which documents are hereby consented to by Lenders). “**Cash Collateral**” shall have a corresponding meaning.”

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“**Change in Law**” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Law, (b) any change in any Law or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.”

“**Defaulting Lender**” means, subject to Section 2.15(b), any Lender that (a) has failed to (i) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to the Administrative Agent, the L/C Issuer or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit) within two Business Days of the date when due, (b) has notified the Borrower, the Administrative Agent or the L/C Issuer in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three Business Days after written request by the Administrative Agent or the Borrower, to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the

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United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.15(b)) upon delivery of written notice of such determination to the Borrower, the L/C Issuer and each Lender.”

“***Projected Oil and Gas Production***’ means the projected production of oil or gas (measured by volume unit or BTU equivalent, not sales price) for the term of the contracts or a particular month, as applicable, from properties and interests owned by a Loan Party which are located in or offshore of the United States and which have attributable to them Proved Reserves, as such production is projected in the most recent Reserve Report delivered to Agent, after deducting projected production from any properties or interests sold or under contract for sale that had been included in such report and after adding projected production from any properties or interests that have not been reflected in such report but that are reflected in a separate or supplemental reports acceptable to Agent.”

(c) Section 2.03(g) of the Original Credit Agreement is hereby amended in its entirety to read as follows:

“(g) Cash Collateral. Upon the request of Administrative Agent, (i) if the L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the L/C Expiration Date, any L/C Obligation for any reason remains outstanding, Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. Sections 2.04, 2.14, 2.15 and 9.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. Borrower hereby grants to Administrative Agent, for the benefit of the L/C Issuer and Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts at Administrative Agent.”

(d) Section 2.12(ii) of the Original Credit Agreement is hereby amended in its entirety to read as follows:

“(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender) or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations in L/C Obligations to any assignee or participant, other than to Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).”

(e) The Original Credit Agreement is hereby amended by amending Section 2.14 thereof to read in its entirety as follows and by adding a new Section 2.15 thereto which reads in its entirety as follows:

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**“2.14 Cash Collateral.** At any time that there shall exist a Defaulting Lender, within one Business Day following the written request of Administrative Agent or the L/C Issuer (with a copy to Administrative Agent), Borrower shall Cash Collateralize the L/C Issuer’s Fronting Exposure with respect to such Defaulting Lender (determined after giving effect to Section 2.15(a)(iv) and any Cash Collateral provided by such Defaulting Lender) in an amount not less than the Minimum Collateral Amount.

(a) Grant of Security Interest. Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to Administrative Agent, for the benefit of the L/C Issuer, and agrees to maintain, a first priority security interest in all such Cash Collateral as security for the Defaulting Lenders’ obligation to fund participations in respect of L/C Obligations, to be applied pursuant to clause (b) below. If at any time Administrative Agent determines that Cash Collateral is subject to any right or claim of any Person other than Administrative Agent and the L/C Issuer as herein provided, or that the total amount of such Cash Collateral is less than the Minimum Collateral Amount, Borrower will, promptly upon demand by Administrative Agent, pay or provide to Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any Cash Collateral provided by the Defaulting Lender).

(b) Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.14 or Section 2.15 in respect of Letters of Credit shall be applied to the satisfaction of the Defaulting Lender’s obligation to fund participations in respect of L/C Obligations (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein.

(c) Termination of Requirement. Cash Collateral (or the appropriate portion thereof) provided to reduce the L/C Issuer’s Fronting Exposure shall no longer be required to be held as Cash Collateral pursuant to this Section 2.14 following (i) the elimination of the applicable Fronting Exposure (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by Administrative Agent and the L/C Issuer that there exists excess Cash Collateral; *provided* that, subject to Section 2.15, the Person providing Cash Collateral and the L/C Issuer may agree that Cash Collateral shall be held to support future anticipated Fronting Exposure or other obligations and *provided, further*, that to the extent that such Cash Collateral was provided by Borrower, such Cash Collateral shall remain subject to the security interest granted pursuant to the Loan Documents.

### **2.15 Defaulting Lenders.**

(a) Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:



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(i) **Waivers and Amendments.** Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of Required Lenders.

(ii) **Defaulting Lender Waterfall.** Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article IX or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 11.08 shall be applied at such time or times as may be determined by the Administrative Agent as follows: **first**, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder; **second**, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to the L/C Issuer hereunder; **third**, to Cash Collateralize the L/C Issuer's Fronting Exposure with respect to such Defaulting Lender in accordance with Section 2.14; **fourth**, as the Borrower may request (so long as no Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; **fifth**, if so determined by the Administrative Agent and the Borrower, to be held in a deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (y) Cash Collateralize the L/C Issuer's future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.14; **sixth**, to the payment of any amounts owing to the Lenders or the L/C Issuer as a result of any judgment of a court of competent jurisdiction obtained by any Lender or the L/C Issuer against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; **seventh**, so long as no Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and **eighth**, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Loans or L/C Obligations in respect of which such Defaulting Lender has not fully funded its appropriate share, and (y) such Loans were made or the related Letters of Credit were issued at a time when the conditions set forth in Section 5.02 were satisfied or waived, such payment shall be applied solely to pay the Loans of, and L/C Obligations owed to, all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of, or L/C Obligations owed to, such Defaulting Lender until such time as all Loans and funded and unfunded participations in L/C Obligations are held by the Lenders pro rata in accordance with the Commitments without giving effect to Section 2.15(a)(iv). Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.15(a)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees.

(A) No Defaulting Lender shall be entitled to receive any commitment fee under Section 2.08(a) for any period during which that Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender).

(B) Each Defaulting Lender shall be entitled to receive L/C Fees for any period during which that Lender is a Defaulting Lender only to the extent allocable to its Applicable Percentage of the stated amount of Letters of Credit for which it has provided Cash Collateral pursuant to Section 2.14.

(C) With respect to any fee not required to be paid to any Defaulting Lender pursuant to clause (A) or (B) above, the Borrower shall (x) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in L/C Obligations that has been reallocated to such Non-Defaulting Lender pursuant to clause (iv) below, (y) pay to the L/C Issuer the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to the L/C Issuer's Fronting Exposure to such Defaulting Lender, and (z) not be required to pay the remaining amount of any such fee.

(iv) Reallocation of Participations to Reduce Fronting Exposure. All or any part of such Defaulting Lender's participation in L/C Obligations shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Applicable Percentages (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 5.02 are satisfied at the time of such reallocation (and, unless the Borrower shall have otherwise notified the Administrative Agent at such time, the Borrower shall be deemed to have represented and warranted that such conditions are satisfied at such time), and (y) such reallocation does not cause such Non-Defaulting Lender's Applicable Percentage of the Outstanding Amount to exceed such Non-Defaulting Lender's Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(v) Cash Collateral. If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, Cash Collateralize the L/C Issuer's Fronting Exposure in accordance with the procedures set forth in Section 2.14.

(b) Defaulting Lender Cure. If the Borrower, the Administrative Agent and the L/C Issuer agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may

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include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit to be held pro rata by the Lenders in accordance with the Commitments (without giving effect to Section 2.15(a)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(c) New Letters of Credit. So long as any Lender is a Defaulting Lender, the L/C Issuer shall not be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

(f) Section 8.08 of the Original Credit Agreement is hereby amended to read in its entirety as follows:

**“8.08. Forward Sales Contracts.** Enter into any Forward Sales Contract, except a Forward Sales Contract which meets the following parameters: (1) no such contract has a term of more than 36 months; (2) the aggregate monthly production covered by all such contracts for any single month, plus, except as related to put and floor options, the aggregate of production under all Swap Contracts for any single month, do not exceed the limitations set forth in Section 8.09(a)(2) hereof; (3) no such contract requires Borrower to put up any money, assets, or other security against the event of its nonperformance prior to actual default by Borrower in performing its obligations thereunder; (4) no such contract (other than a Lender Forward Sales Contract) shall be secured, and (5) each such contract is with (i) a Lender or an Affiliate of a Lender or (ii) an unsecured counterparty who at the time of the contract maintains a minimum debt rating of BBB or Baa2 as determined either by Standard & Poor's Corporation or Moody's Investors Service, Inc. and is otherwise acceptable to Agent.”

(g) Section 8.09(a) of the Original Credit Agreement is hereby amended to read in its entirety as follows:

“(a) Commodity Contracts. Contracts entered into with the purpose and effect of fixing prices on oil and gas expected to be produced by Borrower, provided that at all times:

(1) no such contract fixes a price for a term of more than 36 months;

(2) except as related to put and floor options,

(i) with respect to the 24-month period commencing on the first day of the calendar month immediately after the receipt by Agent of a Reserve Report under Section 4.02 hereof or internally-prepared engineering data under Section 4.03 hereof, as applicable, and to the extent such period is covered by such contracts, the aggregate monthly production covered by all such contracts (as determined, in the case of contracts that are not settled on a monthly basis, by a

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monthly proration acceptable to Agent) for any single month, plus the aggregate of production covered by all Forward Sales Contracts for any single month, do not in the aggregate exceed the lesser of:

(A) 75% of Borrower's aggregate Projected Oil and Gas Production anticipated to be sold in the ordinary course of Borrower's business for such month, and

(B) 90% of Borrower's aggregate actual oil and gas production for the month immediately preceding date such Reserve Report or such internally-prepared engineering data is delivered to Agent hereunder, as applicable, which shall be deemed to apply to such month; and

(ii) with respect to the 12-month period following the expiration of the period described in clause (a)(2)(i) above and to the extent such period is covered by such contracts, the aggregate monthly production covered by all such contracts (as determined, in the case of contracts that are not settled on a monthly basis, by a monthly proration acceptable to Agent) for any single month, plus the aggregate of production covered by all Forward Sales Contracts for any single month, do not in the aggregate exceed the lesser of:

(A) 50% of Borrower's aggregate Projected Oil and Gas Production anticipated to be sold in the ordinary course of Borrower's business for such month, and

(B) 75% of Borrower's aggregate actual oil and gas production for the month immediately preceding date such Reserve Report or such internally-prepared engineering data is delivered to Agent hereunder, as applicable, which shall be deemed to apply to such month;

(3) no such contract (other than a Lender Swap Contract) requires Borrower to put up money, assets, or other security against the event of its nonperformance prior to actual default by Borrower in performing its obligations thereunder; and

(4) each such contract is with (i) a Lender or an Affiliate of a Lender or (ii) an unsecured counterparty who at the time of the contract maintains a minimum debt rating of BBB or Baa2 as determined either by Standard & Poor's Corporation or Moody's Investors Service, Inc. and is otherwise acceptable to Agent.

At all times, clause (a)(2) above shall be deemed to refer to the most recent Reserve Report or internally-prepared engineering data received by Agent under Section 4.02 or 4.03 hereof, as applicable."

(h) Section 10.03(b) of the Original Credit Agreement is hereby amended to read in its entirety as follows:

"(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents);

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provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Law, including for the avoidance of doubt any action that may be in violation of the automatic stay under any Debtor Relief Law or that may effect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any Debtor Relief Law; and”

(i) Section 11.06(b)(v) of the Original Credit Agreement is hereby amended to read in its entirety as follows:

“(v) No Assignment to Certain Persons. No such assignment shall be made to (A) the Borrower or any of the Borrower’s Affiliates or Subsidiaries or (B) to any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B).”

(j) A new subsection Section 11.06(b)(vii) of the Original Credit Agreement is hereby added the Original Credit Agreement to read in its entirety as follows:

“(vii) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent, the L/C Issuer and each other Lender hereunder (and interest accrued thereon), and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit in accordance with its Applicable Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.”

(k) The last full paragraph of Section 11.06(b) of the Original Credit Agreement is hereby amended to read in its entirety as follows:

“Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender’s rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 11.04

with respect to facts and circumstances occurring prior to the effective date of such assignment, *provided*, that except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender."

(l) Section 11.08 of the Original Credit Agreement is hereby amended by adding the following proviso at the end of the first sentence thereof:

"*provided* that in the event that any Defaulting Lender shall exercise any such right of set-off, (x) all amounts so set off shall be paid over immediately to the Agent for further application in accordance with the provisions of Section 2.15 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Agent, the L/C Issuer, and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of set-off."

(m) The first three clauses of the first sentence of Section 11.14 of the Original Credit Agreement are hereby amended and replaced with the following:

"If any of the following occur:

- (i) any Lender or any Participant request compensation under Section 3.04,
- (ii) Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender or Participant pursuant to Section 3.01,
- (iii) any Lender is a Defaulting Lender, or
- (iv) any Lender does not vote in favor of an amendment or waiver that requires the consent or vote of each of the Lenders and is approved by the Required Lenders,"

4. **Waiver.** Notwithstanding the 75% limit set forth in Section 8.09(a) of the Credit Agreement, the Lenders hereby consent to the Borrower exceeding such limit at any time prior to the Effective Date and waive such limitation prior to the Effective Date. Except as expressly waived herein, all covenants, obligations and agreements of Borrower contained in the Credit Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms.

5. **Certain Representations.** Borrower represents and warrants that, as of the Effective Date: (a) Borrower has full power and authority to execute the Modification Papers and the Modification Papers constitute the legal, valid and binding obligation of Borrower enforceable in accordance with their terms, except as enforceability may be limited by general principles of equity and applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the enforcement of creditors' rights generally; and (b) no authorization, approval, consent or other action

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by, notice to, or filing with, any Governmental Authority or other Person is required for the execution, delivery and performance by Borrower thereof. In addition, Borrower represents that after giving effect to this Amendment, all representations and warranties contained in the Original Credit Agreement and the other Loan Documents are true and correct in all material respects on and as of the Effective Date as if made on and as of such date except to the extent that any such representation or warranty expressly relates solely to an earlier date, in which case such representation or warranty is true and correct in all material respects as of such earlier date.

6. **No Further Amendments.** Except as previously amended in writing or as amended hereby, the Original Credit Agreement shall remain unchanged and all provisions shall remain fully effective between the parties.

7. **Acknowledgments and Agreements.** Borrower acknowledges that on the date hereof all outstanding Obligations are payable in accordance with their terms, and Borrower waives any defense, offset, counterclaim or recoupment with respect thereto. Borrower, Administrative Agent, L/C Issuer and each Lender do hereby adopt, ratify and confirm the Original Credit Agreement, as amended hereby, and acknowledge and agree that the Original Credit Agreement, as amended hereby, is and remains in full force and effect. Borrower acknowledges and agrees that its liabilities and obligations under the Original Credit Agreement, as amended hereby, and under the Loan Documents, are not impaired in any respect by this Amendment.

8. **Limitation on Agreements.** The modifications set forth herein are limited precisely as written and shall not be deemed (a) to be a consent under or a waiver of or an amendment to any other term or condition in the Original Credit Agreement or any of the Loan Documents, or (b) to prejudice any right or rights which Administrative Agent now has or may have in the future under or in connection with the Original Credit Agreement and the Loan Documents, each as amended and waived hereby, or any of the other documents referred to herein or therein. The Modification Papers shall constitute Loan Documents for all purposes.

9. **Confirmation of Security.** Borrower hereby confirms and agrees that all of the Collateral Documents which presently secure the Obligations shall continue to secure, in the same manner and to the same extent provided therein, the payment and performance of the Obligations as described in the Original Credit Agreement as modified by this Amendment.

10. **Counterparts.** This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed an original, but all of which constitute one instrument. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

11. **Incorporation of Certain Provisions by Reference.** The provisions of Section 11.15. of the Original Credit Agreement captioned "Governing Law, Jurisdiction; Etc." and Section 11.16. of the Original Credit Agreement captioned "Waiver of Right to Trial by Jury" are incorporated herein by reference for all purposes.

12. **Entirety, Etc.** This Amendment and all of the other Loan Documents embody the entire agreement between the parties. THIS AMENDMENT, THE OTHER MODIFICATION PAPERS AND ALL OF THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.



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**SECOND AMENDMENT TO CREDIT AGREEMENT – Page 13**

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment to be effective as of the date and year first above written.

**BORROWER**

**GULFPORT ENERGY CORPORATION**

By:           /s/ Michael G. Moore          

Name: Michael G. Moore

Title: VP and CFO

**SECOND AMENDMENT TO CREDIT AGREEMENT – Signature Page**



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**LENDER**

**AMEGY BANK NATIONAL ASSOCIATION**

By:           /s/ David T. Helffrich, III          

Name: David T. Helffrich, III

Title: Vice President

**SECOND AMENDMENT TO CREDIT AGREEMENT – Signature Page**



**THIRD AMENDMENT TO CREDIT AGREEMENT**

Dated as of 12:00 P.M. CST, October 31, 2011  
among

**GULFPORT ENERGY CORPORATION,**  
as Borrower,

**THE BANK OF NOVA SCOTIA,**  
as Administrative Agent

and

L/C Issuer and Lead Arranger,

and

**AMEGY BANK NATIONAL ASSOCIATION,**  
as Syndication Agent

and

**KEYBANK NATIONAL ASSOCIATION and SOCIÉTÉ GÉNÉRALE,**  
as Co-Documentation Agents

and

The Other Lenders Party Hereto

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### THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (the “*Third Amendment to Credit Agreement*,” or this “*Amendment*”) is entered into effective as of the Effective Date as defined below, among **GULFPORT ENERGY CORPORATION**, a Delaware corporation (“*Borrower*”), **THE BANK OF NOVA SCOTIA**, as Administrative Agent and L/C Issuer (the “*Administrative Agent*”), and the financial institutions executing this Amendment as Lenders.

#### **RECITALS**

A. Borrower, the financial institutions signing as Lenders thereto and Administrative Agent are parties to a Credit Agreement dated as of September 30, 2010, and as amended by a First Amendment to Credit Agreement among Borrower, the financial institutions signing as Lenders thereto and Administrative Agent dated as of May 3, 2011, and as amended by a Second Amendment to Credit Agreement among Borrower, the financial institutions signing as Lenders thereto and Administrative Agent dated as of 10:00 A.M. October 31, 2011 (collectively, the “*Original Credit Agreement*”).

B. Borrower has requested certain amendments to the Original Credit Agreement including the increase of the Borrowing Base. Accordingly, the parties desire to amend the Original Credit Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Same Terms.** All terms used herein that are defined in the Original Credit Agreement shall have the same meanings when used herein, unless the context hereof otherwise requires or provides. In addition, (i) all references in the Oil and Gas Mortgages, Affidavit of Payment of Trade Bills, Property Certificate, Reconciliation Schedule and Title Indemnity Agreement to the “Credit Agreement” and in the Credit Agreement and the other Loan Documents to the “Agreement” shall mean the Original Credit Agreement, as amended by this Amendment, as the same may hereafter be amended from time to time, and (ii) all references in the Loan Documents to the “Loan Documents” shall mean the Loan Documents, as amended by the Modification Papers, as the same may hereafter be amended from time to time. In addition, the following terms have the meanings set forth below:

“*Amegy Replacement Note*”: See Section 6(a).

“*Credit Agreement*” means the Original Credit Agreement, as amended by this Amendment.

“*Effective Date*” means 12:00 P.M. CST on October 31, 2011.

“*KeyBank Replacement Note*”: See Section 6(c).

“*Modification Papers*” means this Amendment, the Amegy Replacement Note, the Scotia Replacement Note, the KeyBank Replacement Note, the Société Générale Replacement Note and all of the other documents and agreements executed in connection with the transactions contemplated by this Amendment.

“*Scotia Replacement Note*”: See Section 6(b).



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“*Société Générale Replacement Note*”: See Section 6(d).

2. **Conditions Precedent.** The obligations and agreements of Lenders as set forth in this Amendment are subject to the satisfaction, unless waived in writing by Administrative Agent, of each of the following conditions (and upon such satisfaction, this Amendment shall be deemed to be effective as of the Effective Date):

A. **Upfront Fee.** Borrower shall have paid to Administrative Agent an upfront fee for the account of each Lender. The Lenders which are parties to the Original Credit Agreement shall be paid an upfront fee equal to 75 basis points multiplied by the dollar amount of the excess of their new Commitments over their then existing previous Commitments under the Original Credit Agreement.

B. **Third Amendment to Credit Agreement.** This Amendment to Credit Agreement shall be in full force and effect.

C. **Notes.** Borrower shall have executed and delivered to Administrative Agent the Amegy Replacement Note, the Scotia Replacement Note, the KeyBank Replacement Note and the Société Générale Replacement Note.

D. **Fees and Expenses.** Administrative Agent shall have received payment of all out-of-pocket fees and expenses (including reasonable attorneys’ fees and expenses) incurred by Administrative Agent in connection with the preparation, negotiation and execution of the Modification Papers.

E. **Representations and Warranties.** All representations and warranties contained herein or in the other Modification Papers or otherwise made in writing in connection herewith or therewith shall be true and correct in all material respects with the same force and effect as though such representations and warranties have been made on and as of the Effective Date, or if made as of a specific date, as of such date.

3. **Amendments to Original Credit Agreement.** On the Effective Date, the Original Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Original Credit Agreement is hereby amended by adding the following definitions in appropriate alphabetical order to read in their entirety as follows:

“*Borrowing Base Equalization Date*” means October 31, 2012.”

“*Conforming Borrowing Base*” means at any time an amount equal to the amount determined in accordance with Article IV.

(b) The definitions of “*Applicable Rate*” and “*Applicable Usage Level*” contained in Section 1.01 of the Original Credit Agreement are hereby amended to read in their entirety as follows:

“*Applicable Rate*” means, from time to time, the following percentages per annum, based upon the Applicable Usage Level:

Applicable Rate

Applicable Usage Level	Commitment fee	Eurodollar Rate Loans and Letters of Credit	Base Rate Loans
Level 1	0.50%	2.00%	1.00%
Level 2	0.50%	2.25%	1.25%
Level 3	0.50%	2.50%	1.50%
Level 4	0.50%	2.75%	1.75%
Level 5	0.50%	3.50%	2.50%

Any increase or decrease in the Applicable Rate resulting from a change in the Applicable Usage Level shall become effective as of the date of the change in the Applicable Usage Level. The Applicable Rate shall be Level 5 during any period that a Borrowing Base deficiency is being paid back in installments as permitted by [Section 4.06](#).

**‘Applicable Usage Level’** means on any date the level set forth below that corresponds to the percentage, as of the close of business on such day, equivalent to (a) Total Outstandings, divided by (b) prior to the Borrowing Base Equalization Date, the Conforming Borrowing Base, and on and after the Borrowing Base Equalization Date, the Borrowing Base:

**Applicable Usage Level**

Level	Usage Percent
Level 1	Less than 25%
Level 2	25% or greater but less than 50%
Level 3	50% or greater but less than 75%
Level 4	75% to 100%
Level 5	100% or greater

(c) [Sections 4.01, 4.02, 4.03 and 4.04](#) of the Original Credit Agreement are hereby amended to read in their entirety as follows:

“4.01. **Borrowing Base.** (a) The Borrowing Base shall represent the approval in their sole discretion of the Required Lenders or all Lenders, as applicable, of Agent’s determination of the maximum loan amount that may be supported by the oil and gas properties of the Loan Parties included in the most recent Reserve Report furnished to Agent, based upon Lenders’ in-house evaluation of such properties. The determination of the Borrowing Base (and, if applicable, the Conforming Borrowing Base) will be made in accordance with then-current practices, economic and pricing parameters, methodology, assumptions, and customary procedures and standards established by each Lender from time to time for its petroleum industry customers including without limitation (a) an analysis of such reserve and production data with respect to the Mineral Interests of the Loan Parties in all of their oil and gas properties, including the Mortgaged Properties, as is provided to Lenders in accordance herewith, (b) an analysis of the assets, liabilities, cash flow, business, properties, prospects, management and ownership of each Loan Party and its Affiliates, and (c) such other credit factors consistently applied as each Lender customarily considers in evaluating similar oil and gas credits. Borrower and Lenders acknowledge that (i) due to the uncertainties of the oil and gas extraction process, the properties included in any Reserve Report are not subject to evaluation with

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a high degree of accuracy and are subject to potential rapid deterioration in value, and (ii) for this reason and the difficulties and expenses involved in liquidating and collecting against the Mortgaged Properties, the determination of the maximum loan amount with respect to the properties included in any Reserve Report contains an equity cushion (market value in excess of loan amount) which Borrower acknowledges to be essential for the adequate protection of Lenders.

(b) Until next determined as provided herein, the amount of the Borrowing Base shall be \$125,000,000 and the amount of the Conforming Borrowing Base shall be \$115,000,000. As of the Borrowing Base Equalization Date, the Borrowing Base shall equal the Conforming Borrowing Base, and all references to the "Conforming Borrowing Base" in this Agreement shall mean the Borrowing Base.

4.02. Periodic Determinations of Borrowing Base.

(a) On each April 1 and October 1 commencing April 1, 2012, until the Maturity Date, Borrower shall furnish to Agent a Reserve Report, which shall set out as of the six (6) months ending January 1 and July 1, respectively, the Proved Mineral Interests attributable to the Mortgaged Properties and such other oil and gas properties of the Loan Parties as Borrower may select. Each October 1 Reserve Report may be prepared by Borrower's own engineers and shall be certified by the President or other Responsible Officer of Borrower. Each April 1 Reserve Report shall be a complete report prepared by independent reservoir engineers reasonably acceptable to Agent relating to the Proved Mineral Interests attributable to the Mortgage Properties known as "West Cote Blanche Bay" and "Permian Basin", and such other oil and gas properties of the Loan Parties as Borrower may select. In addition, Borrower may submit with each April 1 Reserve Report a separate Reserve Report prepared by Borrower's own engineers and certified by the President or other Responsible Officer of Borrower covering such other oil and gas properties of the Loan Parties as Borrower may select. Upon receipt of each such Reserve Report, Agent shall make a determination of the Borrowing Base (and, if applicable, the Conforming Borrowing Base) and the Monthly Reduction Amount which shall become effective upon approval by the Required Lenders or all Lenders in accordance with the procedure set forth in Section 4.04 and subsequent written notification from Agent to Borrower, and which, subject to the other provisions of this Agreement shall be the Borrowing Base (and, if applicable, the Conforming Borrowing Base) and the Monthly Reduction Amount until the effective date of the next redetermination as provided in this Article IV.

(b) In the event that Borrower does not furnish to Agent a Reserve Report by the dates specified in Section 4.02(a), then Agent and Lenders may nonetheless redetermine the Borrowing Base (and, if applicable, the Conforming Borrowing Base) and redesignate the Borrowing Base (and, if applicable, the Conforming Borrowing Base) from time to time thereafter in their sole discretion until Agent receives the relevant Reserve Report, whereupon Agent and Lenders shall redetermine the Borrowing Base (and, if applicable, the Conforming Borrowing Base) as otherwise specified in this Article IV.

4.03. Special Determinations of Borrowing Base.

(a) Special determinations of the Borrowing Base may be requested by Agent or Borrower not more than one time per calendar year each. If any special

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determination is requested by Borrower, it shall be accompanied by internally-prepared engineering data for the oil and gas reserves included in the Mortgaged Properties, and such additional properties as Borrower may select, brought forward from the most recent Reserve Report furnished by Borrower to Agent. If any special determination is requested by Agent, Borrower will provide Agent with internally prepared engineering data for the oil and gas reserves included in the Mortgaged Properties, and such additional properties as Borrower may select, updated from the most recent Reserve Report furnished to Agent, as soon as is reasonably practicable following the request. The determination whether to increase or decrease the Borrowing Base (and, if applicable, the Conforming Borrowing Base) and the Monthly Reduction Amount shall then be made in accordance with the standards set forth in Section 4.01 hereof and the procedures set forth in Section 4.04 hereof. In the event of any special determination of the Borrowing Base pursuant to this Section, Agent in the exercise of its discretion may suspend the next regularly scheduled determination of the Borrowing Base.

(b) Borrower shall give Agent ten (10) Business Days prior written notice of any proposed amendment, modification or termination of any Swap Contract or Forward Sales Contract, or any other action which Borrower or any Subsidiary proposes to take in connection with any Swap Contract or Forward Sales Contract which could impact its Recognized Value in the then current Borrowing Base. Agent reserves the right to redetermine the Borrowing Base (and, if applicable, the Conforming Borrowing Base). As the result of any such action, and any such redetermination shall not be considered a special determination requested by Agent within the meaning of the first sentence of Section 4.03(a). If requested by Borrower, Agent shall inform Borrower by email within such ten (10) Business Day period of the likely reduction of the Borrowing Base (and, if applicable, the Conforming Borrowing Base) as the result of any action described in the first sentence of this Section 4.03(b).

4.04. General Procedures With Respect to Determination of Borrowing Base. Agent shall propose a redetermined Borrowing Base (and, if applicable, a redetermined Conforming Borrowing Base) and a Monthly Reduction Amount within sixty (60) days following receipt by Agent and Lenders of a Reserve Report and other applicable information. After having received notice of such proposal from Agent, Required Lenders (or all Lenders in the event of a proposed increase in the Borrowing Base (and, if applicable, the Conforming Borrowing Base) or decrease in the Monthly Reduction Amount) shall have fifteen (15) days to agree or disagree with such proposal. At the end of such fifteen (15) day period, if Required Lenders (or all Lenders, in the event of a proposed increase of the Borrowing Base (and, if applicable, a proposed increase of the Conforming Borrowing Base) or decrease of the Monthly Reduction Amount) shall not have communicated their approval or disapproval, such silence shall be deemed an approval, and Agent's proposal shall be the new Borrowing Base (and, if applicable, the new Conforming Borrowing Base) and Monthly Reduction Amount. If, however, Required Lenders (or any Lender, in the event of a proposed increase of the Borrowing Base (and, if applicable, a proposed increase of the Conforming Borrowing Base) or decrease of the Monthly Reduction Amount) notify Agent within such fifteen (15) days of their disapproval, Agent and Required Lenders (or all Lenders, in the event of a proposed increase of the Borrowing Base (and, if applicable, a proposed increase of the Conforming Borrowing Base) or decrease of the Monthly Reduction Amount) shall agree on a new Borrowing Base (and, if applicable, a new Conforming Borrowing Base) and Monthly Reduction Amount. If the Required Lenders (or all Lenders, in the event of a proposed increase of the Borrowing Base (and, if applicable, a proposed increase of the

Conforming Borrowing Base) or decrease of the Monthly Reduction Amount) cannot agree on the amount of the Borrowing Base (and, if applicable, the Conforming Borrowing Base) or Monthly Reduction Amount, as applicable, within seven (7) days after Agent has been notified of their disapproval, then Agent shall propose a new redetermined Borrowing Base (and, if applicable, a new Conforming Borrowing Base) and a new Monthly Reduction Amount within fifteen (15) days after the end of such seven (7) day period and the foregoing process shall be repeated. This process shall be repeated until the Required Lenders (or all Lenders, in the event of a proposed increase of the Borrowing Base (and, if applicable, a proposed increase of the Conforming Borrowing Base) or decrease of the Monthly Reduction Amount) agree on a new Borrowing Base (and, if applicable, a new Conforming Borrowing Base) and Monthly Reduction Amount. In taking the above actions, Agent and Lenders shall act in accordance with their normal and customary procedures for evaluating oil and gas reserves and other related assets as such exist at that particular time and will otherwise act in their sole discretion. Further, each Lender may consider such other credit factors as it deems appropriate which are consistent with its normal and customary procedures for evaluating oil and gas reserves. Without limiting the foregoing, Lenders may exclude any oil and gas reserves or portion of production therefrom or any income from any other property from the Borrowing Base, at any time, because title information is not satisfactory or such oil and gas reserves are not Mortgaged Properties.”

(d) Section 8.05(h) of the Original Credit Agreement is hereby amended to read in its entirety as follows:

“(h) Asset Dispositions; provided that (1) all of the consideration received in respect to such Asset Disposition shall be cash or oil and gas properties to be included in the Borrowing Base pursuant to Section 4.08, (2) the consideration received shall be equal to or greater than the fair market value thereof (as reasonably determined by the board of directors or a Responsible Officer of Borrower and if requested by Agent, Borrower shall deliver a certificate of a Responsible Officer of Borrower certifying to that effect), and (3) to the extent that the Recognized Value of the aggregate of all Asset Dispositions in any calendar year exceeds 5% of the then effective Borrowing Base (or, if applicable, 5% of the then effective Conforming Borrowing Base), then the Borrowing Base (and, if applicable, the Conforming Borrowing Base) shall be reduced by the amount of such excess (by way of example, if after the Borrowing Base Equalization Date the Borrowing Base is \$50,000,000 on September 1 and Asset Dispositions having a Recognized Value of \$1,000,000 occur on February 1, May 1 and September 1, then on September 1, the Borrowing Base would automatically reduce by \$500,000 (\$3,000,000—\$2,500,000 = \$500,000));”

4. **Increase of Borrowing Base.** As of the Effective Date the Borrowing Base is hereby increased from \$90,000,000 to a Conforming Borrowing Base of \$115,000,000 and a Borrowing Base of \$125,000,000.

5. **Adjustment of Applicable Percentages of Lenders.** The Borrowing Base has been increased to \$125,000,000 per Section 4 of this Amendment. On the Effective Date, Schedule 2.01 attached to the Original Credit Agreement shall be replaced with Schedule 2.01 attached to this Amendment, and the Applicable Percentages and the Commitments held by each Lender shall be as follows:

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- (a) Amegy Bank National Association will have a Commitment of \$35,000,000 (28% of the \$125,000,000 Borrowing Base).
  - (b) The Bank of Nova Scotia will have a Commitment of \$50,000,000 (40% of the \$125,000,000 Borrowing Base).
  - (c) KeyBank National Association will have a Commitment of \$25,000,000 (20% of the \$125,000,000 Borrowing Base).
  - (d) Société Générale will have a Commitment of \$15,000,000 (12% of the \$125,000,000 Borrowing Base).

6. **New Notes.** On the Effective Date, the Applicable Percentages of the maximum credit amounts of all Lenders are now set forth on Schedule 2.01 attached to this Amendment. Accordingly, on the Effective Date, Borrower shall issue the following Notes:

(a) Borrower shall issue to Amegy Bank, National Association a new Note (the “***Amegy Replacement Note***”), in the original principal sum of \$98,000,000 (28% of \$350,000,000) dated the Effective Date to replace the existing Note to Amegy Bank, National Association in the amount of \$97,222,222.22 dated May 3, 2011.

(b) Borrower shall issue to The Bank of Nova Scotia a new Note (the “***Scotia Replacement Note***”), in the original principal sum of \$140,000,000 (40% of \$350,000,000) dated the Effective Date to replace the existing Note to The Bank of Nova Scotia in the amount of \$136,111,111.12 dated May 3, 2011.

(c) Borrower shall issue to KeyBank National Association a new Note (the “***KeyBank Replacement Note***”), in the original principal sum of \$70,000,000 (20% of \$350,000,000) dated the Effective Date to replace the existing Note to The KeyBank National Association in the amount of \$58,333,333.33 dated May 3, 2011.

(d) Borrower shall issue to Société Générale a new Note (the “***Société Générale Replacement Note***”), in the original principal sum of \$42,000,000 (12% of \$350,000,000) dated the Effective Date to replace the existing Note to Société Générale in the amount of \$58,333,333.33 dated May 3, 2011.

7. **Certain Representations.** Borrower represents and warrants that, as of the Effective Date: (a) Borrower has full power and authority to execute the Modification Papers and the Modification Papers constitute the legal, valid and binding obligation of Borrower enforceable in accordance with their terms, except as enforceability may be limited by general principles of equity and applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the enforcement of creditors’ rights generally; and (b) no authorization, approval, consent or other action by, notice to, or filing with, any Governmental Authority or other Person is required for the execution, delivery and performance by Borrower thereof. In addition, Borrower represents that after giving effect to this Amendment, all representations and warranties contained in the Original Credit Agreement and the other Loan Documents are true and correct in all material respects on and as of the Effective Date as if made on and as of such date except to the extent that any such representation or warranty expressly relates solely to an earlier date, in which case such representation or warranty is true and correct in all material respects as of such earlier date.

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8. **No Further Amendments.** Except as previously amended in writing or as amended hereby, the Original Credit Agreement shall remain unchanged and all provisions shall remain fully effective between the parties.

9. **Acknowledgments and Agreements.** Borrower acknowledges that on the date hereof all outstanding Obligations are payable in accordance with their terms, and Borrower waives any defense, offset, counterclaim or recoupment with respect thereto. Borrower, Administrative Agent, L/C Issuer and each Lender do hereby adopt, ratify and confirm the Original Credit Agreement, as amended hereby, and acknowledge and agree that the Original Credit Agreement, as amended hereby, is and remains in full force and effect. Borrower acknowledges and agrees that its liabilities and obligations under the Original Credit Agreement, as amended hereby, and under the Loan Documents, are not impaired in any respect by this Amendment.

10. **Limitation on Agreements.** The modifications set forth herein are limited precisely as written and shall not be deemed (a) to be a consent under or a waiver of or an amendment to any other term or condition in the Original Credit Agreement or any of the Loan Documents, or (b) to prejudice any right or rights which Administrative Agent now has or may have in the future under or in connection with the Original Credit Agreement and the Loan Documents, each as amended hereby, or any of the other documents referred to herein or therein. The Modification Papers shall constitute Loan Documents for all purposes.

11. **Confirmation of Security.** Borrower hereby confirms and agrees that all of the Collateral Documents which presently secure the Obligations shall continue to secure, in the same manner and to the same extent provided therein, the payment and performance of the Obligations as described in the Original Credit Agreement as modified by this Amendment.

12. **Counterparts.** This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed an original, but all of which constitute one instrument. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

13. **Incorporation of Certain Provisions by Reference.** The provisions of Section 11.15. of the Original Credit Agreement captioned "Governing Law, Jurisdiction; Etc." and Section 11.16. of the Original Credit Agreement captioned "Waiver of Right to Trial by Jury" are incorporated herein by reference for all purposes.

14. **Entirety, Etc.** This Amendment and all of the other Loan Documents embody the entire agreement between the parties. THIS AMENDMENT, THE OTHER MODIFICATION PAPERS AND ALL OF THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

*[This space is left intentionally blank. Signature pages follow.]*

**THIRD AMENDMENT TO CREDIT AGREEMENT – Page 8**



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IN WITNESS WHEREOF, the parties hereto have executed this Amendment to be effective as of the date and year first above written.

**BORROWER**

**GULFPORT ENERGY CORPORATION**

By:           /s/ Michael G. Moore          

Name: Michael G. Moore

Title: VP and CFO

**THIRD AMENDMENT TO CREDIT AGREEMENT – Signature Page**

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**ADMINISTRATIVE AGENT**

**THE BANK OF NOVA SCOTIA,  
as Administrative Agent**

By:         /s/ Marc Graham          
Name: Marc Graham  
Title: Director

**LENDER**

**THE BANK OF NOVA SCOTIA**

By:         /s/ Marc Graham          
Name: Marc Graham  
Title: Director

**THIRD AMENDMENT TO CREDIT AGREEMENT – Signature Page**

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**LENDER**

**AMEGY BANK NATIONAL ASSOCIATION**

By:           /s/ David T. Helffrich, III          

Name: David T. Helffrich, III

Title: Vice President

**THIRD AMENDMENT TO CREDIT AGREEMENT – Signature Page**



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**LENDER**

**SOCIÉTÉ GÉNÉRALE**

By:           /s/ David M. Bornstein          

Name: David M. Bornstein

Title: Director

**THIRD AMENDMENT TO CREDIT AGREEMENT – Signature Page**

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**SCHEDULE 2.01**

**Commitments and Applicable Percentages**

Lender	Applicable Percentage	Commitment <sup>1</sup>	Maximum Credit Amount <sup>2</sup>
Amegy Bank National Association	28%	\$ 35,000,000	\$ 98,000,000
The Bank of Nova Scotia	40%	\$ 50,000,000	\$ 140,000,000
KeyBank National Association	20%	\$ 25,000,000	\$ 70,000,000
Société Générale	12%	\$ 15,000,000	\$ 42,000,000
<b>Total</b>	<b>100.000000000%</b>	<b>\$125,000,000</b>	<b>\$350,000,000</b>

<sup>1</sup> Based on a Borrowing Base of \$125,000,000.

<sup>2</sup> The numbers in this column are based upon a hypothetical Borrowing Base of \$350,000,000.

**SCHEDULE 2.01 – Solo Page**

CERTIFICATION

I, James D. Palm, Chief Executive Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gulfport Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 4, 2011

/s/ James D. Palm

James D. Palm  
Chief Executive Officer



CERTIFICATION

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gulfport Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 4, 2011

/s/ Michael G. Moore

Michael G. Moore  
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, James D. Palm, Chief Executive Officer of Gulfport Energy Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2011 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2011

/s/ James D. Palm

James D. Palm

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PERIODIC REPORT

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2011 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2011

/s/ Michael G. Moore

Michael G. Moore  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.